BANK OF AFRICA - KENYA

www.boakenya.com

NAIROBI BRANCHES

EMBAKASI BRANCH
Airport North Road (Next to G4S) – P.O. Box 69562
00400 Nairobi
Phone: (254) 20 327 50 00 / 427 30
Fax: (254) 20 211 477
E-mail <embakasi@boakenya.com>

NAIROBI BRANCH
Reinsurance Plaza – Taifa Road – P.O. Box 69562
00400 Nairobi
Phone: (254) 20 327 50 00 / 20 221 11 75
Fax: (254) 20 221 41 66 / 221 14 77
E-mail <nairobi@boakenya.com>

MONROVIA STREET BRANCH
Within Nakumatt Lifestyle – Monrovia Street
P.O. Box 69562 – 00400 Nairobi
Phone: (254) 20 327 50 00 / 316 500 / 502
Fax: (254) 20 315 556
E-mail <monrovia@boakenya.com>

NGONG ROAD BRANCH
Bishop Magua Centre – Opp Uchumi Hyper on Ngong Road – P.O. Box 69562 – 00400 Nairobi
Phone: 254 (20) 327 50 00 / 54 09 / 11
E-mail <ngongroad@boakenya.com>

ONGATA RONGAI BRANCH
Magadi Road – P.O. Box 69562 – 00400 Nairobi
Phone: (254) 327 50 00 / 56 38 / 41 – (254) 45 3 124 060
Fax: (254) 45 - 3124061
E-mail <rongai@boakenya.com>

RIVER ROAD BRANCH
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P.O. Box 11422 – 00400 Nairobi
Phone: (254) 20 327 50 00 / 222 52 75
Fax: (254) 20 249 04 2
E-mail <rroad@boakenya.com>

RUARAKA BRANCH
Baba Dogo House – P.O. Box 988 – 00618 Nairobi
Phone: (254) 20 327 50 00 / 56 05 – 856 62 70 / 1
Alternative lines: 0722 206 91 / 9 – 0733 333 01 / 5
Fax: (254) 20 856 62 750 00
E-mail <ruaraka@boakenya.com>

UHURU HIGHWAY BRANCH
(Opposite Nyayo Stadium) Next to Nakumatt Mega Uhuru Highway – P.O. Box 27568 – 00506 Nairobi
Phone: (254) 20 327 50 00 / 650 15 3 / 4
Alternative lines: 0739 837 386
Fax: (254) 20 650 21 9
E-mail <uhuru@boakenya.com>

WESTLANDS BRANCH
Fedha Plaza – Mpaka Road – P.O. Box 14166
00800 Nairobi
Phone: (254) 20 327 50 00 / 52 72 / 8 – 445 05 66 / 7
Fax: (254) 20 445 05 68
E-mail <westlands@boakenya.com>

REGIONAL BRANCHES

BUNGOMA BRANCH
New nyanza hardware – P.O. Box 1066
50200 Bungoma
Phone: (254) 20 3 275 50 00 / 56 60 / 65
(254) 5 530 140
Fax: (254) 20 2211477
E-mail <bungoma@boakenya.com>

CHANGAMWE BRANCH
Magongo – Airport Road – P.O. Box 87941-80100
20200 Mombasa
Phone: (254) 20 327 50 00 / 52 54 – (0) 41 231 58 18
Fax: (254) 41 2312999
E-mail <changamwe@boakenya.com>

ELDORET BRANCH
Junction of Ronald Ngala and Uganda Road (Opposite Barng'etuny plaza) – P.O. Box 9332 – 30100 Eldoret
Phone: (254) 20 327 50 00 / 56 30 / 35
Fax: (254) 20 211 47 7
E-mail <eldoret@boakenya.com>

KERICHO BRANCH
P.O. Box 1322 - 20200 Kericho – AM Plaza,
along the Main highway – Kericho
Phone: (254) 20 327 50 00 / 56 45 / 50 – (254) 052 307 04
Fax: (254) 052 307 05
E-mail <kericho@boakenya.com>

KISII BRANCH
Kisumu Road – Oyru Plaza – P.O. Box 2707 – 40200 Kisii
Phone: (254) 20 327 50 00 / 56 77 / 80
E-mail <kisii@boakenya.com>

MERU BRANCH
Meru – Maua Road – P.O. Box 2086 – 60200 Meru
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E-mail <meru@boakenya.com>

MOMBASA BRANCH
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Fax: (254) 41 231 29 99
E-mail <mombasa@boakenya.com>

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(254) 51 221 72 13
Fax: (254) 51 221 72 14
E-mail <nakuru@boakenya.com>

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Fax: (254) 672 01 81
E-mail <thika@boakenya.com>

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40100 Kisumu
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(254) 57 202 07 28 / 30
Fax: (254) 057 – 202 07 33
E-mail <kisumu@boakenya.com>

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Swift: AFRIKENEX
E-mail <headoffice@boakenya.com>

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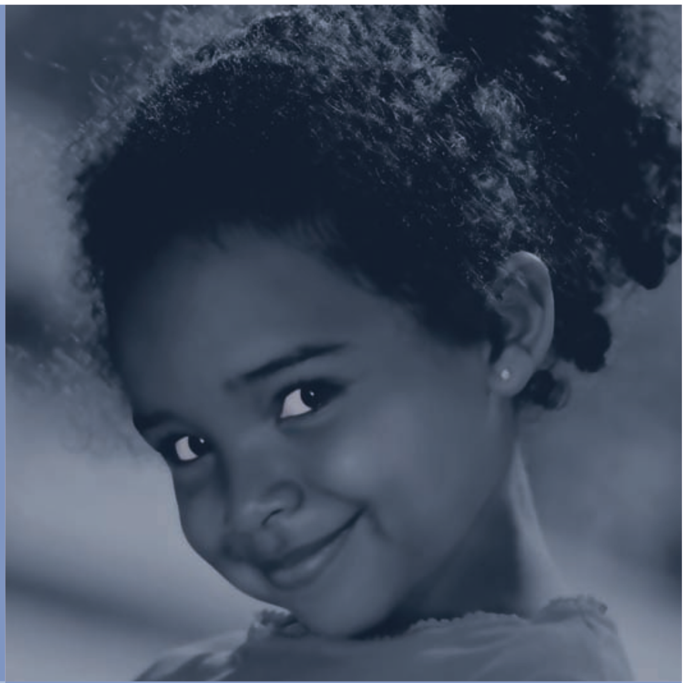
6/2011 - CR 105918-2001 B 211 - TAM TAM TEAM - Cover: photo © Miroslav - Fotolia.com

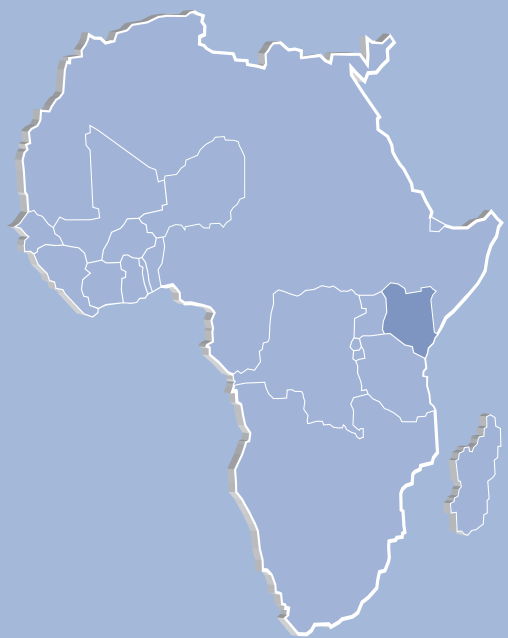
BANK OF AFRICA - KENYA

ANNUAL REPORT

2010

Developing
our continent.





Pour l'essor
de notre continent.

BANK OF AFRICA
KENYA

GROUPE BANK OF AFRICA

Table of Contents

BANK OF AFRICA - BENIN

20 Branches in Cotonou.
17 Regional Branches.

BANK OF AFRICA - BURKINA FASO

13 Branches in Ouagadougou.
8 Regional Branches.

BANK OF AFRICA - CÔTE D'IVOIRE

12 Branches in Abidjan.
8 Regional Branches.

BANK OF AFRICA - GHANA

14 Branches in Accra.
5 Regional Branches.

BANK OF AFRICA - MALI

14 Branches in Bamako.
7 Regional Branches and 2 Local Branches.

BANK OF AFRICA - NIGER

8 Branches in Niamey.
8 Regional Branches.

BANK OF AFRICA - SENEGAL

13 Branches in Dakar.
5 Regional Branches.

BANQUE DE L'HABITAT DU BENIN

1 Branch in Cotonou.

ACTIBOURSE

Head Office in Cotonou.
1 contact in each BOA company.
1 Liaison Office in Abidjan.

BOA-ASSET MANAGEMENT

Head Office in Abidjan.

Group Banks and Subsidiaries

BOA - FRANCE

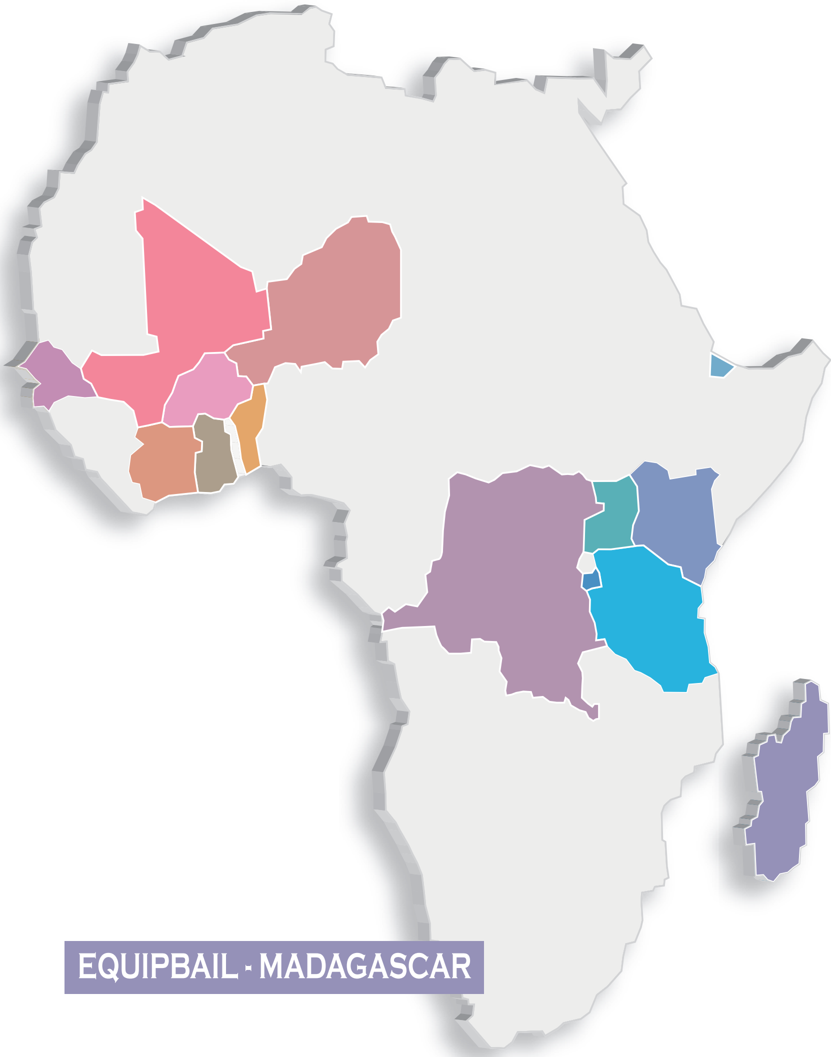
4 Branches in Paris.
1 Branch in Marseille.

REPRESENTATIVE OFFICE

Head Office in Paris, France.

BANK OF AFRICA FOUNDATION

Head Office in Bamako.
Presence in 11 countries where the Group operates.



BANK OF AFRICA - KENYA

9 Branches in Nairobi.
10 Regional Branches.

BANK OF AFRICA - MER ROUGE

3 Branches in Djibouti.

BANK OF AFRICA - TANZANIA

10 Branches in Dar es Salaam.
6 Regional Branches.

BANK OF AFRICA - UGANDA

12 Branches in Kampala.
10 Regional Branches.

BANK OF AFRICA - MADAGASCAR

19 Branches in Antananarivo.
43 Regional Branches.

BANK OF AFRICA - RDC

4 Branches in Kinshasa.
1 Regional Branch.

BANQUE DE CREDIT DE BUJUMBURA

(BCB) Integrated into BOA network in 2008.
6 Branches in Bujumbura.
10 Regional Branches.

EQUIPBAIL - MADAGASCAR

AGORA

AÏSSA

ATTICA

Bank Of Africa Group

Quality of customer service

Dynamic, accessible staff

Financial solidity

Cohesive network

A wide range of financing solutions

Expertise in financial engineering

Strong partners

GROUP TURNOVER 2010

± 310 M€

STRONG POINTS

A strong network

More than 4,000 people at your service.

About 300 dedicated operating and service support offices in 15 countries, excluding affiliated partners.

A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.

Close to 1,000,000 bank accounts.

A wide and varied offer

Full range of banking and financial services.

An attractive range of bank insurance products.

Tailored solutions for all financing issues.

Successful financial engineering.

Strategic partners, including:

Banque Marocaine du Commerce Extérieur (BMCE Bank),

Proparco,

International Finance Corporation (IFC - World Bank Group),

West African Development Bank (BOAD),

Netherlands Development Finance Company (FMO),

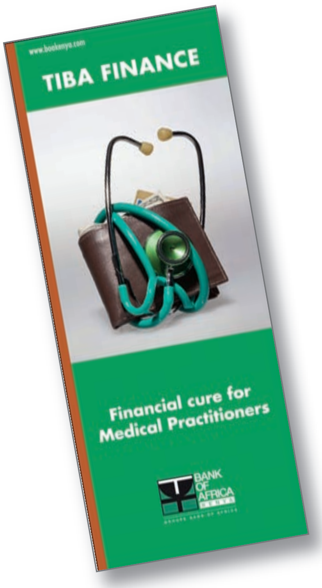
Belgium Investment Company for Developing Countries (BIO),

and investment fund Aureos.

Unique experience in Africa

Continuous development for almost 30 years.

MAIN PRODUCTS OF THE BANK



BANK OF AFRICA ENGLISH SPEAKING NETWORK		BOA-KENYA
Accounts	Current Account	(Local & Foreign Currency)
	Goodwill Account	
	Remunerated Current Account	
	Salary Account	
	Personal Current Account	
	Wakili Current Account	
Investment Products	Call Deposits Account	
	Chama Account	
	Children Savings Account	« Cool Kids Account »
	Classic Saving Account	
	Family Savings Account	
	Forexave Account	
	Ero Savings Account	
	Gold Plus Account	
	Investment Plan Account	
	Ordinary Saving Account	
	Fixed Deposit Account	
	Reward Saving Account	
	Schools Fees Account	
	SESAME Savings Account	
	Student Savings Account	
	Term Deposit	
Electronic Banking	B-SMS / B-Phone	
	B-Web	
	SESAME ATM Card	(Kenswitch Network)
	TOUCAN Card	
M-Payment	M-PESA	
	MTN Mobile Money	
Loans	2 in 1 loan	
	Bridging Overdraft	
	Home Finance	
	Instant Cash	
	Motor Cycle loan	
	Motor Vehicle Loan	Business Motor Loan
	Personal Loans	
	Personal Motor loan	
	Salary Advance	
	Schools Fees Loan	
	Super Kikapu	
Transfers and Changes	Foreign Exchange	
	Moneygram	
	Travellers Cheques	
	Western Union	
Complementary Products & Services	Banker's Cheques	
	e-tax	
	Utility Bill payments	
BOA Company Services	BOA-KENYA thus offers a wide range of products and services that meet the needs of Corporates and SMEs, Institutions and Individuals.	

Activity Report 2010

Comments from the Managing Director

It is my pleasure to present the Annual Report and Statement of Audited Accounts as at 31st December 2010 for BANK OF AFRICA — KENYA (BOA-KENYA).

The Kenyan economy was projected to grow at 5.5 per cent in 2010, representing optimism of the business community which has over the past few years grappled with the negative effects of the 2008 political crisis, severe drought and the global economic downturn in 2009. This optimism and growth are expected to be sustained in 2011. The positive economic outlook is a sign that the country is already recovering from the shocks that resulted in a marginal 1.6 and 2.6 per cent GDP growth in 2008 and 2009. Among the key factors expected to positively influence the economy is the new Constitution that was promulgated in August 2010, whose implementation will, in essence, reduce the country's political risk while at the same time reassure both foreign and domestic investors that Kenya is a safe investment haven, and that they can harness the economic opportunities presented by the ongoing integration of the East African Community. While putting in place a new constitution cannot be entirely seen as a panacea to eradicating the country's political risk associated with each election year, securing this assurance for investors will mitigate the capital flight and the slow-down of foreign direct investment experienced during general elections.

Until November 2010, month on month inflation was generally on a downward trend, largely attributed to the decreasing costs of food and communication. There was however a reversal of this trend due to failed rains in large parts of the country during the year and rising fuel prices, with inflation touching 4.51% in December 2010. This trend is expected to continue into 2011 on account of increased global crude oil prices coupled with a weaker shilling.

On the exchange rate, the Kenya shilling depreciated against the US dollar and Pound sterling to close the year at 80.75 and 124.76, down from 75.82 and 121.89 respectively at the beginning of the year. Against the Euro, the shilling strengthened from 108.94 at the beginning of the year to a 12 - month low of 98.183 as at May 2010 as a result of the European crisis before weakening to close the year at 107.63.

Interest rates on 91- day and 182 - day bills fell consistently from about 7% at the start of the year to below 2% in July and rising slightly to close the year at 2.28% and 2.59% respectively. The Central Bank rate closed at 5.75%. We expect interest rates to remain low in the short term but pressure from expansionary policies, coupled with high oil prices arising from instability in the key oil producing countries in the Middle East may reverse that trend.

Overall, the banking industry showed strong growth in 2010, on the backdrop of a resurgent economic performance.

In April 2010, the Central Bank of Kenya issued banking guidelines on agent banking to permit financial institutions to contract 3rd parties to provide certain banking services on their behalf. This is in line with the CBK's aim of increasing financial penetration and increasing the bankable population. BOA is finalizing on the model for rolling out agent banking and this will be implemented once it is ready.

During the year, the credit information sharing mechanism for institutions licensed under the banking act was officially launched. The CBK has been championing credit information sharing as an opportunity to promote access to affordable credit to more Kenyans by lowering the risk premium and search costs loaded on to the cost of credit. BOA has been an active participant in this initiative as guided by the Kenya Bankers Association steering committee.

Against that backdrop, the Bank continued on its expansion strategy with 8 new branches opened bringing the total branch network to 19. Also, during the year, the bank increased its share capital by KES 200 million, and at the board meeting in December approved a further increase in share capital by KES 1.5 billion to support business growth and branch expansion. The Bank's balance sheet closed at KES 26.9 billion on 31st December 2010, compared to KES 16.9 billion as at December 2009, an increase of KES 10 billion, i.e. + 59%. Net loans and advances to customers was KES 14.1 billion compared to KES 9.1 billion in Dec 2009, an increase of KES 5 billion (+ 55%). Customer deposits were KES 19.7 billion as at December 2010. This achievement was right on target, and above the 2009 closing by 59%. Account numbers also increased to 18.659 against the 2009 of 10.407. Results after taxes were KES 355 million for the period under review, representing 85% increase over 2009.

These results would not have been achieved without the strong support and loyalty of our customers, and we remain grateful for the partnership. We also wish to thank our shareholders for the continuing faith in our business model and the financial support. To our colleagues, we say thank you for the commitment and passion for the BOA brand.

KWAME AHADZI

Managing Director

HIGHLIGHTS 2010

BOA Directors Meeting 2010, in Cotonou, in Bénin.
© BOA-BÉNIN

Groupe BANK OF AFRICA Network management Meeting 2010, in Dar es Salaam, in Tanzania.
© BOA-TANZANIA

FEBRUARY

Opened **Ngong Road** and **Nakuru** Branches.

JUNE

Opened **Eldoret** Branch.

Participation in the Groupe BANK OF AFRICA network management meeting, in Dar es Salaam, in Tanzania.

JULY

Opened **Embakasi** Branch.

Launched Agence Elite pegging it with the official launch of Goodwill Account.

AUGUST

Awarded a country rating by Global Credit Rating (GCR) of A- and A1- for Short and Long-Term outlook respectively.

Received a sub debt of Kshs 200m from the BOA Group which was later converted to shareholder equity.

DECEMBER

Received USD 8 million from the IFC for further lending to Small and Medium Enterprises (SMEs).

Opened 4 Branches namely – **Ongata Rongai**, **Kericho**, **Changamwe** and **Bungoma** bringing to 8 the Branches opened in the year.

Participation in the Groupe BANK OF AFRICA Directors meeting, in Cotonou, in Benin.

KEY FIGURES 2010

TOTAL ASSETS

26,699

KES' MILLION

ON 31/12/2010

ACTIVITY	
*Deposits**	19,784
*Loans**	14,122

INCOME	
*Net interest income**	888
*Operating income**	1,495
*Operating expense**	(1,010)
*Profit before tax**	484

STRUCTURE	
*Total assets**	26,699
Number of Employees	216

** in KES' million*

(Euro 1 = 107.63 KES as at 31st Dec 2010)

Corporate Social Responsibility Initiatives 2010

BOA-KENYA has a well guided CSR philosophy that provides financial support to initiatives that are consistent with its business objectives and have a positive impact on society. Sponsorship and donations serve to promote BOA's image as a responsible member of society.

Kwame AHADZI and the Eldoret Branch Manager, Jeremiah KAYAGO enjoys a hearty laugh with the children of Mindiwillo Childrens home near Eldoret after donating foot balls. This was in the morning and the branch was launched in the evening.

MD BANK OF AFRICA, Mr. Kwame AHADZI, and Children from Arap Moi Children's Home after launching the Nakuru Branch.

Social

For 2010, the CSR activities mainly focussed on bonding with the local communities in which each branch is located. Each branch was allocated an amount to donate with a local charitable organisation thus increasing goodwill and awareness in the areas we do business. For new branches, the branch and senior management led by the MD Mr. Kwame AHADZI made a visit to the charitable organisation on the same day the branch was being launched. Examples are during the launch of Eldoret and Nakuru Branches.

On 15th September 2010, BOA-KENYA, and Nairobi Women's Hospital launched a one week breast cancer awareness initiative to benefit women both staff and customers in 4 branches within Nairobi. The initiative was part of the 2010 corporate campaign 'Life in colours' in which we planned to improve customer service and welfare of customers.

As part of the campaign, BOA embarked on a one month long initiative dubbed "Making Life Better". The Bank offered free mammogram check up to all lady staff and customers for a whole week. This was also a run up to the breast cancer awareness month which is marked worldwide in October. This initiative by BOA was well covered by the media.

Children of Baba Dogo Sacred Heart School near Ruaraka Branch are very excited after receiving a donation of books from the Branch Manager Mr. Davis TAYO and other BOA staff.

ECONOMY

For the second year running, BOA-KENYA has been organizing business clinics for small and medium sized business (SMEs). BOA found it wise to prepare and educate the customers on various subjects in order to make them better business managers.

In 2010, BOA-KENYA hosted the 2 Business empowerment Clinics for Mombasa and Embakasi branch customers. We had invited 200 customers whom we requested to bring along a friend who is also in business.

BOA Kenya Managing Director, Mr. Kwame AHADZI, gets his a quick health check to flag of the free mammogram campaign.

Customers invited for the Business Clinic held at Embakasi Branch on 8th Dec 2010.

Photos : © BOA-KENYA

Board of Directors

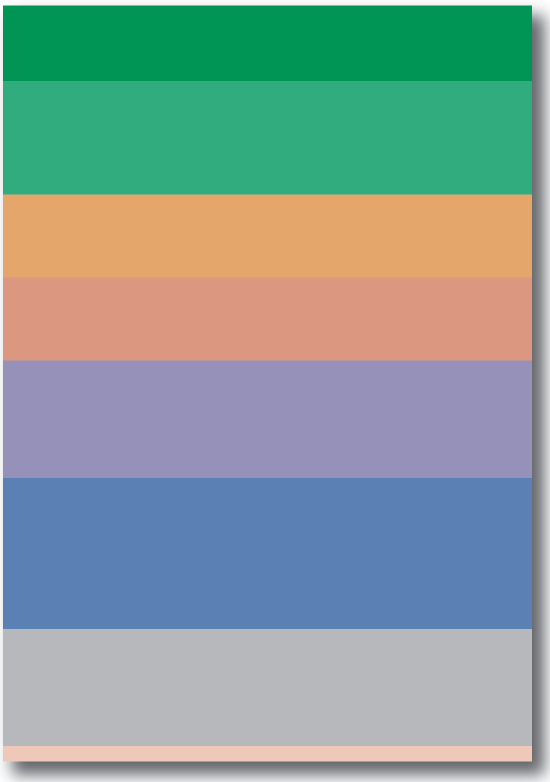
The Directors who held office during the year and to the date of 21st February 2011 were:

- Paul DERREUMAUX / Chairman
- Alexandre RANDRIANASOLO
- Vincent de BROUWER
- Davinder S. SIKAND
- Shakir M. MERALI
- Kwame AHADZI
- Jean-Geo PASTOURET
- Bernardus A. M. ZWINKELS
- Brahim BENJELLOUN-TOUIMI

Capital

The Bank has 2,000,000 authorized ordinary shares with a cumulative nominal value of KES 2.0 billion.
The following is the Bank's shareholding structure as at 31st December 2010

Shareholding position based on number of shares (%):



10.00%	BOA GROUP S.A. (FORMERLY AFRICAN FINANCIAL HOLDING)
15.00%	AFH-OCEAN INDIEN
11.00%	BANK OF AFRICA - BENIN
11.00%	BANK OF AFRICA - COTE D'IVOIRE
15.50%	BANK OF AFRICA - MADAGASCAR
20.00%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)
15.50%	AUREOS EAST AFRICA FUND LLC
2%	AGORA

Report and Financial Statements

for the year ended 31 December 2010

DIRECTOR'S REPORT

The Directors submit their report together with the audited financial statements for the year ended 31 December 2010, which disclose the state of affairs of BANK OF AFRICA – KENYA Limited and its subsidiary (the "Group") and BANK OF AFRICA – KENYA Limited (the "Bank/Company").

PRINCIPAL ACTIVITIES

The Group is engaged in the business of banking and the provision of banking related services.

RESULTS AND DIVIDEND

Profit for the year of Shs 463 million (2009: Shs 293 million) has been added to retained earnings. The Directors recommend the approval of a final dividend of Shs 198 million (2009: Shs 130 million).

DIRECTORS

The Directors who held office during the year and to the date of this report were:

Paul DERREUMAUX	Chairman
Alexandre RANDRIANASOLO	
Davinder S. SIKAND	Alternate Director: Shakir MERALI
Vincent de BROUWER	
Georges ABALLO	Resigned 1st February 2010
Kwame AHADZI	Managing Director
Jean-Geo PASTOURET	Deputy Managing Director
Bernardus ZWINKELS	
Brahim BENJELLOUN-TOUIMI	Appointed 9 March 2010

AUDITOR

The Company's auditor, PricewaterhouseCoopers, has indicated its willingness to continue in office in accordance with the provisions of Section 159(2) of the Companies Act and Section 24(1) of the Banking Act.

By order of the Board

Ramesh VORA
Secretary
19th March 2011

The Changamwe Branch Staff.

The Rongai Branch Staff.

CORPORATE GOVERNANCE

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and a framework of internal controls. The Board of BANK OF AFRICA – KENYA is keen in ensuring the adoption of good corporate governance.

THE BOARD

The Board is made up of the Chairman, the Managing Director, the Deputy Managing Director and five non-executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each director receives information about the Bank and is advised of the legal, regulatory and other obligations of a Director.

The full Board meeting is held every quarter and Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day to day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Photos : © BOA-KENYA

BOARD MEETING MEMBERSHIP AND ATTENDANCE

	Date 28th January 2010	Date 27th February 2010	Date 10th June 2010	Date 12th December 2010
Paul DERREUMAUX	A	A	A	A
Alexandre RANDRIANASOLO	AP	AP	A	A
Davinder S. SIKAND	A	A	A	A
Vincent de BROUWER	A	A	A	A
Georges ABALLO	AP	N/A	N/A	N/A
Kwame AHADZI	A	A	A	A
Jean-Geo PASTOURET	AP	A	A	AP
Bernardus ZWINKELS	A	A	AP	A
Brahim BENJELLOUN-TOUIMI	A	AP	AP	A
Mr. Shakir MERALI (alternate to Mr. Davinder SIKAND)	A	A	AP	A

A – Attended AP – Absent with apology N – Not Applicable

BOARD AUDIT & RISK COMMITTEE

The overall responsibility of the Board Audit and Risk Committee is to review the financial condition of the Bank, its internal controls, performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommend appropriate remedial action. The committee will also review the various risks faced by the Bank and the management of such risks.

DIRECTORS' REMUNERATION

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to Directors are disclosed in Note 28 of the financial statements.

The Mombasa Branch Staff.

BOARD PERFORMANCE EVALUATION

Under the Prudential Guidelines issued by the Regulator, the Board is responsible for ensuring that an evaluation of its performance is done, and that of its committees and individual directors. The results of such an evaluation are to be provided to the Central Bank of Kenya.

The Board conducted the 2010 comprehensive evaluation and that of Members, the Chairman and Board Committees on 21 February 2011 with the aim of assessing their capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The process was carried out using a set of self-assessment questionnaires that ranked performance on a range of 'Poor' to 'Very Good' and was developed by the Board Audit and Risk Committee in consultation with external sources that have undertaken this exercise in the past and have global good practice. It had the characteristics of group assessment and one-on-one evaluation.

The discussions focused on the Board's processes and procedures in the following areas, among others:

- Bank Strategy evolution and follow through
- Understanding and influencing the Bank's Risk profile in the context of the industry
- Review of Board Composition and Mix relative to the mandate
- Board Attendance and participation in discussions
- Effectiveness of Board Committees namely Board Audit & Risk Committee and Board Credit Committee
- Board Relationship with Executive Management

Photos : © BOA-KENYA

i. Board Self Evaluation

Each board member was availed the questionnaire a month before the board meeting convened to discuss the evaluation. At the evaluation meeting, the ratings given by each member of the board and its committees were discussed by all members under the direction of the Chairman of the Board. Overall ratings were agreed taking into account the individual ratings and comments.

Overall, the Board concluded that it was operating in an effective manner but identified some areas in its processes and procedures for which further improvements could be made, and will be a focus of attention in the year 2011 and beyond. They include:

- Appointment of additional local Directors to add knowledge of the local market
- Evolution of the Bank's risk matrix relative to other banks in the industry with special emphasis on the Business Continuity Plan and stress testing results for key risk areas.
- More regular board committee meetings.

ii. Director Peer Evaluation

Directors were evaluated using a peer evaluation method. The Board Chairman appointed a peer evaluator for each member who then completed the evaluation questionnaire for the appointed peer. Specific knowledge in bank risk issues and Central Bank Prudential Guidelines were identified as areas needing emphasis in 2011. The Executive Directors were also evaluated on effective implementation of strategy and board policies.

iii. Board Chairman's Evaluation

The Chairman was evaluated by the Board members in his absence. The process was steered by a Non-Executive Board Member. At a meeting thereafter with the Chairman on the results of the evaluation members concluded that the Chairman has been effective in his role.

GOING CONCERN

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

The Bungoma Branch Staff.

The Uhuru Branch Staff.

INTERNAL CONTROLS

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit department which is independent, reports to the Board Audit & Risk Committee and provides and independent confirmation that Group business standards, policies and procedures are being complied with.

The Kericho Branch Staff.

Photos : © BOA-KENYA

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Companies Act requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss. It also requires the Directors to ensure that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company. They are also responsible for safeguarding the assets of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit or loss in accordance with International Financial Reporting Standards. The Directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the Directors to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

Jean-Geo PASTOURET
Director

Kwame AHADZI
Director

19th March 2011

The Nairobi Branch Staff.

REPORT OF THE INDEPENDENT AUDITORS

TO THE MEMBERS OF BANK OF AFRICA – KENYA LTD.

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of BANK OF AFRICA – KENYA Limited (the Company) and its subsidiary (together, the Group), as set out on pages 24 to 84. These financial statements comprise the consolidated statement of financial position at 31 December 2010 and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, together with the statement of financial position of the Company standing alone as at 31 December 2010 and the statement of changes in equity of the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and such controls as Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. These standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

Photos : © BOA-KENYA

An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by the Directors as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

OPINION

In our opinion the accompanying financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company at 31 December 2010 and of the profit and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT ON OTHER LEGAL REQUIREMENTS

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion proper books of account have been kept by the Company, so far as appears from our examination of those books;

iii) the Company's balance sheet and profit and loss account are in agreement with the books of account.

Certified Public Accountants

NAIROBI

19th March 2011

Financial Statements

for the year ended
31 December 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2010	2009
		SHS 000	SHS 000
INTEREST INCOME	5	2,802,291	2,101,307
INTEREST EXPENSE	6	(1,294,794)	(1,016,845)
NET INTEREST INCOME		1,507,497	1,084,462
FEE AND COMMISSION INCOME		526,689	450,640
FEE AND COMMISSION EXPENSE		(76,978)	(48,345)
NET FEE AND COMMISSION INCOME		449,711	402,295
FOREIGN EXCHANGE INCOME		208,869	196,893
OTHER OPERATING INCOME		225,887	156,550
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	14	(107,174)	(45,302)
FAIR VALUE LOSSES ON FINANCIAL ASSETS THROUGH PROFIT OR LOSS		(2,012)	(14,235)
OPERATING EXPENSES	7	(1,732,457)	(1,405,400)
SHARE OF INCOME OF ASSOCIATES	17	35,117	21,656
PROFIT BEFORE INCOME TAX		585,438	396,919
INCOME TAX EXPENSE	9	(122,086)	(103,865)
PROFIT FOR THE YEAR		463,352	293,054
(of which Shs 355,258,000 has been dealt with in the profit and loss of the Company)			
OTHER COMPREHENSIVE INCOME:			
GAINS(LOSSES) ON REVALUATION OF AFS BONDS		159	13,603
TAX EFFECT ON GAINS ON REVALUATION OF AFS BONDS		(48)	(4,081)
CURRENCY TRANSLATION DIFFERENCES		(100,151)	21,805
TOTAL		(100,040)	31,327
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		363,312	324,381
PROFIT ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		396,592	227,607
NON CONTROLLING INTEREST		66,760	65,447
TOTAL		463,352	293,054
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		316,860	248,053
NON CONTROLLING INTEREST		46,452	76,328
TOTAL		363,312	324,381

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2010	2009
		SHS 000	SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANKS	11	2,797,407	2,061,070
GOVERNMENT SECURITIES - HELD TO MATURITY	12A	7,983,021	4,332,727
INVESTMENT SECURITIES - AVAILABLE FOR SALE	12B	2,660,883	742,463
ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	12C	-	32,109
PLACEMENTS WITH OTHER BANKS	13	998,708	2,745,622
AMOUNTS DUE FROM GROUP BANKS	28	736,713	493,275
GOODWILL ON PURCHASE OF SUBSIDIARY	29	15,610	15,610
INVESTMENT IN ASSOCIATE	17	318,768	283,651
LOANS AND ADVANCES TO CUSTOMERS	14	19,557,600	13,730,002
CURRENT INCOME TAX		21,595	19,633
PROPERTY AND EQUIPMENT	15	856,064	652,862
INTANGIBLE ASSETS	16	112,024	75,282
PREPAID OPERATING LEASE RENTALS	30	4,949	5,033
DEFERRED INCOME TAX	18	37,550	2,967
OTHER ASSETS	19	352,727	326,009
TOTAL ASSETS		**36,453,619**	**25,518,315**
LIABILITIES			
CUSTOMER DEPOSITS	20	27,505,696	18,796,143
DEPOSITS FROM OTHER BANKS	21	2,158,171	1,411,353
AMOUNTS DUE TO GROUP BANKS	28	1,114,064	621,623
DERIVATIVES AT FAIR VALUE THROUGH PROFIT OR LOSS		105	-
LONG TERM LIABILITIES	31	1,595,792	1,141,613
CURRENT INCOME TAX		44,095	51,632
DEFERRED INCOME TAX	18	-	7,318
OTHER LIABILITIES	22	365,745	261,105
TOTAL LIABILITIES		**32,783,668**	**22,290,787**
EQUITY			
SHARE CAPITAL	23	2,200,000	2,000,000
SHARE PREMIUM	23	121,200	112,200
REGULATORY RESERVES	25	158,701	91,414
REVALUATION RESERVES	24	13,918	13,807
TRANSLATION RESERVES		(62,792)	16,940
RETAINED EARNINGS		477,047	345,742
NON CONTROLLING INTEREST		563,877	517,425
PROPOSED DIVIDEND	10	198,000	130,000
TOTAL EQUITY		**3,669,951**	**3,227,528**
TOTAL EQUITY AND LIABILITIES		**36,453,619**	**25,518,315**

The financial statements on pages 24 to 84 were approved by the Board of Directors on 19th March 2011 and signed on its behalf by:

Jean-Geo PASTOURET	Kwame AHADZI	Shakir MERALI	Ramesh VORA
Director	Director	Director	Secretary

BANK STATEMENT OF FINANCIAL POSITION

	NOTES	2010	2009
		SHS 000	SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	11	1,806,977	1,157,535
GOVERNMENT SECURITIES - HELD TO MATURITY	12 (A)	6,327,031	2,415,614
INVESTMENT SECURITIES - AVAILABLE FOR SALE	12 (B)	1,779,758	742,463
PLACEMENTS WITH OTHER BANKS	13	379,348	1,932,097
AMOUNTS DUE FROM GROUP BANKS	28	890,748	488,321
INVESTMENT IN ASSOCIATE	17 (A)	318,768	283,651
INVESTMENT IN SUBSIDIARY	17 (B)	419,582	346,527
LOANS AND ADVANCES TO CUSTOMERS	14	14,122,485	9,120,438
PROPERTY AND EQUIPMENT	15	356,194	194,617
INTANGIBLE ASSETS	16	64,774	34,456
PREPAID OPERATING LEASE RENTALS	30	4,949	5,033
DEFERRED INCOME TAX	18	8,363	2,967
OTHER ASSETS	19	220,147	191,573
TOTAL ASSETS		**26,699,124**	**16,915,292**
LIABILITIES			
CUSTOMER DEPOSITS	20	19,784,311	12,405,181
DEPOSITS FROM OTHER BANKS	21	1,684,446	844,904
AMOUNTS DUE TO GROUP BANKS	28	1,051,869	609,232
LONG TERM LIABILITIES	31	946,472	331,407
CURRENT INCOME TAX		44,095	51,632
OTHER LIABILITIES	22	242,684	162,058
TOTAL LIABILITIES		**23,753,877**	**14,404,414**
EQUITY			
SHARE CAPITAL	23	2,200,000	2,000,000
SHARE PREMIUM	23	121,200	112,200
REGULATORY RESERVES	25	131,413	81,337
REVALUATION RESERVES	24	13,918	13,807
RETAINED EARNINGS		280,716	173,534
PROPOSED DIVIDEND	10	198,000	130,000
TOTAL		**2,945,247**	**2,510,878**
TOTAL EQUITY AND LIABILITIES		**26,699,124**	**16,915,292**

The financial statements on pages 24 to 84 were approved for issue by the Board of Directors on 19th March 2011 and signed on its behalf by:

Jean-Geo PASTOURET	**Kwame AHADZI**	**Shakir MERALI**	**Ramesh VORA**
Director	Director	Director	Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL SHS 000	SHARE PREMIUM SHS 000	REVALUATION RESERVES SHS 000	TRANSLATION RESERVES SHS 000	REGULATORY RESERVES SHS 000	RETAINED EARNINGS SHS 000	PROPOSED DIVIDEND SHS 000	TOTAL SHS 000	NON CONTROLLING INTEREST SHS 000	TOTAL EQUITY SHS 000
YEAR ENDED 31 DECEMBER 2009											
AT START OF YEAR		1,400,000		4,285	6,016	73,777	265,772	65,000	1,814,850	407,302	2,222,152
COMPREHENSIVE INCOME		-									-
PROFIT FOR THE PERIOD		-					227,607		227,607	65,447	293,054
OTHER COMPREHENSIVE INCOME:									-		-
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24	-		9,522					9,522	-	9,522
TRANSFER TO REGULATORY RESERVE	25								-		-
CURRENCY TRANSLATION DIFFERENCES		-			10,924	17,637	(17,637)		10,924	10,881	21,805
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-		9,522	10,924	17,637	209,970	-	248,053	76,328	324,381
TRANSACTIONS WITH OWNERS:									-	-	-
DIVIDENDS:	10								-	-	-
- PAID (FINAL FOR 2008)								(65,000)	(65,000)		(65,000)
- PAID TO MINORITY INTEREST										(33,637)	(33,637)
- PROPOSED FINAL FOR 2009	10						(130,000)	130,000	-		-
INCREASED INVESTMENT IN SUBSIDIARY									-	67,432	67,432
ISSUE OF SHARES		600,000	112,200						712,200		712,200
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		600,000	112,200	-	-	-	(130,000)	65,000	647,200	33,795	680,995
AT 31 DECEMBER 2009		2,000,000	112,200	13,807	16,940	91,414	345,742	130,000	2,710,103	517,425	3,227,528
YEAR ENDED 31 DECEMBER 2010											
AT START OF YEAR		2,000,000	112,200	13,807	16,940	91,414	345,742	130,000	2,710,103	517,425	3,227,528
COMPREHENSIVE INCOME											
PROFIT FOR THE PERIOD							396,592		396,592	66,760	463,352
OTHER COMPREHENSIVE INCOME:									-		-
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24			111					111		111
TRANSFER TO REGULATORY RESERVE	25					67,287	(67,287)		-		-
CURRENCY TRANSLATION DIFFERENCES					(79,732)				(79,732)	(20,308)	(100,040)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	111	(79,732)	67,287	329,305	-	316,971	46,452	363,423
TRANSACTIONS WITH OWNERS:											
DIVIDENDS:											
- PAID (FINAL FOR 2009)								(130,000)	(130,000)		(130,000)
- PROPOSED FINAL FOR 2010							(198,000)	198,000	-		-
INCREASED INVESTMENT IN SUBSIDIARY									-		-
ISSUE OF SHARES		200,000	9,000						209,000		209,000
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		200,000	9,000	-	-	-	(198,000)	68,000	79,000	-	79,000
AT 31 DECEMBER 2010		2,200,000	121,200	13,918	(62,792)	158,701	477,047	198,000	3,106,074	563,877	3,669,951

BANK STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL	SHARE PREMIUM	REVALUATION RESERVES	REGULATORY RESERVES	RETAINED EARNINGS	PROPOSED DIVIDEND	TOTAL
		SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2009								
TOTAL COMPREHENSIVE INCOME		1,400,000		4,285	63,074	129,358	65,000	1,661,717
PROFIT FOR THE PERIOD						192,439		192,439
OTHER COMPREHENSIVE INCOME:								
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX				9,522				9,522
TRANSFER TO REGULATORY RESERVE	25				18,263	(18,263)		
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-		9,522	18,263	174,176	-	201,961
TRANSACTIONS WITH OWNERS:								
DIVIDENDS:								
- PAID (FINAL FOR 2008)	10						(65,000)	(65,000)
- PROPOSED FINAL FOR 2009	10					(130,000)	130,000	-
ISSUE OF SHARES	23	600,000	112,200	-	-			712,200
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		600,000	112,200	-		(130,000)	65,000	647,200
AT 31 DECEMBER 2009		2,000,000	112,200	13,807	81,337	173,534	130,000	2,510,878
AT 1 JANUARY 2010								
TOTAL COMPREHENSIVE INCOME		2,000,000	112,200	13,807	81,337	173,534	130,000	2,510,878
PROFIT FOR THE PERIOD						355,258		355,258
OTHER COMPREHENSIVE INCOME								
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24			111				111
TRANSFER TO REGULATORY RESERVE	25				50,076	(50,076)		-
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX		2,000,000	112,200	13,918	131,413	478,716	130,000	2,866,246
TRANSFER TO REGULATORY RESERVE								
DIVIDENDS:								
- PAID (FINAL FOR 2009)	10						(130,000)	(130,000)
- PROPOSED FINAL FOR 2010	10					(198,000)	198,000	-
ISSUE OF SHARES	23	200,000	9,000					209,000
TOTAL		200,000	9,000	-	-	(198,000)	68,000	79,000
AT 31 DECEMBER 2010		2,200,000	121,200	13,918	131,413	280,716	198,000	2,945,246

CONSOLIDATED CASH FLOW STATEMENT

	NOTES	2010 SHS 000	2009 SHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		2,626,530	2,077,936
INTEREST PAYMENTS		(1,030,265)	(952,414)
NET FEE AND COMMISSION RECEIPTS		449,711	414,571
OTHER INCOME RECEIVED		303,433	353,445
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		169,084	38,180
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(1,638,331)	(1,047,649)
INCOME TAX PAID		(118,028)	(50,366)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**762,134**	**833,703**
CHANGES IN OPERATING ASSETS AND LIABILITIES:		-	
- LOANS AND ADVANCES		(5,420,464)	(3,279,286)
- CASH RESERVE REQUIREMENT		(501,787)	(239,387)
- OTHER ASSETS		(35,085)	575,188
- CUSTOMER DEPOSITS		8,765,505	5,116,459
- DEPOSITS (TO)/FROM OTHER BANKS		2,299,577	178,006
- AMOUNTS DUE (TO)/FROM GROUP COMPANIES		762,514	(110,574)
- OTHER LIABILITIES		109,437	(56,255)
NET CASH FLOW FROM OPERATING ACTIVITIES		**6,741,831**	**3,017,854**
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN ASSOCIATE		(50,100)	(19,904)
PURCHASE OF PROPERTY AND EQUIPMENT	15	(406,855)	(241,243)
PURCHASE OF INTANGIBLE ASSETS		(63,602)	(5,281)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		7,778	3,359
SALE/(PURCHASE) OF SECURITIES		(5,271,594)	(1,828,912)
NET CASH USED IN INVESTING ACTIVITIES		**(5,784,373)**	**(2,091,981)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	23	283,719	712,200
PROCEEDS FROM/(REPAYMENT OF) BORROWED FUNDS	31	546,173	139,239
DIVIDENDS RECEIVED		-	
DIVIDENDS PAID	10	(165,214)	(65,000)
NET CASH FROM FINANCING ACTIVITIES		**664,678**	**786,439**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**1,622,136**	**1,712,312**
CASH AND CASH EQUIVALENTS AT START OF YEAR		2,664,658	952,346
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**4,286,794**	**2,664,658**

NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

BANK OF AFRICA – KENYA Limited is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:

RE-INSURANCE PLAZA

TAIFA ROAD

P.O. BOX 69562

00400 NAIROBI

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

A) BASIS OF PREPARATION

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Additional information required by national regulations is included where appropriate. The financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, all derivative contracts and investment properties, which have been measured at fair value.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the Directors to exercise judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The directors believe that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the financial position and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

(a) New and amended standards adopted by the Bank

The amendments to existing standards below that are part of the Annual Improvements Project 2009 are relevant to the Bank's operations:

STANDARD	TITLE	APPLICABLE FOR FINANCIAL YEAR BEGINNING ON/AFTER
IAS 1	Presentation of financial statements	1 JANUARY 2010
IAS 17	Leases	1 JANUARY 2010
IAS 36	Impairment of Assets	1 JANUARY 2010
IFRS 8	Operating Segments	1 JANUARY 2010

• IAS 1, 'Presentation of financial statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period. The application of the amendment does not have a significant impact on the Bank's financial statements.

• IAS 17, 'Leases'. The amendment clarifies that when a lease includes both land and buildings elements, an entity shall assess the classification of each element as a finance or an operating lease separately. The application of the amendment does not have a significant impact on the Bank's financial statements.

• IAS 36, 'Impairment of Assets'. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of IFRS 8, 'Operating Segments' (that is, before the aggregation of segments with similar economic characteristics). The application of the amendment does not have a significant impact on the Bank's financial statements.

• IFRS 8, 'Operating Segments'. The amendment removes the requirement to provide a measure of total assets for each reportable segment. Instead a measure of total assets and total liabilities should be provided if such amounts are regularly provided to the Chief Operating Decision Maker (CODM). The application of the amendment does not have a significant impact on the Bank's financial statements.

(b) New and amended standards, and interpretations mandatory for the financial year beginning 1 January 2010 but not relevant to the Bank:

STANDARD/ INTERPRETATION	TITLE	APPLICABLE FOR FINANCIAL YEARS BEGINNING ON/AFTER
IFRS 1	First-time Adoption of International Financial Reporting Standards – Additional exemptions for first-time adopters	1 JULY 2009
IFRS 2 (amended)	Share-based payment – Group cash-settled share-based payment transaction	1 JANUARY 2010
IFRS 2	Share-based Payment (part of Annual Improvement Project 2009) – Scope of IFRS 2 and revised IFRS 3	1 JULY 2009
IFRS 3	Business combinations	1 JULY 2009
IFRS 5	Non-current Assets Held for Sale and Discontinued Operations (part of Annual Improvement Project 2009) – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations	1 JANUARY 2010
IAS 27 (revised)	Consolidated and Separate Financial Statements	1 JULY 2009
IAS 38	Intangible assets (part of Annual Improvement Project 2009) – Additional consequential amendments arising from revised IFRS 3	1 JULY 2009
IAS 39	Financial Instruments: Recognition and Measurement (part of Annual Improvement Project 2009) – (i) Treating loan prepayment penalties as closely related embedded derivatives (ii) Scope exemption for business combination contracts	1 JANUARY 2010
IFRIC 9 & IAS 39	Reassessment of embedded derivatives & Financial Instruments: Recognition and Measurement	30 JUNE 2009
IFRIC 17	Distribution of non-cash assets to owners	1 JULY 2009
IFRIC 18	Transfers of assets from customers	1 JULY 2009

(c) Standards and interpretations issued but not yet effective

The following new standards, amendments to existing standards and interpretations have been issued and are mandatory for the Bank's accounting periods beginning on or after 1 January 2011 or later periods and are not expected to be relevant to the Bank, except for IFRS 9.

STANDARD/ INTERPRETATION	TITLE	APPLICABLE FOR FINANCIAL YEARS BEGINNING ON/AFTER
IFRS 1 (amended)	First-time Adoption of International Financial Reporting Standards – Limited exemption from comparative IFRS 7 disclosures for first-time adopters	1 JULY 2010
IFRS 9	Financial instruments part 1: Classification and measurement	1 JANUARY 2013
IAS 24 (amended)	Related party disclosures	1 JANUARY 2011
IAS 32 (amended)	Financial instruments: Presentation – Classification of rights issue	1 FEBRUARY 2010
IFRIC 14 (amended)	IAS 19 – The limit on a defined benefit asset, minimum funding requirement and their interaction	1 JANUARY 2011
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	1 JULY 2010

(d) Early adoption of standards

The Bank did not early-adopt new or amended standards in 2010.

B) CONSOLIDATION

(i) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(ii) Associates

Associates are entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the statement of comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

C) FUNCTIONAL CURRENCY AND TRANSLATION OF FOREIGN CURRENCIES

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the Functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Bank's Functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the Functional currency of the respective entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'foreign exchange income'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other operating income'.

Translation differences on non-monetary financial assets and liabilities, such as equities held at fair value through profit or loss, are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale financial assets, are included in the revaluation reserve in equity.

(iii) Consolidation of group entities

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(D) INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the statement of comprehensive income for all interest bearing instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(E) FEES AND COMMISSION INCOME

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(F) FINANCIAL ASSETS

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity; and available-for-sale. Management determines the appropriate classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(iii) Held-to maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the Bank to sell more than an insignificant amount of held-to-maturity financial assets, the entire category would have to be reclassified as available for sale. Held to maturity investments are carried at amortised cost using, the effective interest method.

(iv) Available-for-sale

Available-for-sale (AFS) assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. Available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised through equity in the revaluation reserve, net of deferred tax.

When these investments are de-recognised, the cumulative gain or loss previously directly recognised in equity is recognised in the statement of comprehensive income.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Group commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value.

Gains and losses arising from changes in the fair value of 'financial assets at fair value through profit or loss' are included in the statement of comprehensive income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income.

However, interest calculated using the effective interest method is recognised in the statement of comprehensive income. Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(G) IMPAIRMENT OF FINANCIAL ASSETS

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income.

(i) Assets carried at amortised cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statements of comprehensive income.

(ii) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

(H) PROPERTY AND EQUIPMENT

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Depreciation is calculated on the straight line basis to write down their cost to their residual values over their estimated useful lives, as follows:

BUILDINGS	1.5%
FIXTURES, FITTINGS AND EQUIPMENT	20.0%
MOTOR VEHICLES	33.3%
LEASEHOLD IMPROVEMENT	10.0%
FREEHOLD LAND IS NOT DEPRECIATED	

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Gains and losses on disposal of property and equipment are determined by comparing proceeds with their carrying amount and are taken into account in determining profit.

(I) INTANGIBLE ASSETS

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(ii) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

(J) IMPAIRMENT OF NON-FINANCIAL ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(K) INCOME TAX EXPENSE

Income tax expense is the aggregate of the charge to the statement of comprehensive income in respect of current income tax and deferred income tax. Tax is recognised in the statement of comprehensive income unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation.

(L) ACCOUNTING FOR LEASES

Leases of property, plant and equipment where the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired under finance leases are capitalised at the inception of the lease at the lower of their fair value and the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities. The interest element of the finance charge is charged to the statement of comprehensive income over the lease period. Property, plant and equipment acquired under finance leases is depreciated over the estimated useful life of the asset.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the statement of comprehensive income on a straight-line basis over the period of the lease.

(M) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with Central Banks, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with Central Banks.

(N) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The Group operates a defined contribution post-employment benefit scheme for all its employees. The scheme is funded from contributions from both the Group and the employees. The Group and its employees also contribute to the National Social Security Fund, which is a defined contribution scheme.

The Group's contributions to both these defined contribution schemes are charged to the statement of comprehensive income in the year to which they fall due. The Group has not further obligation once the contributions have been paid.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(O) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income.

(P) BORROWINGS

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowings using the effective interest method.

(Q) OFFSETTING

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(R) SALE AND REPURCHASE AGREEMENTS

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as placements with other banks or loans and advances, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(S) SHARE CAPITAL

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

(T) DIVIDENDS PAYABLE

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(U) ACCEPTANCES AND LETTERS OF CREDIT

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(W) RELATED PARTIES

In the normal course of business, the Group has entered into transactions with related parties. The transactions are usually at arm's length.

(X) COMPARATIVES

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year's financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Group reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

B) HELD TO MATURITY INVESTMENTS

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling a significant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

C) IMPAIRMENT OF GOODWILL

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2(b). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. The carrying amount of the goodwill are set out in Note 29.

D) INCOME TAXES

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the Group's provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4. FINANCIAL RISK MANAGEMENT

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Group's Audit Committee is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group's Audit Committee is assisted in these functions by Internal Audit, who undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(A) CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorisation limits are allocated to the Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Bank Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branches concerned. Renewals and reviews of facilities are subject to the same review process.
- Developing and maintaining the bank's risk grading in order to categorise exposures according to the degree of risk of financial losses faced and to focus management on the attendant risks. Clients of the Bank are segmented into 5 grades which are in line with the Prudential guidelines issued by Central Bank of Kenya' i.e. Normal , Watch , Substandard , Doubtful and Loss grades. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures.
- Reviewing compliance of branches with agreed exposure limits, including those for selected industries, country risk and product types.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk.

Each branch and company is required to implement the Bank's credit policies and procedures, with credit approval authorities delegated from the Bank's Credit Committee. Each branch is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to Credit Committee approval. Regular audits of branch and bank credit processes are undertaken by Internal Audit.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD

	2010	2009
	SHS 000	SHS 000
GROUP		
BALANCES WITH CENTRAL BANKS	1,813,270	1,285,508
GOVERNMENT SECURITIES HELD TO MATURITY	7,983,021	4,332,727
INVESTMENT SECURITIES – AVAILABLE-FOR-SALE	2,660,883	742,463
ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		32,109
PLACEMENTS WITH OTHER BANKS	998,708	2,745,622
AMOUNTS DUE FROM GROUP BANKS	736,713	493,275
LOANS AND ADVANCES TO CUSTOMERS	19,557,600	13,730,002
OTHER ASSETS	352,727	326,009
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	2,064,606	1,248,952
- GUARANTEE AND PERFORMANCE BONDS	3,749,214	2,545,322
- COMMITMENT TO LEND	2,974,330	2,123,054
TOTAL	**42,891,072**	**29,605,043**
COMPANY		
BALANCES WITH CENTRAL BANK OF KENYA	1,279,065	883,843
GOVERNMENT SECURITIES HELD TO MATURITY	6,327,031	2,415,614
INVESTMENT SECURITIES – AVAILABLE-FOR-SALE	1,779,758	742,463
PLACEMENTS WITH OTHER BANKS	379,348	1,932,097
AMOUNTS DUE FROM GROUP BANKS	890,748	488,321
LOANS AND ADVANCES TO CUSTOMERS	14,122,485	9,120,438
OTHER ASSETS	220,147	191,573
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	974,566	621,084
- GUARANTEE AND PERFORMANCE BONDS	2,713,774	1,702,766
- COMMITMENT TO LEND	2,778,645	1,812,079
TOTAL	**31,465,567**	**19,910,278**

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD (CONTINUED)

The above tables represent a worst case scenario of credit risk exposure to the Group and Bank as at 31 December 2010 and 2009, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the consolidated statement of financial position.

Loans and advances to customers, other than to major corporate entities and to individuals borrowing less than Shs 1 million, are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.

The Group holds the following types of collateral as security and other credit enhancements in respect to credit risk exposure.

- Mortgages - First ranking legal charge over the property financed.
- Other loans and advances - Debenture over the Company's assets, legal charges over commercial and residential properties, directors'personal guarantees and company guarantees.

FINANCIAL ASSETS

Loans and advances are summarised as follows:

	2010	2009
	SHS 000	SHS 000
GROUP		
NEITHER PAST DUE NOR IMPAIRED	18,836,671	13,282,923
PAST DUE BUT NOT IMPAIRED	558,288	382,505
INDIVIDUALLY IMPAIRED	317,586	197,202
GROSS	19,712,545	13,862,630
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 14)	(154,945)	(132,628)
NET	**19,557,600**	**13,730,002**
COMPANY		
NEITHER PAST DUE NOR IMPAIRED	13,642,776	8,756,451
PAST DUE BUT NOT IMPAIRED	290,468	291,416
INDIVIDUALLY IMPAIRED	257,806	145,459
GROSS	14,191,050	9,193,326
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 14)	(68,565)	(72,888)
NET	**14,122,485**	**9,120,438**

No other financial assets are either past due or impaired.

LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED

	2010	2009
	SHS 000	SHS 000
GROUP		
STANDARD (NORMAL GRADE)	18,836,671	13,282,923
COMPANY		
STANDARD (NORMAL GRADE)	13,642,777	8,756,451

LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2010	2009
	SHS 000	SHS 000
GROUP		
PAST DUE UP TO 30 DAYS	281,737	233,287
PAST DUE 31-60 DAYS	54,049	21,608
PAST DUE 61-90 DAYS	142,142	127,610
PAST DUE > 90 DAYS	80,360	-
TOTAL	**558,288**	**382,505**
COMPANY		
PAST DUE UP TO 30 DAYS	214,047	193,181
PAST DUE 31-60 DAYS	14,429	7,253
PAST DUE 61-90 DAYS	61,992	90,982
TOTAL	**290,468**	**291,416**
GROUP		
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	1,120	4,519
- RETAIL	56,768	41,725
- SME	259,698	150,958
TOTAL	**317,586**	**197,202**
FAIR VALUE OF COLLATERAL	**580,128**	**98,172**

The Bank's policy is to dispose of any repossessed collateral on the open market at market value.

LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED (CONTINUED)

	2010	2009
	SHS 000	SHS 000
COMPANY		
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	-	-
- RETAIL	11,513	24,171
- SME	246,293	121,288
TOTAL	**257,806**	**145,459**
FAIR VALUE OF COLLATERAL	**299,008**	**58,665**

COLLATERAL REPOSSESSED

During the year, the Group took possession of the following:

	2010	2009
	SHS 000	SHS 000
GROUP AND COMPANY		
NATURE OF ASSETS:		
RESIDENTIAL PROPERTY	-	-
COMMERCIAL PROPERTY	-	-
MOTOR VEHICLES	3,050	2,573
TOTAL	**3,050**	**2,573**

CONCENTRATIONS OF RISK

Economic sector risk concentrations within the customer loan were as follows:

	2010	2009
	SHS 000	SHS 000
BY ECONOMIC SECTOR		
GROUP		
WHOLESALE/RETAIL	5,522,572	1,619,545
MANUFACTURING	3,532,577	2,799,313
AGRICULTURE	1,057,657	1,146,672
CONSTRUCTION	1,556,817	1,370,305
TRANSPORT	1,165,670	769,978
INDIVIDUAL/PERSONAL	2,663,830	1,481,465
SERVICES	1,109,317	2,196,650
FINANCIAL INSTITUTIONS	956,926	396,088
TOURISM	11	-
COMMUNICATION	355,256	130,287
HOSPITALITY	126,242	132,571
OTHERS	1,665,670	1,819,756
TOTAL	**19,712,545**	**13,862,630**

As at 31 December 2010 there were no loans and advances that would have been past due or impaired if the terms of those loans had not been negotiated (2009: nil).

	2010	2009
	SHS 000	SHS 000
COMPANY		
WHOLESALE/RETAIL	3,760,847	1,619,545
MANUFACTURING	3,359,956	2,682,580
AGRICULTURE	892,843	1,001,924
CONSTRUCTION	1,149,417	898,705
TRANSPORT	805,765	429,119
INDIVIDUAL/PERSONAL	1,622,264	967,842
SERVICES	1,109,318	641,772
FINANCIAL INSTITUTIONS	847,936	246,670
TOURISM	11	-
COMMUNICATION	355,256	130,287
HOSPITALITY	126,242	132,571
OTHERS	161,195	442,311
TOTAL	**14,191,050**	**9,193,326**

CONCENTRATIONS OF RISK (CONTINUED)

	2010	2009
	SHS 000	SHS 000
BY TENOR		
GROUP		
SHORT TERM CREDITS (<1 YEAR)	11,490,348	8,153,826
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	6,807,942	3,812,313
LONG TERM CREDITS (> 5 YEARS)	774,001	960,712
BILLS/CHEQUES/NOTES DISCOUNTED	640,254	935,779
TOTAL ON BALANCE SHEET EXPOSURE	**19,712,545**	**13,862,630**
ACCEPTANCES AND LETTERS OF CREDIT	2,064,606	1,248,952
GUARANTEE AND PERFORMANCE BONDS	3,749,214	2,545,322
COMMITMENTS TO LEND	2,974,330	2,123,054
TOTAL NON-FUNDED EXPOSURE	**8,788,150**	**5,917,328**
TOTAL EXPOSURE	**28,500,695**	**19,779,958**
COMPANY		
SHORT TERM CREDITS (<1 YEAR)	9,103,943	5,935,512
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	4,020,052	1,918,152
LONG TERM CREDITS (> 5 YEARS)	429,741	456,482
BILLS/CHEQUES/NOTES DISCOUNTED	637,314	883,180
TOTAL ON BALANCE SHEET EXPOSURE	**14,191,050**	**9,193,326**
ACCEPTANCES AND LETTERS OF CREDIT	974,566	621,084
GUARANTEE AND PERFORMANCE BONDS	2,713,774	1,702,766
COMMITMENTS TO LEND	2,778,645	1,812,079
TOTAL NON-FUNDED EXPOSURE	**6,466,985**	**4,135,929**
TOTAL EXPOSURE	**20,658,035**	**13,329,255**

(B) LIQUIDITY RISK

Prudent liquidity risk management includes maintaining sufficient cash and marketable securities, and the availability of funding from an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses, Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

Management of Liquidity Risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of branches are met through short-term loans from Treasury to cover any short-term fluctuations and longer-term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market condition. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee (ALCO). Daily reports cover the liquidity position of both the bank and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customer. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.

The table below presents the cash flows payable and receivable by the Group and the Company under financial assets and liabilities by remaining contractual maturities at the balance sheet date.

(B) LIQUIDITY RISK (CONTINUED)

		MONTHS		YEARS		
	UP TO 1	1-3	3-12	1-5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP						
AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	2,471,865	147,056	177,903	583	-	2,797,407
GOVERNMENT SECURITIES-HTM	1,210,808	1,000,563	1,889,086	2,783,264	1,099,300	7,983,021
PLACEMENTS WITH BANKS	930,906	67,802	-	-	-	998,708
AMOUNTS DUE FROM GROUP COMPANIES	268,973	346,110	121,630	-	-	736,713
INVESTMENT SECURITIES-AFS	2,610,783	-	-	-	50,100	2,660,883
LOANS AND ADVANCES	9,683,131	1,227,390	1,065,100	6,808,049	773,930	19,557,600
OTHER ASSETS	360,812	-	-	-	56,978	417,790
TOTAL FINANCIAL ASSETS	**17,537,278**	**2,788,921**	**3,253,719**	**9,591,896**	**1,980,308**	**35,152,122**
LIABILITIES						
CUSTOMER DEPOSITS	12,746,903	5,395,606	7,769,607	1,593,580	-	27,505,696
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,600,070	317,799	240,302	-	-	2,158,171
AMOUNTS DUE TO GROUP BANKS	800,270	313,794	-	-	-	1,114,064
LONG TERM LIABILITIES	-	-	62,482	378,624	1,154,686	1,595,792
OTHER LIABILITIES	409,944	-	-	-	-	409,944
TOTAL FINANCIAL LIABILITIES	**15,557,187**	**6,027,199**	**8,072,391**	**1,972,204**	**1,154,686**	**32,783,667**
GAP	**1,980,091**	**(3,238,278)**	**(4,818,672)**	**7,619,692**	**825,622**	**2,368,455**

(B) LIQUIDITY RISK (CONTINUED)

		MONTHS			YEARS	
	UP TO 1	1-3	3-12	1-5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY						
AT 31 DECEMBER 2009						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	1,902,674	124,764	32,367	1,265	-	2,061,070
GOVERNMENT SECURITIES-HTM	489,547	523,342	1,363,461	1,956,377	-	4,332,727
PLACEMENTS WITH BANKS	2,321,865	423,757	-	-	-	2,745,622
AMOUNTS DUE FROM GROUP COMPANIES	32,109	-	-	-	742,463	774,572
GOVERNMENT SECURITIES- AFS AND FAIR VALUE THROUGH P&L	-	-	-	-	-	-
LOANS AND ADVANCES	7,391,242	816,984	707,445	4,139,811	674,521	13,730,003
OTHER ASSETS	300,616	-	-	-	653,546	954,162
TOTAL FINANCIAL ASSETS	**12,438,053**	**1,888,847**	**2,103,273**	**6,097,453**	**2,070,530**	**24,598,156**
LIABILITIES						
CUSTOMER DEPOSITS	13,718,031	3,266,073	1,771,566	39,553	920	18,796,143
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,100,014	225,973	85,366	-	-	1,411,353
AMOUNTS DUE TO GROUP BANKS	410,253	211,370	-	-	-	621,623
BORROWED FUNDS	-	-	6,198	231,001	904,414	1,141,613
OTHER LIABILITIES	261,105	-	-	-	-	261,105
TOTAL FINANCIAL LIABILITIES	**15,489,403**	**3,703,416**	**1,863,130**	**270,554**	**905,334**	**22,231,837**
GAP	**(3.051,350)**	**(1,814,569)**	**240,143**	**5,826,899**	**1,165,196**	**2,366,318**

(B) LIQUIDITY RISK (CONTINUED)

	UP TO 1	MONTHS 1-3	3-12	YEARS 1-5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY						
AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	1,481,435	147,056	177,903	583	-	1,806,977
GOVERNMENT SECURITIES-HTM	1,203,738	800,468	963,826	2,259,699	1,099,300	6,327,031
PLACEMENTS WITH BANKS	311,546	67,802	-	-	-	379,348
AMOUNTS DUE FROM GROUP COMPANIES	423,008	346,110	121,630	-	-	890,748
INVESTMENT SECURITIES-AFS	1,729,658	-	-	-	50,100	1,779,758
LOANS AND ADVANCES	8,161,296	861,360	650,000	4,020,159	429,670	14,122,485
OTHER ASSETS	220,147	-	-	-	14,281	234,428
TOTAL FINANCIAL ASSETS	**13,530,828**	**2,222,796**	**1,913,359**	**6,280,441**	**1,579,070**	**25,540,775**
LIABILITIES						
CUSTOMER DEPOSITS	6,974,843	5,227,816	5,994,547	1,587,105	-	19,784,311
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,309,010	135,134	240,302	-	-	1,684,446
AMOUNTS DUE TO GROUP BANKS	738,075	313,794	-	-	-	1,051,869
LONG TERM LIABILITIES	-	-	59,542	238,169	648,761	946,472
OTHER LIABILITIES	286,779	-	-	-	-	286,779
TOTAL FINANCIAL LIABILITIES	**9,299,062**	**5,676,744**	**6,294,391**	**1,825,274**	**648,761**	**23,753,877**
GAP	**4,231,766**	**(3,453,948)**	**(4,381,032)**	**4,455,167**	**930,309**	**1,786,898**

(B) LIQUIDITY RISK (CONTINUED)

	UP TO 1	MONTHS 1-3	3-12	YEARS 1-5	>5	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY						
AT 31 DECEMBER 2009						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	999,139	124,764	32,367	1,266	-	1,157,536
GOVERNMENT SECURITIES-HTM	433,086	197,172	260,273	1,525,083	-	2,415,614
PLACEMENTS WITH BANKS	1,508,340	423,757	-	-	-	1,932,097
AMOUNTS DUE FROM GROUP COMPANIES	488,321	-	-	-	-	488,321
GOVERNMENT SECURITIES-AFS	-	-	-	-	742,463	742,463
LOANS AND ADVANCES	5,941,012	510,567	252,918	2,245,650	170,291	9,120,438
OTHER ASSETS	191,573	-	-	-	608,521	800,094
TOTAL FINANCIAL ASSETS	**9,561,471**	**1,256,260**	**545,558**	**3,771,999**	**1,521,275**	**16,656,563**
LIABILITIES						
CUSTOMER DEPOSITS	8,726,278	2,897,757	751,750	29,396	-	12,405,181
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	613,538	146,000	85,366	-	-	844,904
AMOUNTS DUE TO GROUP BANKS	397,862	211,370	-	-	-	609,232
BORROWED FUNDS	-	-	-	-	331,407	331,407
OTHER LIABILITIES	162,058	-	-	-	-	162,058
TOTAL FINANCIAL LIABILITIES	**9,899,736**	**3,255,127**	**837,116**	**29,396**	**331,407**	**14,352,782**
GAP	**(338,265)**	**(1,998,867)**	**(291,558)**	**3,742,603**	**1,189,868**	**2,303,781**

(C) MARKET RISK

Market risk is the risk that changes in market prices, such as interest rate, equity prices and foreign exchange rates will affect the bank's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures with acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk for both trading and non-trading portfolios is vested in ALCO. The bank's Risk & Compliance department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

(i) Currency risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Group's and the Company's exposure to foreign currency exchange rate risk as at 31 December 2010. Included in the table are the Group's and the Company's financial instruments categorised by currency:

GROUP	USD	GBP	EURO	OTHER	TOTAL
AT 31 DECEMBER 2010	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	355,253	49,082	263,491	1,190	669,016
PLACEMENTS WITH BANKS	429,112	27,510	176,750	80,252	713,624
AMOUNTS DUE FROM GROUP COMPANIES	512,495	560	109,472	38,379	660,906
LOANS AND ADVANCES	4,570,229	121,070	838,908	345,206	5,875,413
OTHER ASSETS	80,597	(5,963)	7,476	1,314	83,424
TOTAL FINANCIAL ASSETS	5,947,686	192,259	1,396,097	466,341	8,002,383
LIABILITIES					
CUSTOMER DEPOSITS	3,164,509	138,469	981,511	14,180	4,298,669
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,339,329	-	50,244	11,559	1,401,132
AMOUNTS DUE TO GROUP BANKS	839,456	-	293,561	203,630	1,336,647
LONG TERM LIABILITIES	901,601	2,205	302,191	385	1,206,382
OTHER LIABILITIES	21,545	584	6,725	61	28,915
TOTAL FINANCIAL LIABILITIES	6,266,440	141,258	1,634,232	229,815	8,271,745
NET ON-BALANCE SHEET POSITION	(318,754)	51,001	(238,135)	236,526	(269,362)
NET OFF-BALANCE SHEET POSITION	273,349	(27,487)	238,552	(219,154)	265,260
NET OVERALL POSITION	(45,405)	23,514	417	17,372	(4,102)

(C) MARKET RISK (CONTINUED)

GROUP AT 31 DECEMBER 2009	USD SHS 000	GBP SHS 000	EURO SHS 000	OTHER SHS 000	TOTAL SHS 000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	288,411	28,006	101,829	4,758	423,004
PLACEMENTS WITH BANKS	962,295	220,167	652,748	210,715	2,045,925
AMOUNTS DUE FROM GROUP COMPANIES	237,694	55,676	194,778	5,127	493,275
LOANS AND ADVANCES	3,032,444	97,342	705,336	422	3,835,544
OTHER ASSETS	66,020	-	1,318	2	67,340
TOTAL FINANCIAL ASSETS	**4,586,864**	**401,191**	**1,656,009**	**221,024**	**6,865,088**
LIABILITIES					
CUSTOMER DEPOSITS	3,597,257	181,128	899,879	11,950	4,690,214
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	381,270	-	50,190	14,705	446,165
AMOUNTS DUE TO GROUP BANKS	246,900	24,672	350,051	-	621,623
BORROWED FUNDS	-	-	331,407	-	331,407
OTHER LIABILITIES	216,396	33,488	10,821	400	261,105
TOTAL LIABILITIES	**4,441,823**	**239,288**	**1,642,348**	**27,055**	**6,350,514**
NET ON-BALANCE SHEET POSITION	**145,041**	**161,903**	**13,661**	**193,969**	**514,574**
NET OFF-BALANCE SHEET POSITION	**327,613**	**138,774**	**(79,403)**	**203,034**	**590,018**
NET OVERALL POSITION	**472,654**	**300,677**	**(65,742)**	**397,003**	**1,104,592**

(C) MARKET RISK (CONTINUED)

COMPANY	USD	GBP	EURO	OTHER	TOTAL
AT 31 DECEMBER 2010	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	264,393	26,122	201,821	-	492,336
PLACEMENTS WITH BANKS	62,207	-	-	67,127	129,334
AMOUNTS DUE FROM GROUP COMPANIES	510,325	-	28,587	5,059	543,971
LOANS AND ADVANCES	3,183,039	119,775	811,608	171,046	4,285,468
OTHER ASSETS	46,402	25,292	7,441	1,314	80,449
TOTAL FINANCIAL ASSETS	4,066,366	171,189	1,049,457	244,546	5,531,558
LIABILITIES					
CUSTOMER DEPOSITS	1,908,324	122,824	656,676	1,160	2,688,984
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,077,214	-	50,244	1,059	1,128,517
AMOUNTS DUE TO GROUP BANKS	714,471	-	293,561	-	1,008,032
LONG TERM LIABILITIES	648,761	-	297,711	-	946,472
OTHER LIABILITIES	21,545	584	6,725	61	28,915
TOTAL LIABILITIES	4,370,315	123,408	1,304,917	2,280	5,800,920
NET ON-BALANCE SHEET POSITION	(303,949)	47,781	(255,460)	242,266	(269,362)
NET OFF-BALANCE SHEET POSITION	284,409	(24,232)	259,097	(229,654)	289,620
NET OVERALL POSITION	(19,540)	23,549	3,637	12,612	20,258

(C) MARKET RISK (CONTINUED)

COMPANY AT 31 DECEMBER 2009	USD SHS 000	GBP SHS 000	EURO SHS 000	OTHER SHS 000	TOTAL SHS 000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	191,284	8,373	18,817	-	218,474
PLACEMENTS WITH BANKS	567,548	157,548	459,293	208,876	1,393,265
AMOUNTS DUE FROM GROUP COMPANIES	233,935	55,077	194,258	5,051	488,321
LOANS AND ADVANCES	2,279,738	94,423	639,958	262	3,014,381
OTHER FINANCIAL ASSETS	33,711	-	1,318	2	35,031
TOTAL ASSETS	**3,306,216**	**315,421**	**1,313,644**	**214,191**	**5,149,472**
LIABILITIES					
CUSTOMER DEPOSITS	2,470,357	161,974	610,497	11,071	3,253,899
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	376,951	-	50,190	-	427,141
AMOUNTS DUE TO GROUP BANKS	248,027	-	350,051	-	598,078
BORROWED FUNDS	-	-	331,407	-	331,407
OTHER LIABILITIES	3,155	499	10,621	-	14,275
TOTAL FINANCIAL LIABILITIES	**3,098,490**	**162,473**	**1,352,766**	**11,071**	**4,624,800**
NET ON-BALANCE SHEET POSITION	**207,726**	**152,948**	**(39,122)**	**203,120**	**524,672**
NET OFF-BALANCE SHEET POSITION	**229,915**	**152,329**	**(29,420)**	**203,034**	**555,858**
NET OVERALL POSITION	**437,641**	**305,277**	**(68,542)**	**406,154**	**1,080,530**

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

(ii) Interest rate risk

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Mismatch positions are reviewed on a weekly basis. The table below summarises the Group's and the Company's exposure to interest rate risks. Included in the table are the Group's and the Company's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Group does not bear any interest rate risk on off balance sheet items.

(C) MARKET RISK (CONTINUED)

	UP TO 1	MONTHS 1-3	3-12	>12	NON INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 00
GROUP						
AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	2,797,407	2,797,407
GOVERNMENT SECURITIES-HTM	1,210,808	1,000,563	1,889,086	3,882,564	-	7,983,021
PLACEMENTS WITH BANKS	930,906	67,802	-	-	-	998,708
AMOUNTS DUE FROM GROUP COMPANIES	423,008	346,110	121,630	-	154,035	1,044,783
INVESTMENT SECURITIES-AFS	2,610,783	-	-	-	50,100	2,660,883
LOANS AND ADVANCES	9,683,131	1,227,390	1,065,100	7,581,979	-	19,557,600
OTHER ASSETS					417,790	417,790
TOTAL FINANCIAL ASSETS	**14,858,636**	**2,641,865**	**3,075,816**	**11,464,543**	**3,419,332**	**35,460,192**
LIABILITIES						
CUSTOMER DEPOSITS	15,154,842	3,822,983	6,196,984	20,957	2,309,930	27,505,696
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,600,070	317,799	240,302	-	-	2,158,171
AMOUNTS DUE TO GROUP BANKS	738,075	313,794	-	-	62,195	1,114,064
BORROWED FUNDS AND SUBORDINATED DEBT	-	-	62,482	1,533,310	-	1,595,792
OTHER LIABILITIES	-	-	-	-	409,944	409,944
TOTAL FINANCIAL LIABILITIES	**17,492,987**	**4,454,576**	**6,499,768**	**1,554,267**	**2,782,069**	**32,783,667**
INTEREST SENSITIVITY GAP	**(2,634,351)**	**(1,812,711)**	**(3,423,952)**	**9,910,276**	**637,263**	**2,676,525**

(C) MARKET RISK (CONTINUED)

	UP TO 1	MONTHS 1-3	3-12	>12	NON INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP						
AT 31 DECEMBER 2009						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	2,061,070	2,061,070
GOVERNMENT SECURITIES-HTM	489,547	523,342	1,363,461	1,956,377	-	4,332,727
PLACEMENTS WITH BANKS	2,321,865	423,757	-	-	-	2,745,622
AMOUNTS DUE FROM GROUP COMPANIES	493,275	-	-	-	-	493,275
GOVERNMENT SECURITIES-AFS AND FAIR VALUE THROUGH P & L	32,109	-	-	742,463	-	774,572
LOANS AND ADVANCES	7,391,242	816,984	707,445	4,814,331	-	13,730,002
TOTAL FINANCIAL ASSETS	**10,728,038**	**1,764,083**	**2,070,906**	**7,513,171**	**2,061,070**	**24,137,268**
LIABILITIES						
CUSTOMER DEPOSITS	11,722,706	3,266,073	1,771,566	40,472	1,995,326	18,796,143
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,100,014	225,973	85,366	-	-	1,411,353
AMOUNTS DUE TO GROUP BANKS	376,994	219,717	-	-	24,912	621,623
BORROWED FUNDS	-	-	6,198	1,135,415	-	1,141,613
TOTAL FINANCIAL LIABILITIES	**13,199,714**	**3,711,763**	**1,863,130**	**1,175,887**	**2,020,238**	**21,970,732**
INTEREST SENSITIVITY GAP	**(2,471,676)**	**(1,947,680)**	**207,776**	**6,337,284**	**40,832**	**2,166,536**

(C) MARKET RISK (CONTINUED)

		MONTHS			NON INTEREST	
	UP TO 1	1-3	3-12	>12	BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY						
AT 31 DECEMBER 2010						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	1,806,977	1,806,977
GOVERNMENT SECURITIES-HTM	1,203,738	800,468	963,826	3,358,999	-	6,327,031
PLACEMENTS WITH BANKS	311,546	67,802	-	-	-	379,348
AMOUNTS DUE FROM GROUP COMPANIES	423,008	346,110	121,630	-	-	890,748
GOVERNMENT SECURITIES-AFS	1,729,658	-	-	-	-	1,729,658
INVESTMENTS HELD AS AVAILABLE FOR SALE					50,100	50,100
LOANS AND ADVANCES	8,161,296	861,360	650,000	4,449,829	-	14,122,485
OTHER ASSETS					234,428	234,428
TOTAL FINANCIAL ASSETS	**11,829,246**	**2,075,740**	**1,735,456**	**7,808,828**	**2,091,505**	**25,540,775**
LIABILITIES						
CUSTOMER DEPOSITS	11,692,712	3,655,193	4,421,924	14,482		19,784,311
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	1,309,010	135,134	240,302	-		1,684,446
AMOUNTS DUE TO GROUP BANKS	738,075	313,794	-			1,051,869
BORROWED FUNDS	-	-	59,542	886,930		946,472
OTHER LIABILITIES					286,779	286,779
TOTAL FINANCIAL LIABILITIES	**13,739,797**	**4,104,121**	**4,721,768**	**901,412**	**286,779**	**23,753,877**
INTEREST SENSITIVITY GAP	**(1,910,551)**	**(2,028,381)**	**(2,986,312)**	**6,907,416**	**1,804,726**	**1,786,898**

(C) MARKET RISK (CONTINUED)

	UP TO 1	MONTHS 1-3	3-12	>12	NON INTEREST BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY						
AT 31 DECEMBER 2009						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	1,157,535	1,157,535
GOVERNMENT SECURITIES-HTM	433,086	197,172	260,273	1,525,083	-	2,415,614
PLACEMENTS WITH BANKS	1,508,340	423,757	-	-	-	1,932,097
AMOUNTS DUE FROM GROUP COMPANIES	488,321	-	-	-	-	488,321
GOVERNMENT SECURITIES-AFS	-	-	-	742,463	-	742,463
LOANS AND ADVANCES	5,941,012	510,567	252,918	2,415,941	-	9,120,438
TOTAL FINANCIAL ASSETS	**8,370,759**	**1,131,496**	**513,191**	**4,683,487**	**1,157,535**	**15,856,468**
LIABILITIES						
CUSTOMER DEPOSITS	8,726,278	2,897,757	751,750	29,396		12,405,181
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	613,538	146,000	85,366	-	-	844,904
AMOUNTS DUE TO GROUP BANKS	389,515	219,717	-			609,232
TOTAL FINANCIAL LIABILITIES	**9,729,331**	**3,263,474**	**837,116**	**29,396**	**0**	**13,859,317**
INTEREST SENSITIVITY GAP	**(1,358,572)**	**(2,131,978)**	**(323,925)**	**4,654,091**	**1,157,535**	**1,997,151**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and the Company and its exposure to changes in interest rates and exchange rates.

(D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Effective 1 January 2009, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

GROUP	LEVEL 1	LEVEL 2	LEVEL 3
FAIR VALUE HIERARCHY			
AT 31 DECEMBER 2010			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	2,610,783	-
- AT FAIR VALUE THROUGH PROFIT & LOSS	-		-
AT 31 DECEMBER 2009			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	742,463	-
- AT FAIR VALUE THROUGH PROFIT & LOSS	-	32,109	-

COMPANY	LEVEL 1	LEVEL 2	LEVEL 3
FAIR VALUE HIERARCHY			
AT 31 DECEMBER 2010			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	1,729,658	-
AT 31 DECEMBER 2009			
GOVERNMENT SECURITIES:			
- AVAILABLE FOR SALE	-	742,463	-

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily NSE equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

(E) CAPITAL MANAGEMENT

The company's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs 350 million; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

(E) CAPITAL MANAGEMENT (CONTINUED)

	2010	2009
	SHS 000	SHS 000
CAPITAL MANAGEMENT		
TIER 1 CAPITAL		
SHARE CAPITAL	2,200,000	2,000,000
SHARE PREMIUM	121,200	112,200
RETAINED EARNINGS	280,716	173,533
INVESTMENT IN SUBSIDIARY AND ASSOCIATE	(703,231)	(630,177)
TOTAL	**1,898,685**	**1,655,556**
TIER 2 CAPITAL		
REVALUATION RESERVE (25%)	3,480	3,451
SUBORDINATED DEBT	648,761	-
STATUTORY RESERVES	131,413	81,337
TOTAL CAPITAL	**2,682,339**	**1,740,344**
RISK WEIGHTED ASSETS		
ON BALANCE SHEET	14,839,460	10,104,206
OFF BALANCE SHEET	2,844,970	890,433
TOTAL RISK WEIGHTED ASSETS	**17,684,430**	**10,994,639**
DEPOSIT LIABILITIES	**22,124,152**	**13,589,058**
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES	8.60%	12.60%
(-CBK MINIMUM 8%)		
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS	10.70%	15.20%
(-CBK MINIMUM 8%)		
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS	**15.20%**	**15.90%**
(-CBK MINIMUM 12%)		

5. INTEREST INCOME - GROUP

	2010	2009
	SHS 000	SHS 000
LOANS AND ADVANCES	2,056,999	1,607,255
GOVERNMENT AND OTHER SECURITIES	671,178	419,566
BALANCES WITH OTHER BANKING INSTITUTIONS	74,114	74,486
TOTAL	2,802,291	2,101,307

6. INTEREST EXPENSE - GROUP

	2010	2009
	SHS 000	SHS 000
CUSTOMER DEPOSITS	1,112,055	849,219
DEPOSITS BY BANKS	100,085	78,244
BORROWED FUNDS	71,900	67,817
OTHER	10,754	21,565
TOTAL	1,294,794	1,016,845

7. EXPENSES BY NATURE – GROUP

The following items are included within operating expenses:

	2010	2009
	SHS 000	SHS 000
STAFF COSTS (NOTE 8)	792,705	677,340
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 15)	129,184	103,951
AMORTISATION OF INTANGIBLE ASSETS (NOTE 16)	29,136	35,918
PROFIT/(LOSS) ON SALE OF PROPERTY AND EQUIPMENT	(1,241)	751
OPERATING LEASE RENTALS	2,908	74,636
AUDITORS' REMUNERATION	9,337	9,882
AMORTISATION OF PREPAID OPERATING LEASE RENTALS (NOTE 30)	85	85

8. EMPLOYEE BENEFITS EXPENSE - GROUP

The following items are included within employee benefits expense:

	2010	2009
	SHS 000	SHS 000
SALARIES AND WAGES	668,733	573,555
RETIREMENT BENEFIT COSTS		
- NATIONAL SOCIAL SECURITY FUND	21,470	14,840
- DEFINED CONTRIBUTION SCHEME	23,796	20,549
OTHER STAFF COSTS	78,706	68,396
TOTAL	792,705	677,340

9. INCOME TAX EXPENSE - GROUP

	2010	2009
	SHS 000	SHS 000
CURRENT INCOME TAX	164,035	107,973
DEFERRED INCOME TAX (NOTE 18)	(41,949)	(4,108)
TOTAL	122,086	103,865

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

PROFIT BEFORE INCOME TAX	585,438	396,919
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2009: 30%)	175,631	119,076
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(81,265)	(78,397)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	16,309	31,797
OTHER - FINAL TAX ON GOVERNMENT PAPER AT 15%	29,372	31,389
PRIOR YEAR OVERPROVISION OF DEFERRED TAX	(17,961)	-
INCOME TAX EXPENSE	122,086	103,865

10. DIVIDENDS

At the Annual General Meeting, a final dividend in respect of the year ended 31 December 2010 of Shs 90 (2009: Sh 65) per share amounting to a total of Shs 198 million (2009: Shs 130 million) was proposed.

Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

11. CASH AND BALANCES WITH CENTRAL BANKS

	2010	2009
	SHS 000	SHS 000
GROUP		
CASH IN HAND	984,137	775,562
BALANCES WITH CENTRAL BANKS	1,813,270	1,285,508
TOTAL	2,797,407	2,061,070
COMPANY		
CASH IN HAND	527,912	273,692
BALANCES WITH CENTRAL BANK OF KENYA	1,279,065	883,843
TOTAL	1,806,977	1,157,535

12. INVESTMENT SECURITIES

(A) HELD TO MATURITY

	2010	2009
	SHS 000	SHS 000
GROUP		
TREASURY BILLS AND BONDS:		
- MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION	2,021,566	595,114
- MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	5,954,420	3,725,577
- LISTED DEBT SECURITIES	7,035	12,036
TOTAL	7,983,021	4,332,727
COMPANY		
TREASURY BILLS AND BONDS:		
- MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION	2,004,206	595,114
- MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	4,322,825	1,820,500
TOTAL	6,327,031	2,415,614

12. INVESTMENT SECURITIES (CONTINUED)

(B) AVAILABLE FOR SALE

	2010 SHS 000	2009 SHS 000
GROUP		
TREASURY BONDS	2,610,783	742,463
EQUITY SECURITIES AT COST (UNLISTED)	50,100	-
TOTAL	**2,660,883**	**742,463**
COMPANY		
TREASURY BONDS	1,729,658	742,463
EQUITY SECURITIES AT COST (UNLISTED)	50,100	-
TOTAL	**1,779,758**	**742,463**

The movement in investment securities available for sale may be summarised as follows:

AT START OF YEAR	742,463	734,747
ADDITIONS	37,452,488	11,744,520
DISPOSALS (SALE AND REDEMPTION)	(36,415,352)	(11,750,407)
GAINS FROM CHANGES IN FAIR VALUE TAKEN TO EQUITY (NOTE 24)	159	13,603
AT END OF YEAR	**1,779,758**	**742,463**

(C) ASSETS AT FAIR VALUE THROUGH THROUGH PROFIT OR LOSS

GROUP		
TREASURY BONDS	-	32,109

Treasury bills and bonds are debt securities issued by the Government.

13. PLACEMENTS WITH OTHER BANKS

	2010 SHS 000	2009 SHS 000
GROUP		
PLACEMENTS	102,837	575,454
LOANS AND ADVANCES TO OTHER BANKS	895,871	2,170,168
TOTAL	**998,708**	**2,745,622**
COMPANY		
PLACEMENTS	67,802	575,454
LOANS AND ADVANCES TO OTHER BANKS	311,546	1,356,643
TOTAL	**379,348**	**1,932,097**

14. LOANS AND ADVANCES TO CUSTOMERS

	2010	2009
	SHS 000	SHS 000
GROUP		
OVERDRAFTS	7,188,985	5,289,470
PERSONAL LOANS	1,084,686	624,266
MORTGAGES	254,937	67,025
COMMERCIAL LOANS	10,543,683	7,045,583
DISCOUNTED BILLS	640,254	836,286
GROSS LOANS AND ADVANCES	**19,712,545**	**13,862,630**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
INDIVIDUALLY ASSESSED	(104,228)	(96,050)
COLLECTIVELY ASSESSED	(50,717)	(36,578)
TOTAL	**19,557,600**	**13,730,002**
COMPANY		
OVERDRAFTS	6,100,905	4,161,690
PERSONAL LOANS	1,084,686	624,266
MORTGAGES	254,937	67,025
COMMERCIAL LOANS	6,113,208	3,506,658
DISCOUNTED BILLS	637,314	833,687
GROSS LOANS AND ADVANCES	**14,191,050**	**9,193,326**
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(52,042)	(64,141)
- COLLECTIVELY ASSESSED	(16,523)	(8,747
TOTAL	**14,122,485**	**9,120,438**

14. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

Movements in provisions for impairment of loans and advances are as follows:

	IDENTIFIED	UNIDENTIFIED	TOTAL
	SHS 000	SHS 000	SHS 000
GROUP			
AT 1 JANUARY 2009	90,234	25,406	115,640
PROVISION FOR LOAN IMPAIRMENT	67,627	11,191	78,818
AMOUNTS RECOVERED DURING THE YEAR	(33,516)	-	(33,516)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(23,583)	-	(23,583)
EXCHANGE DIFFERENCE	(4,712)	(19)	(4,731)
AT 31 DECEMBER 2009	96,050	36,578	132,628
AT 1 JANUARY 2010	96,050	36,578	132,628
PROVISION FOR LOAN IMPAIRMENT	99,398	7,776	107,174
AMOUNTS RECOVERED DURING THE YEAR	(21,550)	-	(21,550)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(64,598)	10,278	(54,320)
EXCHANGE DIFFERENCE	(5,072)	(3,915)	(8,987)
AT 31 DECEMBER 2010	104,228	50,717	154,945
COMPANY			
AT 1 JANUARY 2009	69,706	5,159	74,865
PROVISION FOR LOAN IMPAIRMENT	8,925	3,588	12,513
AMOUNTS RECOVERED DURING THE YEAR	(4,712)	-	(4,712)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(9,778)	-	(9,778)
AT 31 DECEMBER 2009	64,141	8,747	72,888
AT 1 JANUARY 2010	64,141	8,747	72,888
PROVISION FOR LOAN IMPAIRMENT	47,823	7,776	55,599
AMOUNTS RECOVERED DURING THE YEAR	(21,550)	-	(21,550)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(38,372)	-	(38,372)
AT 31 DECEMBER 2010	52,042	16,523	68,565

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2010 was Shs 318 million (2009: Shs 197 million).

15. PROPERTY AND EQUIPMENT

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WIP	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP					
YEAR ENDED 31 DECEMBER 2009					
OPENING BOOK AMOUNT	143,080	14,707	347,210	14,924	519,921
EXCHANGE DIFFERENCE	(94)	(9)	(129)	(9)	(241)
OPENING NET BOOK AMOUNT	142,986	14,698	347,081	14,915	519,680
ADDITIONS	-	9,694	206,637	24,912	241,243
DISPOSALS	-	(400)	(3,590)	(120)	(4,110)
DEPRECIATION CHARGE	(3,059)	(7,899)	(92,993)	-	(103,951)
CLOSING NET BOOK AMOUNT	**139,927**	**16,093**	**457,135**	**39,707**	**652,862**
AT 31 DECEMBER 2009					
COST	150,812	36,699	691,252	39,707	918,470
ACCUMULATED DEPRECIATION	(10,885)	(20,606)	(234,117)	-	(265,608)
NET BOOK AMOUNT	**139,927**	**16,093**	**457,135**	**39,707**	**652,862**
YEAR ENDED 31 DECEMBER 2010					
OPENING BOOK AMOUNT	139,927	16,093	457,135	39,707	652,862
EXCHANGE DIFFERENCE	(16,077)	(1,425)	(21,741)	(17,902)	(57,145)
OPENING NET BOOK AMOUNT	123,850	14,668	435,394	21,805	595,717
ADDITIONS	-	14,141	310,398	74,163	398,702
TRANSFERS	-	-	13,580	(21,805)	(8,225)
DISPOSALS	-	(175)	(771)	-	(946)
DEPRECIATION CHARGE	(2,735)	(8,503)	(117,946)	-	(129,184)
CLOSING NET BOOK AMOUNT	**121,115**	**20,131**	**640,655**	**74,163**	**856,064**
AT 31 DECEMBER 2010					
COST	133,450	47,935	976,417	74,163	1,231,965
ACCUMULATED DEPRECIATION	(12,335)	(27,804)	(335,762)	-	(375,901)
NET BOOK AMOUNT	**121,115**	**20,131**	**640,655**	**74,163**	**856,064**

15. PROPERTY AND EQUIPMENT (CONTINUED)

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WIP	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY					
YEAR ENDED 31 DECEMBER 2009					
OPENING NET BOOK AMOUNT	11,190	4,142	158,899		174,231
ADDITIONS		4,856	60,486		65,342
DISPOSALS			(745)		(745)
DEPRECIATION CHARGE	(180)	(4,340)	(39,691)		(44,211)
CLOSING NET BOOK AMOUNT	**11,010**	**4,658**	**178,949**		**194,617**
AT 31 DECEMBER 2009					
COST	12,000	21,264	282,209		315,473
ACCUMULATED DEPRECIATION	(990)	(16,606)	(103,260)		(120,856)
NET BOOK AMOUNT	**11,010**	**4,658**	**178,949**		**194,617**
YEAR ENDED 31 DECEMBER 2010					
OPENING NET BOOK AMOUNT	11,010	4,658	178,949		194,617
ADDITIONS		14,071	175,858	27,928	217,857
DISPOSALS			(561)		(561)
DEPRECIATION CHARGE	(180)	(5,143)	(50,396)		(55,719)
CLOSING NET BOOK AMOUNT	**10,830**	**13,586**	**303,850**	**27,928**	**356,194**
AT 31 DECEMBER 2010					
COST	12,000	35,335	458,067	27,928	533,330
ACCUMULATED DEPRECIATION	(1,170)	(21,749)	(154,217)		(177,136)
NET BOOK AMOUNT	**10,830**	**13,586**	**303,850**	**27,928**	**356,194**

16. INTANGIBLE ASSETS - SOFTWARE

	2010	2009
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	75,282	105,919
ADDITIONS	65,878	5,281
AMORTISATION	(29,136)	(35,918)
AT END OF YEAR	**112,024**	**75,282**
AT 31 DECEMBER		
COST	244,124	182,738
ACCUMULATED AMORTISATION	(132,100)	(107,456)
NET BOOK AMOUNT	**112,024**	**75,282**
COMPANY		
AT START OF YEAR	34,456	51,098
ADDITIONS	43,704	4,041
AMORTISATION	(13,386)	(20,683)
AT END OF YEAR	**64,774**	**34,456**
AT 31 DECEMBER		
COST	149,974	106,270
ACCUMULATED AMORTISATION	(85,200)	(71,814)
NET BOOK AMOUNT	**64,774**	**34,456**

17. INVESTMENT IN ASSOCIATE AND SUBSIDIARY

(A) INVESTMENT IN ASSOCIATES/INVESTMENTS HELD AS AFS – GROUP AND COMPANY

	2010	2009
	SHS 000	SHS 000
AT START OF THE YEAR	283,651	242,091
RIGHTS ISSUE	-	19,904
DIVIDENDS RECEIVED		
SHARE OF PROFITS	35,117	21,656
AT END OF YEAR	318,768	283,651

(B) INVESTMENT IN SUBSIDIARY

	2010	2009
	SHS 000	SHS 000
AS START OF THE YEAR	346,527	278,504
RIGHTS ISSUES	73,055	68,023
AT END OF YEAR	419,582	346,527

Investment in subsidiary comprises the Bank's investment in BANK OF AFRICA – UGANDA Limited (BOA-UGANDA). BOA-UGANDA is incorporated in Uganda. The Bank owns 50.01% of the total shareholding in BOA-UGANDA.

18. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2009:30%).

The movement on the deferred income tax account is as follows:

	2010	2009
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	4,351	4,659
INCOME STATEMENT CHARGE/(CREDIT) (NOTE 9)	(41,949)	(4,108)
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS (NOTE 24)	48	4,081
EXCHANGE DIFFERENCES	-	(281)
AT END OF YEAR	(37,550)	4,351
COMPANY		
AT START OF YEAR	(2,967)	1,578
INCOME STATEMENT CHARGE/(CREDIT)	(5,444)	(8,626)
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS (NOTE 24)	48	4,081
AT END OF YEAR	(8,363)	(2,967)

The deferred income tax assets, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	1.01.2010	CHARGED/ (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.2010
	SHS 000	SHS 000	SHS 000	SHS 000
GROUP				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	35,202	23,066	-	58,267
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(10,172)	(17,829)	-	(28,001)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,918	-	48	5,966
TAX LOSSES	(26,316)	(47,149)	-	(73,466)
EXCHANGE DIFFERENCES	(281)	(37)	-	(318)
NET DEFERRED INCOME TAX LIABILITY/(ASSET)	**4,351**	**(41,949)**	**48**	**(37,550)**
COMPANY				
DEFERRED INCOME TAX LIABILITIES/(ASSETS)				
PROPERTY AND EQUIPMENT	(526)	2,619	-	2,093
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(8,359)	(8,062)	-	(16,42)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	5,918	-	48	5,966
NET DEFERRED INCOME TAX LIABILITY/(ASSET)	**(2,967)**	**(5,444)**	**48**	**(8,363)**

	1.01.2010	CHARGED/ (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.201009
	SHS 000	SHS 000	SHS 000	SHS 000
GROUP				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	32,769	2,433	-	35,202
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(22,585)	12,413	-	(10,172)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	1,837	-	4,081	5,918
TAX LOSSES	(7,362)	(18,954)	-	(26,316)
EXCHANGE DIFFERENCES	-	(281)	-	(281)
NET DEFERRED INCOME TAX LIABILITY/(ASSET)	**4,659**	**(4,389)**	**4,081**	**4,351**
COMPANY				
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	5,758	(6,284)	-	(526)
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(6,017)	(2,342)	-	(8,359)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	1,837	-	4,081	5,918
NET DEFERRED INCOME TAX ASSET	**1,578**	**(8,626)**	**4,081**	**(2,967)**

19. OTHER ASSETS

	2010 SHS 000	2009 SHS 000
GROUP		
UNCLEARED EFFECTS	164,409	124,463
OTHER ASSETS	188,318	201,546
TOTAL	**352,727**	**326,009**
COMPANY		
UNCLEARED EFFECTS	152,824	117,105
OTHER ASSETS	67,323	74,468
TOTAL	**220,147**	**191,573**

20. CUSTOMER DEPOSITS

	2010 SHS 000	2009 SHS 000
GROUP		
CURRENT AND DEMAND DEPOSITS	9,937,676	9,041,508
SAVINGS ACCOUNTS	2,112,285	1,377,368
FIXED DEPOSIT ACCOUNTS	15,350,502	8,377,267
MARGIN DEPOSITS	105,233	
TOTAL	**27,505,696**	**18,796,143**
COMPANY		
CURRENT AND DEMAND DEPOSITS	7,141,456	6,293,276
SAVINGS ACCOUNTS	389,620	33,542
FIXED DEPOSIT ACCOUNTS	12,210,687	6,078,363
MARGIN DEPOSITS	42,548	
TOTAL	**19,784,311**	**12,405,181**

21. DEPOSITS FROM OTHER BANKS

	2010	2009
	SHS 000	SHS 000
GROUP		
OVERNIGHT BORROWING	395,628	483,410
OTHER BALANCES DUE TO BANKS	1,762,543	927,943
TOTAL	2,158,171	1,411,353
COMPANY		
OVERNIGHT BORROWING	395,628	464,136
OTHER BALANCES DUE TO BANKS	1,288,818	380,768
TOTAL	1,684,446	844,904

22 . OTHER LIABILITIES

	2010	2009
	SHS 000	SHS 000
GROUP		
ITEMS IN TRANSIT	9,971	5,990
BILLS PAYABLE	75,119	52,525
ACCRUALS	58,380	56,981
OTHER	186,575	145,609
CREDITORS	35,700	
TOTAL	365,745	261,105
COMPANY		
ITEMS IN TRANSIT	9,971	5,990
BILLS PAYABLE	46,419	31,212
OTHER	186,294	124,856
TOTAL	242,684	162,058

23. SHARE CAPITAL

(A) SHARE CAPITAL

	NUMBER OF SHARES	ORDINARY SHARES
	SHS 000	SHS 000
BALANCE AT START OF THE YEAR	2,000	2,000,000
ISSUE OF SHARES	200	200,000
BALANCE AT 31 DECEMBER 2010	2,200	2,200,000

(B) SHARE PREMIUM

	ORDINARY SHARES
	SHS 000
BALANCE AT 1 JANUARY 2010	112,200
ISSUE OF SHARES	9,000
BALANCE AT 31 DECEMBER 2010	121,200

The total authorised number of ordinary shares is 2,200,000 with a par value of Shs 1,000 per share. In 2010 the Bank issued an additional 200,000 shares which were fully paid.

24 . REVALUATION RESERVES - AVAILABLE-FOR-SALE SECURITIES

	2010	2009
	SHS 000	SHS 000
GROUP AND COMPANY		
AT START OF YEAR	13,807	4,285
NET GAINS FROM CHANGES IN FAIR VALUE	159	13,603
DEFERRED INCOME TAX	(48)	(4,081)
AT END OF YEAR	13,918	13,807

25. REGULATORY RESERVES

	2010	2009
	SHS 000	SHS 000
GROUP		
REGULATORY RESERVES		
AT START OF YEAR	91,414	73,777
TRANSFER FROM RETAINED EARNINGS	67,287	17,637
AT END OF YEAR	**158,701**	**91,414**
COMPANY		
REGULATORY RESERVES		
AT START OF YEAR	81,337	63,074
TRANSFER FROM RETAINED EARNINGS	50,076	18,263
AT END OF YEAR	**131,413**	**81,337**

The regulatory reserves represent an appropriation from retained earnings to comply with regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with regulations over the impairment provisions recognised in accordance with the Group's accounting policies.

26. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

	2010	2009
	SHS 000	SHS 000
GROUP		
ACCEPTANCES AND LETTERS OF CREDIT	2,064,606	1,248,952
GUARANTEES AND PERFORMANCE BONDS	3,749,214	2,545,322
CONTINGENCIES AND COMMITMENTS		
TOTAL	**5,813,820**	**3,794,274**
COMPANY		
ACCEPTANCES AND LETTERS OF CREDIT	974,566	621,084
GUARANTEES AND PERFORMANCE BONDS	2,713,774	1,702,766
TOTAL	**3,688,340**	**2,323,850**

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Group to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event of the customer's default.

OTHER COMMITMENTS	2010	2009
	SHS 000	SHS 000
GROUP		
FOREIGN EXCHANGE FORWARD CONTRACTS AND UNUTILIZED COMMITMENTS	2,974,330	2,123,054
COMPANY		
FOREIGN EXCHANGE FORWARD CONTRACTS AND UNUTILIZED COMMITMENTS	2,778,645	1,812,079

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. At the end of the year, the unutilised commitments amounted to Shs 1,679 million in 2010 (2009: Shs 1,438 million).

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

27. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CONSOLIDATED CASH FLOW STATEMENT

	2010	2009
	SHS 000	SHS 000
CASH AND BALANCES WITH CENTRAL BANKS (NOTE 11)	2,797,407	2,061,070
LESS: CASH RESERVE REQUIREMENT	(1,606,148)	(1,197,447)
GOVERNMENT AND OTHER SECURITIES (NOTE 12)	4,632,349	595,114
PLACEMENTS WITH OTHER BANKS	998,708	2,745,622
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 21)	(2,158,171)	(1,411,353)
AMOUNTS DUE FROM GROUP BANKS (NET)	(377,351)	(128,348)
TOTAL	**4,286,794**	**2,664,658**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, Treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 4.5% (2009: 4.5%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

28. RELATED PARTY TRANSACTIONS

The Group is controlled by AFRICAN FINANCIAL HOLDING (AFH) incorporated in Luxembourg. There are other companies which are related to BANK OF AFRICA – KENYA Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

(A) AMOUNTS DUE FROM GROUP BANKS

	2010	2009
	SHS 000	SHS 000
GROUP		
NATEXIS BANQUES	146,705	200,322
BOA BANK TANZANIA	364,920	283,309
BOA FRANCE	28,587	-
BOA RDC	121,630	-
OTHER GROUP ENTITIES	74,871	9,644
TOTAL	736,713	493,275
INTEREST INCOME EARNED ON THE ABOVE	5,716	707
LEDGER FEES EARNED ON THE ABOVE	6	68
COMPANY		
NATEXIS BANQUES	146,705	200,322
BOA BANK TANZANIA	364,290	265,835
BANK OF AFRICA (BOA) UGANDA	229,536	22,164
BOA FRANCE	28,587	-
BOA RDC	121,630	-
TOTAL	890,748	488,321
INTEREST INCOME EARNED ON THE ABOVE	5,094	124
LEDGER FEES EARNED ON THE ABOVE	6	6

B) AMOUNTS DUE TO GROUP COMPANIES

	2010	2009
	SHS 000	SHS 000
GROUP		
DUE TO AFH (INCLUDED UNDER OTHER LIABILITIES)	-	7,805
COMPANY		
DUE TO AFH (INCLUDED UNDER OTHER LIABILITIES)	-	7,805

(C) AMOUNTS DUE TO GROUP BANKS

	2010	2009
	SHS 000	SHS 000
GROUP		
BOA-MADAGASCAR	141,439	143,858
BOA-TANZANIA	784,890	227,972
BANQUE DE CREDIT DE BUJUMBURA	172,692	227,425
BOA-COTE D'IVOIRE	325	
BOA-RDC	7,724	
OTHER GROUP ENTITIES	6,994	22,368
TOTAL	**1,114,064**	**621,623**
INTEREST EXPENSE INCURRED ON THE ABOVE	**5,987**	**1,031**
COMPANY		
BOA-MADAGASCAR	141,439	143,859
BOA-UGANDA	41,434	10,004
BOA-COTE D'IVOIRE	325	
BOA-RDC	7,724	
BOA-TANZANIA	688,255	227,932
BANQUE DE CREDIT DE BUJUMBURA	172,692	227,425
OTHER GROUP ENTITIES		12
TOTAL	**1,051,869**	**609,232**
INTEREST EXPENSE INCURRED ON THE ABOVE	**1,268**	**2,765**
INVESTMENTS IN GROUP BANKS		
BOA-FRANCE	50,100	-

(D) EXPENSES

	2010	2009
	SHS 000	SHS 000
GROUP		
MANAGEMENT FEE PAID TO AFH	34,274	60,742
COMPANY		
MANAGEMENT FEE PAID TO AFH	-	45,787

28. RELATED PARTY TRANSACTIONS (CONTINUED)

Loans to Employees and Directors

Group

Advances to customers as at 31 December 2010 includes loans to employees amounting to Shs 363 million (2009: Shs 215 million).
Total loans to Directors amounted to Shs 29 million as at 31 December 2010 (2009: Shs 15 million).

Company

Advances to customers as at 31 December 2010 includes loans to employees amounting to Shs 272 million (2009: Shs 136 million).
Total loans to Directors amounted to Shs 29 million as at 31 December 2010 (2009: Shs 6 million).

	2010	2009
	SHS 000	SHS 000
GROUP		
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	18,351	16,065
COMPANY		
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	11,438	9,187
KEY MANAGEMENT COMPENSATION		
GROUP		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	350,347	305,609
COMPANY		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	318,012	251,266
DIRECTORS' REMUNERATION		
GROUP		
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	48,238	61,668
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	13,251	13,431
COMPANY		
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	34,229	29,222
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	7,252	6,918

29. INTANGIBLE ASSET - GOODWILL

	2010	2009
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	15,610	15,988
GOODWILL ON ACQUISITION AND CONSOLIDATION OF SUBSIDIARY	-	(378)
AT END OF YEAR	15,610	15,610

30. PREPAID OPERATING LEASE RENTALS

This relates to leasehold land for the group's residential property. The amount is amortised Over the remaining lease period.

	2010	2009
	SHS 000	SHS 000
GROUP AND COMPANY		
AT START OF YEAR	5,033	5,118
AMORTISATION CHARGE FOR THE YEAR	(84)	(85)
AT END OF YEAR	4,949	5,033

31. LONG TERM LIABILITIES

	2010	2009
	SHS 000	SHS 000
GROUP		
BORROWINGS	947,031	1,141,613
SUBORDINATED DEBT	648,761	-
TOTAL	**1,595,792**	**1,141,613**
COMPANY		
BORROWINGS	297,711	331,407
SUBORDINATED DEBT	648,761	-
TOTAL	**946,472**	**331,407**
BORROWINGS		
GROUP		
AT START OF YEAR	1,141,613	1,002,374
ARISING ON ACQUISITION OF SUBSIDIARY		
ADDITIONS IN THE YEAR	(170,506)	115,138
ACCRUED INTEREST	2,924	24,101
TOTAL	**947,031**	**1,141,613**
COMPANY		
AT START OF YEAR	331,407	327,761
ADDITIONS DURING THE YEAR	(36,620)	
ACCRUED INTEREST	2,924	3,646
TOTAL	**297,711**	**331,407**

The carrying amounts of long term borrowings approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the balance sheet date.

The borrowing is an unsecured 7 year term loan from Proparco signed for the development of the Bank's lending business in foreign currency. The borrowing bears fixed interest rate of 5.58%.

The subordinated debt is an unsecured 7 year loan capital issued by International Finance Corporation (IFC) to enhance the Banks capital base. The debt has an initial five year principal repayment moratorium. The debt obligation of the Bank ranks ahead of the interest of holders of equity and is redeemable on maturity. This note bears an interest rate referenced to the 6 month Libor. The effective interest rate on the subordinated debt as at 31 December 2010 was 4.961%. The subordinated is treated as Tier 2 capital in line with CBK guidelines.

None of the borrowings were in default during the year.

BANK STATEMENT OF COMPREHENSIVE INCOME

	2010	2009
	SHS 000	SHS 000
INTEREST INCOME	1,780,116	1,149,545
INTEREST EXPENSE	(891,483)	(616,257)
NET INTEREST INCOME	888,633	533,288
FEE AND COMMISSION INCOME	232,675	171,494
FEE AND COMMISSION EXPENSE	(34,255)	(14,916)
NET FEE AND COMMISSION INCOME	198,420	156,578
FOREIGN EXCHANGE INCOME	131,251	104,844
OTHER OPERATING INCOME	242,049	185,531
SHARE OF INCOME OF ASSOCIATES	35,117	21,656
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	(55,599)	(12,513)
OPERATING EXPENSES	(955,394)	(728,948)
TOTAL	(602,576)	(429,430)
PROFIT BEFORE INCOME TAX	484,477	260,436
INCOME TAX EXPENSE	(129,219)	(67,997)
PROFIT FOR THE YEAR	355,258	192,439
OTHER COMPREHENSIVE INCOME:		
GAINS ON REVALUATION OF AFS BONDS	159	13,603
TAX EFFECT ON GAINS ON REVALUATION OF AFS BONDS	(48)	(4,081)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	355,369	201,961

Personal notes