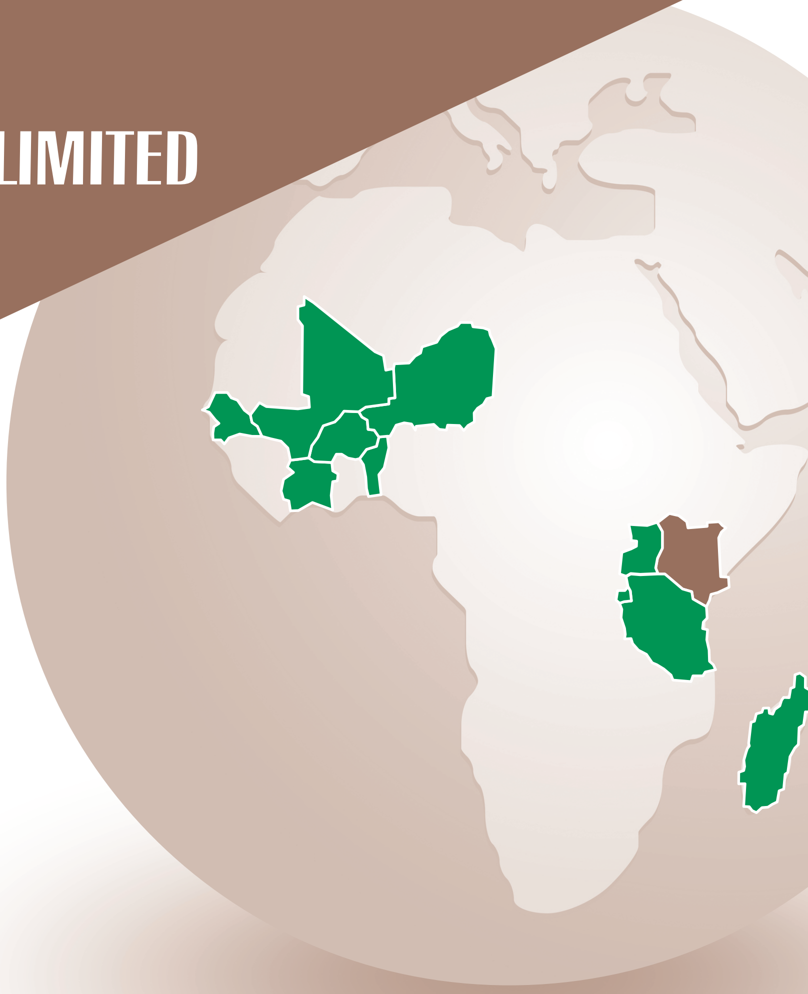
Kenya

2008 - ANNUAL REPORT

BANK OF AFRICA
KENYA

GROUPE BANK OF AFRICA

BANK OF AFRICA - KENYA LIMITED



The BANK OF AFRICA Group believes in and contributes to Africa's future.

The Banks in the BOA Group contribute to children's education through their tailored services.

They fulfill the needs of the younger generation by offering products specifically designed to accompany their early steps in life.

New products are continuously being created to accompany Africa's young people in their projects.

Every year for over 25 years the Group has hired and trained young graduates, some of whom now occupy positions of the highest responsibility in its Banks.

For the past 12 years, the BANK OF AFRICA Foundation has promoted initiatives in schools that aim in particular to improve the living conditions of the most disadvantaged children.

Table of contents

Group Banks and Subsidiaries in 2008

11 COMMERCIAL BANKS

BOA-BENIN	9	◆ Cotonou	8	▲ Azové, Abomey-Calavi, Bohicon, Dassa-Zoumé, Djougou, Parakou, Porto-Novo, Ouando (Porto-Novo).
BOA-BURKINA FASO	7	◆ Ouagadougou	5	▲ Bobo-Dioulasso, Fada, Koudougou, Koupéla, Pouytenga.
BOA-CÔTE D'IVOIRE	9	◆ Abidjan	2	▲ Bouaké, San Pedro.
BOA-KENYA	4	◆ Nairobi	3	▲ Kisumu, Mombasa, Thika.
BOA-MADAGASCAR	14	◆ Antananarivo	41	▲ Spread over the whole country
BOA-MALI	7	◆ Bamako	6 2 1	▲ Kayes, Koulikoro, Koutiala, Nioro du Sahel, Segou, Sikasso. △ Morila (Sikasso), Sadiola (Kayes). ○ Paris.
BOA-NIGER	4	◆ Niamey	6	▲ Agadez, Dosso, Gaya, Maradi, Tahoua, Tillaberi.
BOA-SENEGAL	8	◆ Dakar	3	▲ Ngor, Saly Portudal, Touba.
BOA BANK-TANZANIA	5	◆ Dar es Salaam	2	▲ Arusha, Mwanza.
BOA-UGANDA	7	◆ Kampala	5	▲ Arua, Jinja, Lira, Mbale, Mbarara.
BCB (BANQUE DE CRÉDIT DE BUJUMBURA)	3	◆ Bujumbura	9	▲ Gihofi, Giteba, Kayanza, Kirundo, Muyinga, Ngozi, Rumonge, Rugombo, Ruyigi.
GIE GROUPE BANK OF AFRICA	1	○ Paris		

1 HOUSING FINANCE BANK

BANQUE DE L'HABITAT DU BENIN	1	◆ Cotonou		

3 LEASE FINANCE COMPANIES

ÉQUIPBAIL-BENIN		● Cotonou		
ÉQUIPBAIL-MADAGASCAR		● Antananarivo		
ÉQUIPBAIL-MALI		● Bamako		

1 FIRM OF STOCKBROKERS

ACTIBOURSE		● Cotonou	1	○ Abidjan : Liaison office

2 INVESTMENT COMPANIES

AGORA		● Abidjan		
ATTICA		● Cotonou		

1 INFORMATION TECHNOLOGY SUBSIDIARY

AISSA		● Cotonou		

◆ Branches ▲ Regional branches △ Local branch ● Head office ○ Representative office or liaison office

Group strong points

- Quality of customer service
- Dynamism and availability of staff
- Financial solidity
- Cohesive network
- A wide range of financing solutions
- Expertise in financial engineering
- Strong partners

A strong network

- More than 2,600 people, at your service.
- Major holding in several life insurance companies.
- More than 170 dedicated operating and production sites in 12 countries, excluding affiliated partners.
- A continuously expanding fleet of Automated Teller Machines and Electronic Payment Terminals.
- Over 600,000 bank accounts.

A wide and varied offer

- Full range of banking and financial services.
- Attractive range of life insurance policies.
- Tailored solutions for all financing issues.
- Successful financial engineering.

GROUP
TOTAL TURNOVER IN 2008

± 235 million €

Strategic partners

Including:

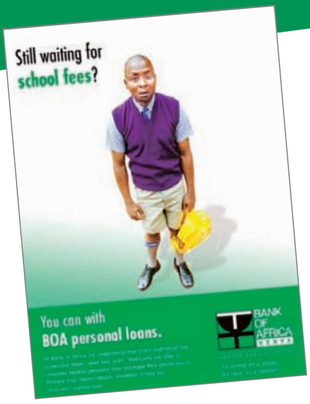
- BANQUE MAROCAINE DU COMMERCE EXTÉRIEUR (BMCE BANK),
- PROPARCO,
- INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP),
- WEST AFRICAN DEVELOPMENT BANK (BOAD),
- NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO),
- BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO),
- and investment fund AUREOS.

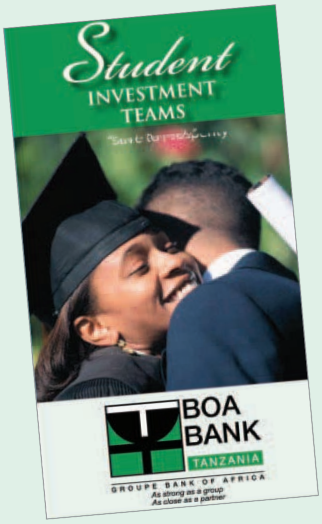
Unique experience in Africa

- Continuous development for almost 30 years.

Main Products of BOA-KENYA LTD

BOA ENGLISH SPEAKING NETWORK **BOA-KENYA LIMITED**

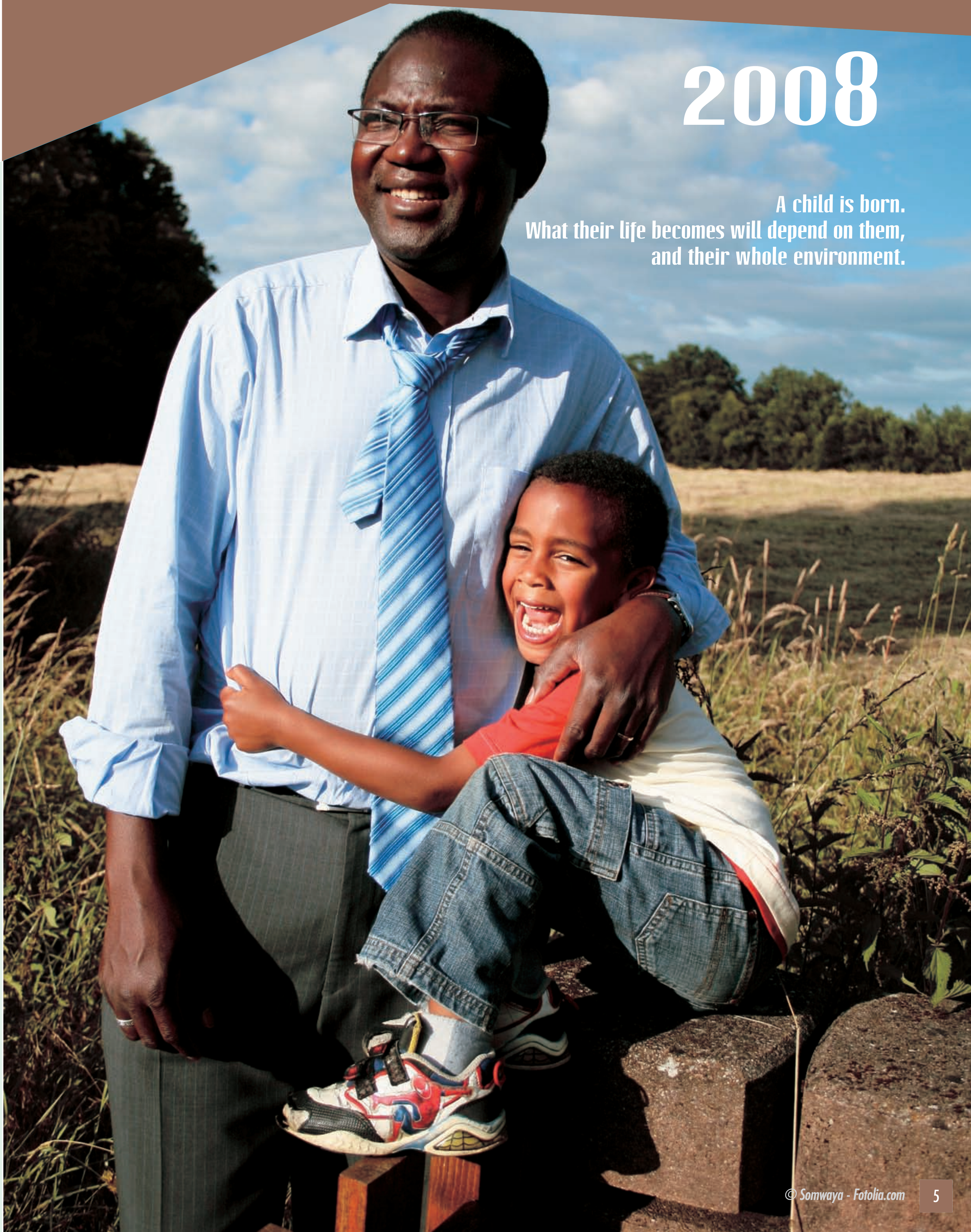




Accounts	Current Account	(Local & Foreign Currency)	■
	Remunerated Current Account		
Investment Products	Call Deposits Account		■
	Chama Account		■
	Children Savings Account	"Cool Kids Account"	■
	Family Savings Account		
	Ero Savings Account		
	Gold Plus Account		
	Investment Plan Account		■
	Ordinary Savings Account		■
	Premium Plus Fixed Deposit		■
	Schools Fees Account		
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		
	Student Investment Teams		
	Term Deposit		■
Electronic Banking	BOA On-line		
	B-Web		■
	SESAME ATM Card	(Kenswitch Network)	■
Loans & Advances	2 in 1 Loan		
	Bridging Overdraft		
	Instant Cash		
	Personal Loans		■
	Salary Advance		
	Schools Fees Loan		■
	Super Kikapu		
BOA Company Services	BOA-KENYA Ltd also offers a wide range of products and services to Corporates, SMEs, Organizations, Institutions, Professionals and Individuals.		■
Transfers and foreign exchanges	Foreign Exchange		■
	Moneygram		
	Travellers Cheques		■
	Western Union		■
Complementary Products & Services	Banker's Cheques		■

Annual Report

2008



**A child is born.
What their life becomes will depend on them,
and their whole environment.**

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Comments from the Managing Director

It is my pleasure to present the Annual Report and Accounts as at 31st December 2008 for BANK OF AFRICA - KENYA (BOA-KENYA).

Year 2008 started on a sour note for the country with disputed 2007 presidential elections causing post election violence which rocked the country especially Western Kenya and Rift Valley. The situation only normalized in March 2009, after signing a power sharing agreement between the two leading presidential candidates to form a government of national unity.

This early set back in the year affected business growth in the country, with notable effects being felt in the tourism and agricultural sectors. This created inflationary pressures on the local economy. Together with the then high fuel prices, inflation figures rose above 20% for the whole year. Gross Domestic Product (GDP) for 2008 is estimated to be around 3% from a high of 7% in 2007.

In March 2008, the government divested from SAFARICOM (the largest local mobile phone company) by issuing an Initial public offering (IPO), seeking to raise some Kes 50 billion. The issue was oversubscribed by 532%, with most of the funds locked up by the few receiving banks, pending share allotment. This created a liquidity crisis in the market, resulting in high interest rates in the middle of the year, as banks competed for the few deposits available in the market.

In 2008, the Bank's strategy was to:

- Increase its presence in the country through opening of new branches in River Road and Ruaraka within Nairobi, and Thika and Kisumu, outside the capital city.
- Consolidate the acquisitions of BANK OF AFRICA - UGANDA (BOA-UGANDA) and BOA BANK - TANZANIA. During the year, BOA-UGANDA became a subsidiary of BOA-KENYA, with BOA-KENYA shareholding increasing to 51.22% up from 47.7% in 2007. BOA-KENYA shareholding in BOA BANK - TANZANIA also increased to 37.15% up from 33% in 2007.

Through these efforts, our Bank's consolidated position stood at total assets of Kes 18.7 billion with net profit of Kes 223 mio. At bank level, total assets grew by 61.8%, to Kes 12.3 billion while net profit declined by 38.7% to Kes 70.9 million, due to branch expansion costs and high deposit rates in the market. Loans to customers grew by 51.1% to Kes 6.8 billion, while customer deposits improved by 58.1% to Kes 8.7 billion.

To facilitate the branch expansion and regional integration, the shareholders injected some Kes 450 million into BOA-KENYA bringing total issued share capital to Kes 1,400 million up from Kes 950 million in 2007. These funds were invested in new branches in Kenya and additional shareholding in BOA-UGANDA and BOA BANK - TANZANIA.

In 2009, BOA-KENYA will be opening a number of new branches within Nairobi and upcountry to further entrench its presence in the market.

We take the opportunity to thank all our customers for the support during the year and pledge our continued service improvement initiatives for our mutual benefit. We also wish to register our profound appreciation to all our staff for their enduring efforts to make BOA-KENYA a fulfilling place of work.

Philippe LÉON-DUFOUR
Managing Director

Key Facts 2008

January

- Participation in the Groupe BANK OF AFRICA's meeting 2007 for the Directors of its network in Bamako.

February

- Opened River Road branch, in Nairobi.

May

- Participation in the Groupe BANK OF AFRICA network management meeting, in Kampala.

June

- Launched Thika Branch, market town 40 km north east of Nairobi.

July

- Increase from KES 950 to KES 1,300 million of Bank's capital.

September

- Signed a 7 year term loan of 3 million euro with PROPARCO.

December

- Launched Kisumu Branch, third largest city in Kenya.
- Organization and participation in the Groupe BANK OF AFRICA network Directors' meeting, in Nairobi.
- Increase from KES 1,300 to KES 1,400 million of Bank's capital.

Key Figures 2008

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Activity

Deposits *	8,700,784
Loans *	6,856,438

Income

Operating income *	652,839
Operating expenses *	548,839
Profit before tax *	93,408**

Structure

Total Assets *	12,302,763
Number of employees	107

* in KES' 000 (EUR 1 = 110.2386 KES)

** Including share of profit from BOA-UGANDA of 5,918 KES and share of profit from BOA BANK - TANZANIA 23,141 KES.

Corporate Social Responsibility Initiatives 2008

Social

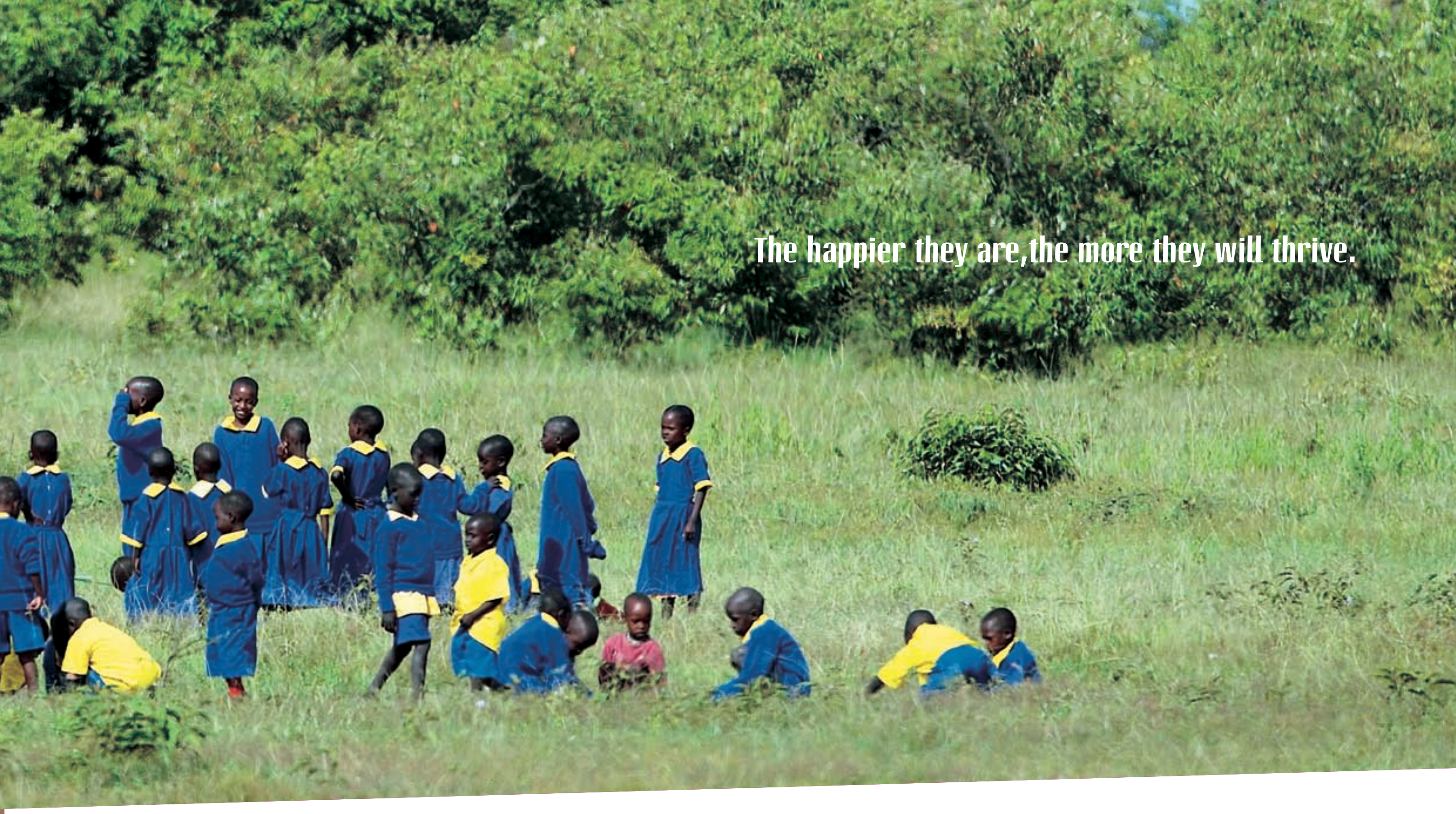
It is estimated that out of every 1,000 children, 12 are born with congenital heart disease. It is considered to be one of the most common birth defects worldwide.

Rheumatic heart disease, whose origin is a "neglected" sore throat, is another common problem among children. In Kenya 2 out of every 1,000 children have Rheumatic heart disease. Mater Heart run helps to raise funds "to help helpless children dying slow, painful and avoidable deaths".

BANK OF AFRICA - KENYA (BOA-KENYA) in recognizing the importance of having a healthy heart and being aware about the plight of the under privileged every year donates to the heart run, run by Mater Hospital. This is a fun run that is organised to raise funds for open heart surgery for families of children who cannot access the medical facilities as it is too costly. Every year staff of BOA-KENYA take time out and run in support of this worthy cause.



Mater Heart run participants. BOA-KENYA Managing Director planting a tree, with the students of the Olympic Primary School in Kibera. Road Curing in Mwea. © BOA-KENYA Ltd



Environment

BOA-KENYA through its corporate social responsibility program has been actively in involved in tree planting initiatives particularly targeting children. The Bank embarked on this program in the view of the need to increase Kenya's forest cover.

Due to flooding and erosion in Kibera BOA-KENYA focused on infiltration of rainwater by planting appropriate indigenous trees whose roots tend to go deep into the ground. Species for conservation and education due to their unique health and cultural properties were planted. This was done through Olympic Primary School in Kibera with the participation of the students on 17th may 2008.

BOA-KENYA is also active in safeguarding and increasingly rare, endangered and potential plant species that can influence children's science development presently as well as in the future.

In Kibera over one thousand mulberry species have been planted and the children will nurture them. After a year, the school will initiate a silk worm rearing programme, thus increasing diversity and creativity in business and science among children.

Kenya needs over 7 billion indigenous trees to meet the 10% forest cover replacement required. We are happy to have started in the slums of Mathare and Kibera where settlements are overtaking biodiversity.

Economy

The bank in 2005, identified road construction industry as a key sector that requires financial support, with many roads requiring repairs after years of neglect/little development. Roads in Kenya are key arteries enabling movement of goods and delivery of agricultural produce to the markets. BOA-KENYA proposed a new approach to finance road contractors to undertake various road projects in the country. This was well received in the market with a number of road contractors coming to the bank for finance. In 2008, BOA-KENYA developed a new product for the SME road contractors in conjunction with the Ministry of Roads, whereby the contractors have been provided with finance to complete various road projects.

Some of the roads that the bank has assisted in finance include:

1. 2006/2007 Makutano-Embu-Thuchi Road in Central Kenya.
2. 2007-2009 Ekero-Ebuyangu Road in Western Kenya.
3. 2008-2009 Rukenya-Kimunye Road in Central Kenya.

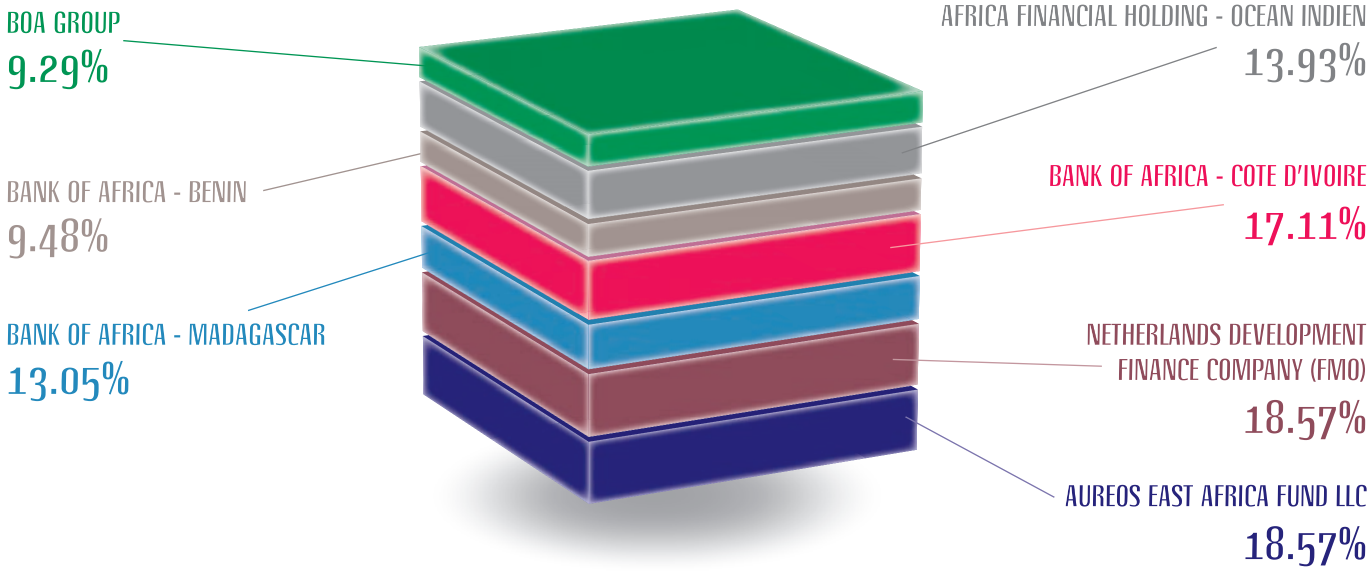
Board of Directors

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

- Paul DERREUMAUX, Chairman
- Georges ABALLO
- Vincent de BROUWER
- Alexandre RANDRIANASOLO
- Davinder S. SIKAND
- Francis SUEUR
- Shakir MERALI, Alternate Director to Davinder S. SIKAND
- Kwame AHADZI, Alternate Director to Chairman
- Philippe LEON-DUFOUR, Managing Director

Capital

The Bank has 1,400,000 authorised ordinary shares with a cumulative nominal value of KES 1.4 billion,
The following is the bank's shareholding structure as at 31st December 2008.
Shareholding Position based on number of shares (%):



Auditors

PricewaterhouseCoopers

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008, 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 218 million has been added to retained earnings. The Directors recommend the approval of a final dividend of Shs 65 million (2007: Shs 57 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	
Shakir MERALI	(Alternate Director to Davinder S. Sikand)
Georges ABALLO	
Vincent de BROUWER	
Kwame AHADZI	Managing Director (Appointed 18 February 2009)
Jean-Geo PASTOURET	Deputy Managing Director (Appointed 18 February 2009)
Phillippe LÉON-DUFOUR	Managing Director (Resigned 15 February 2009)
Francis SUEUR	(Resigned 18 March 2009)

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 2009

The Westlands Branch. © BOA-KENYA

The Kisumu Branch. © BOA-KENYA

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 CEO and four 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 Chief Executive Officer, 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.

Board meeting Membership and Attendance

	DATE	DATE	DATE	DATE
	9 JANUARY 2008	14 MARCH 2008	22 SEPTEMBER 2008	15 DECEMBER 2008
PAUL DERREUMAUX	A	A	A	A
ALEXANDRE RANDRIANASOLO	A	A	AP	A
DAVINDER S. SIKAND				
SHAKIR MERALI	A	A	A	A
FRANCIS SUEUR	A	A	A	A
GEORGES ABALLO	A	AP	A	A
PHILLIPPE LEON-DUFOUR	A	A	A	A
VINCENT DE BROUWER	BY INVITATION	BY INVITATION	A	A

A – Attended   AP – Absent with apology

The Uhuru Highway Branch. © BOA-KENYA

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 also reviews 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.

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.

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.

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.

Report and Financial Statements

Head Office Branch. © BOA-KENYA

Statement of Directors' 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.

Paul DERREUMAUX
Chairman

Philippe LÉON-DUFOUR
Managing Director

19th March 2009

Report and Financial Statements

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 2008 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;

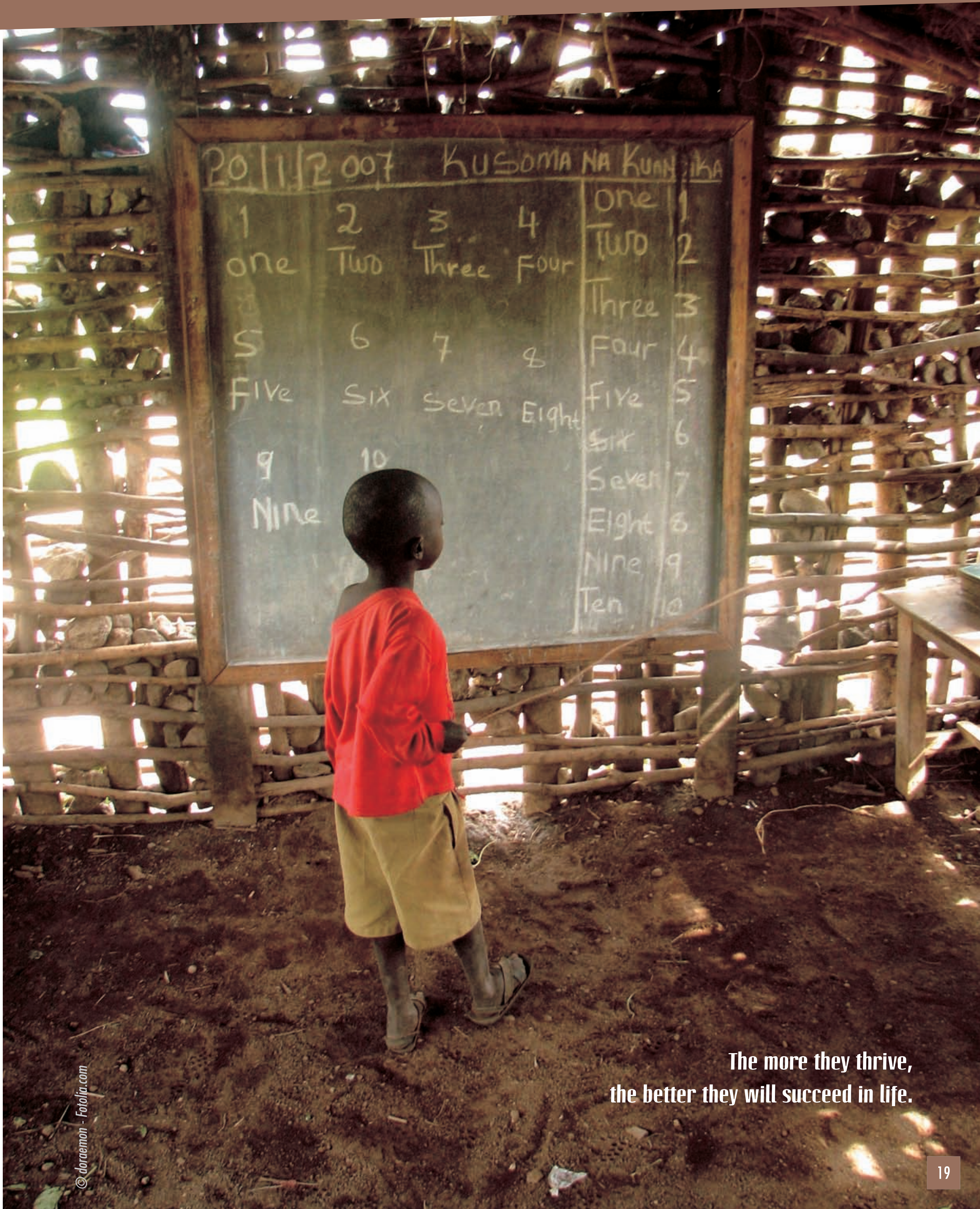
iii) the Company's balance sheet and profit and loss account are in agreement with the books of account.

Certified Public Accountants

March 2009
Nairobi

Financial Statements

for the year ended 31 December 2008



The more they thrive,
the better they will succeed in life.

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PROFIT AND LOSS ACCOUNT

	NOTES	2008 SHS 000	2007 SHS 000
INTEREST INCOME	5	1,369,224	543,601
INTEREST EXPENSE	6	(611,630)	(209,145)
NET INTEREST INCOME		**757,594**	**334,456**
FEE AND COMMISSION INCOME		360,297	101,442
FEE AND COMMISSION EXPENSE		(42,636)	(11,228)
NET FEE AND COMMISSION INCOME		**317,661**	**90,214**
FOREIGN EXCHANGE INCOME		204,231	83,097
OTHER OPERATING INCOME		56,245	35,688
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	14	(50,455)	(11,254)
OPERATING EXPENSES	7	(1,042,915)	(416,737)
SHARE OF PROFITS FROM ASSOCIATES	17	29,059	42,347
PROFIT BEFORE INCOME TAX		**271,420**	**157,811**
INCOME TAX EXPENSE	9	(53,071)	(41,942)
PROFIT FOR THE YEAR (of which Shs 70,961,000 has been dealt with in the profit and loss account of the company)		**218,349**	**115,869**
ATTRIBUTABLE TO:			
EQUITY HOLDERS OF THE COMPANY		138,580	115,869
MINORITY INTEREST		79,769	-
TOTAL		**218,349**	**115,869**
DIVIDENDS			
PROPOSED FINAL DIVIDEND FOR THE YEAR	10	65,000	57,000

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL SHS 000	REVALUATION RESERVE SHS 000	REGULATORY RESERVE SHS 000	RETAINED EARNINGS SHS 000	TRANSLATION RESERVE SHS 000	PROPOSED DIVIDEND SHS 000	TOTAL SHS 000	MINORITY INTEREST SHS 000	TOTAL SHS 000
YEAR ENDED 31 DECEMBER 2007										
AT START OF YEAR		750,000	-	39,395	159,036	-	30,000	978,431	-	978,431
NET CHANGE IN AVAILABLE-FOR-										
SALE FINANCIAL ASSETS NET OF TAX	24	-	(1,393)	-	-	-	-	(1,393)	-	(1,393)
PROFIT FOR THE YEAR		-	-	-	115,869	-	-	115,869	-	115,869
TRANSFER TO REGULATORY RESERVE	25	-	-	8,647	(8,647)	-	-	-	-	-
DIVIDENDS:										
- FINAL FOR 2006		-	-	-	-	-	(30,000)	(30,000)	-	(30,000)
- PROPOSED FINAL FOR 2007	10	-	-	-	(57,000)	-	57,000	-	-	-
ISSUE OF SHARES	23	200,000	-	-	-	-	-	200,000	-	200,000
TOTAL		**950,000**	**(1,393)**	**48,042**	**209,258**	**-**	**57,000**	**1,262,907**	**-**	**1,262,907**
YEAR ENDED 31 DECEMBER 2008										
AT START OF YEAR		950,000	(1,393)	48,042	209,258	-	57,000	1,262,907	-	1,262,907
CONSOLIDATION OF FOREIGN										
SUBSIDIARY ACQUIRED		-	-	-	8,669	-	-	8,669	258,743	267,412
PROFIT FOR THE YEAR		-	-	-	138,580	-	-	135,580	79,769	218,349
NET CHANGE IN AVAILABLE-FOR-SALE										
FINANCIAL ASSETS NET OF TAX	24	-	5,678	-	-	-	-	5,678	-	5,678
TRANSFER TO REGULATORY RESERVE	25	-	-	25,735	(25,735)	-	-	-	-	-
INCREASED INVESTMENT IN SUBSIDIARY		-	-	-	-	-	-	-	63,060	63,060
TRANSLATION RESERVES						6,016		6,016	5,730	11,746
DIVIDENDS:										
- FINAL FOR 2007		-	-	-	-	-	(57,000)	(57,000)	-	(57,000)
- PROPOSED FINAL FOR 2008	10	-	-	-	(65,000)	-	65,000	-	-	-
ISSUE OF SHARES	23	450,000	-	-	-	-	-	450,000	-	450,000
TOTAL		**1,400,000**	**4,285**	**73,777**	**265,772**	**6,016**	**65,000**	**1,814,850**	**407,302**	**2,222,152**

COMPANY BALANCE SHEET

	NOTES	SHARE CAPITAL SHS 000	REVALUATION RESERVE SHS 000	REGULATORY RESERVE SHS 000	RETAINED EARNINGS SHS 000	PROPOSED DIVIDEND SHS 000	TOTAL SHS 000
YEAR ENDED 31 DECEMBER 2007							
AT START OF YEAR		750,000	-	39,395	159,036	30,000	978,431
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24	-	(1,393)	-	-	-	(1,393)
PROFIT FOR THE YEAR		-	-	-	115,869	-	115,869
TRANSFER TO REGULATORY RESERVE	25	-	-	8,647	(8,647)	-	-
DIVIDENDS:							
- FINAL FOR 2006		-	-	-	-	(30,000)	(30,000)
- PROPOSED FINAL FOR 2007	10	-	-	-	(57,000)	57,000	-
ISSUE OF SHARES	23	200,000	-	-	-	-	200,000
TOTAL		**950,000**	**(1,393)**	**48,042**	**209,258**	**57,000**	**1,262,907**
YEAR ENDED 31 DECEMBER 2008							
AT START OF YEAR		950,000	(1,393)	48,042	209,258	57,000	1,262,907
PROFIT FOR THE YEAR		-	-	-	70,961	-	70,961
SHARE OF ASSOCIATES RESERVES MOVEMENT		-	-	-	(70,829)	-	(70,829)
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	24	-	5,678	-	-	-	5,678
TRANSFER TO REGULATORY RESERVE	25	-	-	15,032	(15,032)	-	-
DIVIDENDS:							
- FINAL FOR 2007		-	-	-	-	(57,000)	(57,000)
- PROPOSED FINAL FOR 2008	10	-	-	-	(65,000)	65,000	-
ISSUE OF SHARES	23	450,000	-	-	-	-	450,000
TOTAL		**1,400,000**	**4,285**	**63,074**	**129,358**	**65,000**	**1,661,717**

CONSOLIDATED CASH FLOW STATEMENT

YEAR ENDED 31 DECEMBER		2008	2007
	NOTES	SHS 000	SHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		1,321,311	548,843
INTEREST PAYMENTS		(680,175)	(208,079)
NET FEE AND COMMISSION RECEIPTS		317,661	90,214
OTHER INCOME RECEIVED		260,476	82,032
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		11,044	-
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(1,025,599)	(373,431)
INCOME TAX PAID		(131,492)	-
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		73,226	139,579
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(3,302,716)	(818,630)
- CASH RESERVE REQUIREMENT		(330,724)	(26,243)
- OTHER ASSETS		(362,986)	(204,374)
- CUSTOMER DEPOSITS		4,494,405	587,471
- OTHER LIABILITIES		(31,923)	106,361
- TREASURY BILLS AND BONDS MATURING AFTER 91 DAYS		(1,646,900)	(255,869)
- INVESTMENT SECURITIES – AVAILABLE FOR SALE		(407,545)	(285,009)
- INVESTMENT SECURITIES – FAIR VALUE THROUGH PROFIT OF LOSS		(31,413)	-
NET CASH FROM OPERATING ACTIVITIES		(1,619,802)	(896,293)
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN ASSOCIATE		(89,705)	(153,644)
PURCHASE OF PROPERTY AND EQUIPMENT	15	(259,602)	(33,819)
PURCHASE OF INTANGIBLE ASSETS	16	(39,149)	(1,756)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		1,123	1,736
NET CASH USED IN INVESTING ACTIVITIES		(387,333)	(187,483)
CASH FLOWS FROM FINANCING ACTIVITIES			
PROCEEDS FROM BORROWED FUNDS		1,002,374	-
ISSUE OF ORDINARY SHARES	23	450,000	200,000
MINORITY INTEREST INVESTMENT IN SUBSIDIARIES		63,060	-
DIVIDENDS PAID		(60,375)	(26,625)
DIVIDENDS RECEIVED		11,916	-
NET CASH FROM FINANCING ACTIVITIES		1,466,975	173,375
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(466,934)**	**(770,822)**
CASH AND CASH EQUIVALENTS AT START OF YEAR		535,322	1,306,144
CASH AND CASH EQUIVALENTS ACQUIRED ON ACQUISITION OF SUBSIDIARY		883,958	-
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**952,346**	**535,322**

Notes

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

(A) BASIS OF PREPARATION

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in Note 3.

INTERPRETATIONS EFFECTIVE IN 2008

In 2008, the following new interpretations became effective for the first time but have not had an impact on the Group's financial statements:

- IFRIC 11 – IFRS 2 - Group and treasury share transactions,
- IFRIC 12 – Service Concession Arrangements,
- IFRIC 14 – IAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction,
- IAS 39 and IFRS 7 – Reclassification of financial assets.

STANDARDS, INTERPRETATIONS AND AMENDMENTS TO PUBLISHED STANDARDS THAT ARE NOT YET EFFECTIVE.

One new standard (IFRS 8 – Operating Segments) and numerous amendments to existing standards and new interpretations have been published and will be effective for the Group's accounting periods beginning on or after 1 January 2009, but the Group has not early adopted any of them.

The Directors have assessed the relevance of these amendments and interpretations with respect to the Group's operations and concluded that they will have no impact on the Group financial statements other than for the amendments to IAS 1 - Presentation of Financial Statements, which will require non-owner changes in equity to be presented in a 'Comprehensive Statement of Income'.

(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 income statement.

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 (see Note 29).

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, 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 profit and loss account.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the profit and loss account within 'finance income or cost'. All other foreign exchange gains and losses are presented in the profit and loss account within 'other (losses)/gains – net'.

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 available-for-sale 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 profit and loss account 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 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 profit and loss account 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 profit and loss account 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, advances and receivables; held-to-maturity investments; and available-for-sale assets. 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, advances and receivables

Loans, advances 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 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 fair value 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 income statement.

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, advances 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 profit and loss account 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 profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account 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 income statement. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

(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 profit and loss account. 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 income statement.

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 income statements.

(iii) 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 les 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%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Group assesses at each reporting date whether there is any indication that any item of property, plant and equipment is impaired. If any such indication exists, the bank estimates the recoverable amount of the relevant assets. 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).

Gains and losses on disposal of property and equipment are determined by reference to 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 profit and loss account in respect of current income tax and deferred income tax. Tax is recognised in the profit and loss account 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.

Deferred income tax is recognised, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, if the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(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 profit and loss account 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 profit and loss account 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 profit and loss account 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 profit and loss account.

(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 income statement 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 loans and advances to other banks or customers, 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 income statement, 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 maturing 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.

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 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 Bank Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. 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 gradings in order to categorise exposures according to the degree of risk of financial losses faced and to focus management on the attendant risks. 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

	2008	2007
	SHS 000	SHS 000
GROUP		
BALANCES WITH CENTRAL BANKS	1,042,970	304,917
GOVERNMENT SECURITIES HELD TO MATURITY	2,743,660	459,097
GOVERNMENT SECURITIES – AVAILABLE-FOR-SALE	734,747	321,523
PLACEMENTS WITH OTHER BANKS	1,164,360	838,226
AMOUNTS DUE FROM GROUP COMPANIES	253,752	86,991
LOANS AND ADVANCES TO CUSTOMERS	10,235,824	4,579,097
OTHER ASSETS	180,535	21,456
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	1,142,076	496,705
- GUARANTEE AND PERFORMANCE BONDS	2,281,457	1,211,320
NET	**19,779,381**	**8,319,332**
COMPANY		
BALANCES WITH CENTRAL BANK OF KENYA	531,818	304,917
GOVERNMENT SECURITIES HELD TO MATURITY	1,420,764	459,097
GOVERNMENT SECURITIES – AVAILABLE-FOR-SALE	734,747	321,523
PLACEMENTS WITH OTHER BANKS	1,058,761	838,226
AMOUNTS DUE FROM GROUP COMPANIES	320,696	86,991
LOANS AND ADVANCES TO CUSTOMERS	6,856,438	4,579,097
OTHER ASSETS	46,845	21,456
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	405,040	496,705
- GUARANTEE AND PERFORMANCE BONDS	1,497,963	1,211,320
NET	**12,873,072**	**8,319,332**

The above tables represent a worse case scenario of credit risk exposure to the Group and Company as at 31 December 2008 and 2007, without taking account of 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 balance sheet.

Loans and advances to customers, other than to major corporates 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.

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED

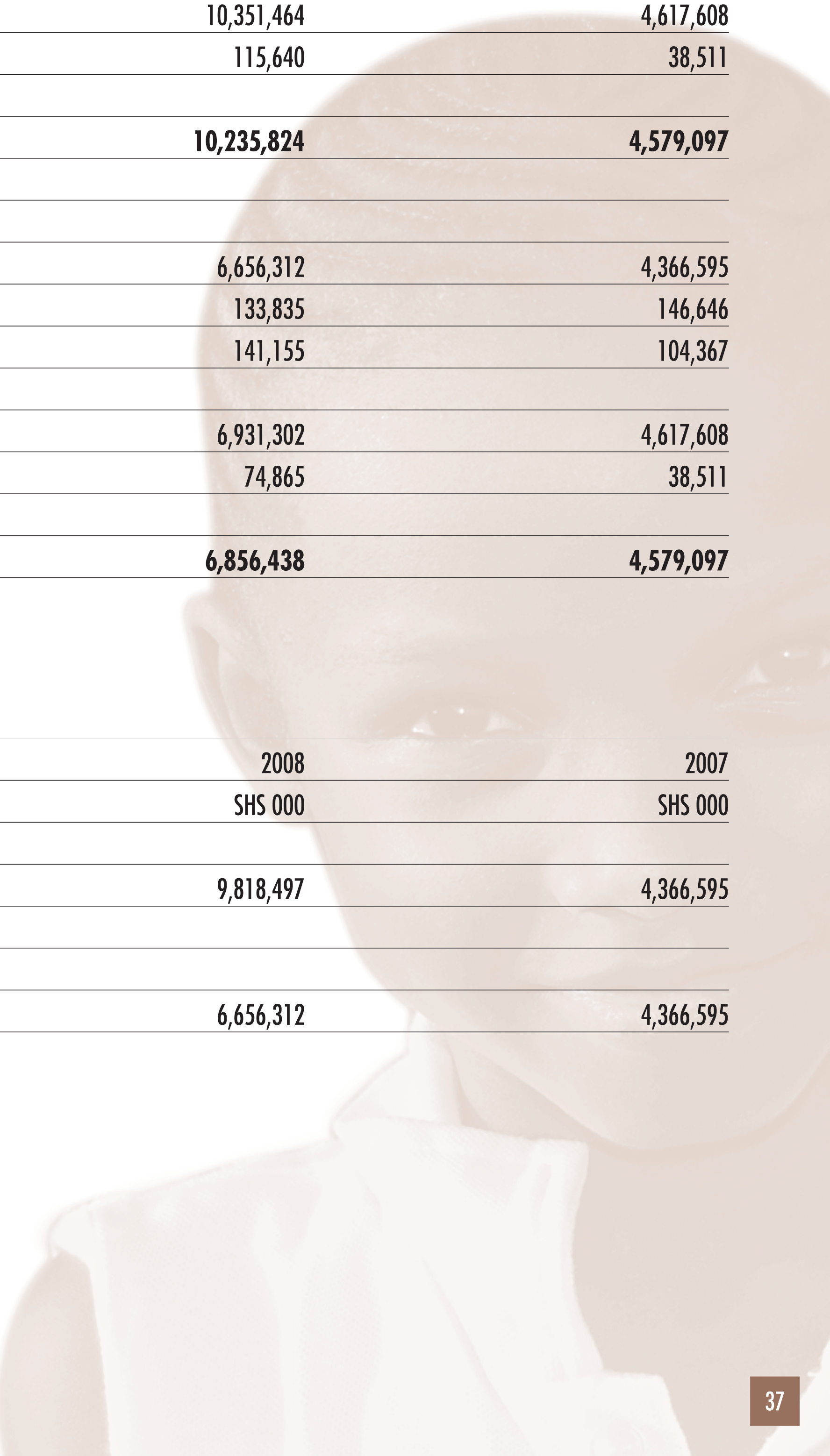
Loans and advances are summarised as follows:

	2008	2007
	SHS 000	SHS 000
GROUP		
NEITHER PAST DUE NOR IMPAIRED	9,818,498	4,366,595
PAST DUE BUT NOT IMPAIRED	348,075	146,646
INDIVIDUALLY IMPAIRED	184,891	104,367
GROSS	10,351,464	4,617,608
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 14)	115,640	38,511
NET	**10,235,824**	**4,579,097**
COMPANY		
NEITHER PAST DUE NOR IMPAIRED	6,656,312	4,366,595
PAST DUE BUT NOT IMPAIRED	133,835	146,646
INDIVIDUALLY IMPAIRED	141,155	104,367
GROSS	6,931,302	4,617,608
LESS: ALLOWANCE FOR IMPAIRMENT (NOTE 14)	74,865	38,511
NET	**6,856,438**	**4,579,097**

No other financial assets are either past due or impaired.

LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED

	2008	2007
	SHS 000	SHS 000
GROUP		
STANDARD	9,818,497	4,366,595
COMPANY		
STANDARD	6,656,312	4,366,595



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:

	2008	2007
	SHS 000	SHS 000
GROUP		
PAST DUE UP TO 30 DAYS	215,194	104,638
PAST DUE 31-60 DAYS	51,296	7,743
PAST DUE 61-90 DAYS	42,010	34,265
PAST DUE > 90 DAYS	39,575	-
TOTAL	**348,075**	**146,646**
COMPANY		
PAST DUE UP TO 30 DAYS	89,948	104,638
PAST DUE 31-60 DAYS	1,877	7,743
PAST DUE 61-90 DAYS	42,010	34,265
TOTAL	**133,835**	**146,646**

GROUP		
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	117,696	83,267
- RETAIL	12,983	1,618
- SME	54,212	19,482
TOTAL	**184,891**	**104,367**
FAIR VALUE OF COLLATERAL	81,233	45,814

COMPANY

	2008	2007
	SHS 000	SHS 000
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	87,525	83,267
- RETAIL	7,221	1,618
- SME	46,409	19,482
TOTAL	**141,155**	**104,367**
FAIR VALUE OF COLLATERAL	57,995	45,814

COLLATERAL REPOSSESSED

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

	2008	2007
	SHS 000	SHS 000
GROUP AND COMPANY		
Nature of assets:		
RESIDENTIAL PROPERTY	-	-
COMMERCIAL PROPERTY	-	-
OTHER		6,700
TOTAL	**-**	**6,700**

CONCENTRATIONS OF RISK

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

BY ECONOMIC SECTOR

	2008	2007
	SHS 000	SHS 000
GROUP		
WHOLESALE/RETAIL	3,264,399	1,573,570
MANUFACTURING	1,574,304	1,105,703
AGRICULTURE	1,062,313	557,670
CONSTRUCTION	1,061,277	337,618
TRANSPORT	647,713	308,640
INDIVIDUAL/PERSONAL	1,260,738	258,772
SERVICES	32,638	20,728
FINANCIAL INSTITUTIONS	529,939	101,635
TOURISM	90,045	102,275
COMMUNICATION	42,987	64,411
HOSPITALITY	25,564	28,297
OTHERS	759,547	158,289
TOTAL	**10,351,464**	**4,617,608**
COMPANY		
WHOLESALE/RETAIL	2,274,672	1,573,570
MANUFACTURING	1,568,905	1,105,703
AGRICULTURE	865,887	557,670
CONSTRUCTION	540,839	337,618
TRANSPORT	472,660	308,640
INDIVIDUAL/PERSONAL	533,942	258,772

BY ECONOMIC SECTOR (CONTINUED)

	2008	2007
	SHS 000	SHS 000
SERVICES	32,638	20,728
FINANCIAL INSTITUTIONS	441,934	101,635
TOURISM	90,045	102,275
COMMUNICATION	42,987	64,411
HOSPITALITY	25,564	28,297
OTHERS	41,229	158,289
TOTAL	**6,931,302**	**4,617,608**

BY TENOR

	2008	2007
	SHS 000	SHS 000
GROUP		
SHORT TERM CREDITS (<1 YEAR)	6,495,290	3,119,515
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	2,985,766	1,217,408
LONG TERM CREDITS (> 5 YEARS)	594,899	89,324
BILLS/CHEQUES/NOTES DISCOUNTED	275,509	191,360
TOTAL ON BALANCE SHEET EXPOSURE	**10,351,464**	**4,617,607**
ACCEPTANCES AND LETTERS OF CREDIT	1,142,076	496,705
GUARANTEE AND PERFORMANCE BONDS	2,281,457	1,211,320
TOTAL NON-FUNDED EXPOSURE	**3,423,533**	**1,708,025**
TOTAL EXPOSURE	**13,774,997**	**6,325,632**
COMPANY		
SHORT TERM CREDITS (<1 YEAR)	4,830,586	3,119,515
MEDIUM TERM CREDITS (> 1 YEAR < 5 YEARS)	1,531,381	1,217,408
LONG TERM CREDITS (> 5 YEARS)	296,388	89,324
BILLS/CHEQUES/NOTES DISCOUNTED	272,947	191,360
TOTAL ON BALANCE SHEET EXPOSURE	**6,931,302**	**4,617,607**
ACCEPTANCES AND LETTERS OF CREDIT	405,040	496,705
GUARANTEE AND PERFORMANCE BONDS	1,497,963	1,211,320
TOTAL NON-FUNDED EXPOSURE	**1,903,003**	**1,708,025**
TOTAL EXPOSURE	**8,834,305**	**6,325,632**

(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.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	> 5 YEARS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP AT 31 DECEMBER 2008						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANKS	1,699,051	52,556	28,321	3,174	-	1,783,102
GOVERNMENT SECURITIES - HTM	120,045	584,468	931,837	1,107,309	-	2,743,659
PLACEMENTS WITH OTHER BANKS	1,164,361	-	-	-	-	1,164,361
AMOUNTS DUE FROM GROUP BANKS	176,123	-	77,629	-	-	253,752
GOVERNMENT SECURITIES - AFS	-	31,412	-	395,796	338,951	766,159
LOANS AND ADVANCES TO CUSTOMERS	5,702,177	628,538	340,193	2,969,140	595,777	10,235,825
OTHER FINANCIAL ASSETS	978,974	-	-	400,510	477,324	1,856,808
TOTAL FINANCIAL ASSETS	**9,840,731**	**1,296,974**	**1,377,980**	**4,875,929**	**1,412,052**	**18,803,666**
LIABILITIES						
CUSTOMER DEPOSITS	11,332,454	1,060,298	1,278,792	148,511	-	13,820,055
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	827,969	71,347	-	-	-	899,316
AMOUNTS DUE TO GROUP BANKS	470,187	22,488	-	-	-	492,675
BORROWED FUNDS	-	-	-	-	1,002,374	1,002,374
OTHER FINANCIAL LIABILITIES	319,585	-	-	-	-	319,585
TOTAL FINANCIAL LIABILITIES	**12,950,195**	**1,154,133**	**1,278,792**	**148,511**	**1,002,374**	**16,534,005**

MANAGEMENT OF LIQUIDITY RISK (CONTINUED)

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	> 5 YEARS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY AT 31 DECEMBER 2008						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	818,321	52,555	28,321	3,174	-	902,371
GOVERNMENT SECURITIES - HTM	-	45,787	288,636	1,086,341	-	1,420,764
PLACEMENTS WITH OTHER BANKS	1,058,761	-	-	-	-	1,058,761
AMOUNTS DUE FROM GROUP BANKS	320,696	-	-	-	-	320,696
GOVERNMENT SECURITIES - AFS	-	-	-	395,796	338,951	734,747
LOANS AND ADVANCES TO CUSTOMERS	4,517,693	433,945	92,780	1,514,755	297,265	6,856,438
OTHER FINANCIAL ASSETS	257,944	-	-	-	477,324	735,268
TOTAL FINANCIAL ASSETS	**6,973,415**	**532,287**	**409,737**	**3,000,066**	**1,113,540**	**12,029,045**
LIABILITIES						
CUSTOMER DEPOSITS	7,322,639	861,743	464,367	52,035	-	8,700,784
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	773,949	-	-	-	-	773,949
AMOUNTS DUE TO GROUP BANKS	587,078	-	-	-	-	587,078
BORROWED FUNDS	-	-	-	-	327,761	327,761
OTHER FINANCIAL LIABILITIES	249,039	-	-	-	-	249,039
TOTAL FINANCIAL LIABILITIES	**8,932,705**	**861,743**	**464,367**	**52,035**	**327,761**	**10,638,611**
GROUP AND COMPANY AT 31 DECEMBER 2007						
TOTAL ASSETS	3,265,253	185,320	2,109,668	1,374,196	1,156,122	8,090,559
TOTAL LIABILITIES	5,513,221	506,625	326,619	-	-	6,346,465

(C) MARKET RISK

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads 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 is vested in ALCO, Bank risk 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 2008. Included in the table are the Group's and the Company's financial instruments categorised by currency:

AT 31 DECEMBER 2008	**USD**	**GBP**	**EURO**	**OTHER**	**TOTAL**
GROUP					
ASSETS					
CASH AND BALANCES WITH CENTRAL BANKS	68,906	13,605	42,456	760	125,727
PLACEMENTS WITH OTHER BANKS	504,481	97,966	265,917	308,687	1,177,051
AMOUNTS DUE FROM GROUP COMPANIES	312,082	-	27,392	36,443	375,917
LOANS AND ADVANCES TO CUSTOMERS	2,745,863	19,755	672,176	241,450	3,679,244
OTHER FINANCIAL ASSETS	30,944	66,797	348,222	1,423	447,386
TOTAL ASSETS	**3,662,276**	**193,123**	**1,356,163**	**588,763**	**5,805,325**
LIABILITIES					
CUSTOMER DEPOSITS	3,101,917	134,881	534,106	26,364	3,797,268
DEPOSITS FROM OTHER BANKS	58,076	17	356,620	17,724	432,437
AMOUNTS DUE TO GROUP COMPANIES	334,396	39,695	283,429	22,488	680,008
BORROWED FUNDS	-	-	330,716	-	330,716
OTHER LIABILITIES	378,736	2,306	56,731	877	438,650
TOTAL LIABILITIES	**3,873,125**	**176,899**	**1,561,602**	**67,453**	**5,679,079**
NET ON-BALANCE SHEET POSITION	**(210,849)**	**21,224**	**(205,439)**	**521,310**	**126,246**
NET OFF-BALANCE SHEET POSITION	**256,959**	**(39,645)**	**(126,709)**	**(520,611)**	**(430,006)**
OVERALL OPEN POSITION	**46,110**	**(18,421)**	**(332,148)**	**699**	**(303,760)**

COMPANY					
	USD	**GBP**	**EURO**	**OTHER**	**TOTAL**
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	-
PLACEMENTS WITH OTHER BANKS	186,162	49,508	32,389	277,076	545,135
AMOUNTS DUE FROM GROUP COMPANIES	233,732	16,855	27,392	23,038	301,017
LOANS AND ADVANCES TO CUSTOMERS	2,055,964	17,234	616,915	241,450	2,931,563
OTHER FINANCIAL ASSETS	28,584	66,797	348,222	1,423	445,026
TOTAL ASSETS	**2,504,442**	**150,394**	**1,024,918**	**542,987**	**4,222,741**

(i) Currency risk (continued)

AT 31 DECEMBER 2008	USD	GBP	EURO	OTHER	TOTAL
COMPANY					
LIABILITIES					
CUSTOMER DEPOSITS	2,220,387	123,597	309,342	17,600	2,670,926
DEPOSITS FROM OTHER BANKS	43,991	17	356,580	4,799	405,387
AMOUNTS DUE TO GROUP COMPANIES	334,396	-	216,003	-	550,399
BORROWED FUNDS	-	-	330,716	-	330,716
OTHER LIABILITIES	140,326	225	56,731	437	197,719
TOTAL LIABILITIES	**2,739,100**	**123,839**	**1,269,372**	**22,836**	**4,155,147**
NET ON-BALANCE SHEET POSITION	**(234,568)**	**26,555**	**(244,454)**	**520,150**	**67,594**
NET OFF-BALANCE SHEET POSITION	**247,116**	**(28,761)**	**(90,295)**	**(521,611)**	**(393,551)**
OVERALL OPEN POSITION	**12,548**	**(2,206)**	**(334,749)**	**(1,460)**	**(325,957)**
GROUP AND COMPANY AT 31 DECEMBER 2007					
TOTAL ASSETS	1,789,516	140,696	425,235	77,184	2,432,631
TOTAL LIABILITIES	2,049,873	139,439	491,311	71,707	2,752,330
NET ON-BALANCE SHEET POSITION	**(260,357)**	**1,257**	**(66,076)**	**5,477**	**(319,699)**
NET OFF-BALANCE SHEET POSITION	**262,559**	**-**	**18,282**	**-**	**280,841**
OVERALL OPEN POSITION	**2,202**	**1,257**	**(47,794)**	**5,477**	**(38,858)**

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.

	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	> 12 MONTHS	NON INTEREST BEARING	TOTAL
AT 31 DECEMBER 2008	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANKS	-	-	-	-	1,783,101	1,783,101
INVESTMENT SECURITIES - HTM	120,045	584,468	931,837	1,107,309	-	2,743,659
PLACEMENTS WITH OTHER BANKS	1,164,361	-	-	-	-	1,164,361
AMOUNTS DUE FROM GROUP BANKS	176,123	-	77,629	-	-	253,752
INVESTMENT SECURITIES - AFS	-	31,412	-	734,747	-	766,159
LOANS AND ADVANCES TO CUSTOMERS	5,702,177	628,538	340,193	3,564,917	-	10,235,825
TOTAL FINANCIAL ASSETS	**7,162,706**	**1,244,418**	**1,349,659**	**5,406,973**	**1,783,101**	**16,946,857**
LIABILITIES						
CUSTOMER DEPOSITS	9,649,071	1,060,297	1,278,792	148,511	1,669,826	13,806,497
DEPOSITS/BALANCES DUE TO BANKING INSTITUTIONS	827,969	71,347	-	-	-	899,316
AMOUNTS DUE TO GROUP BANKS	470,187	22,488	-	-	-	492,675
BORROWED FUNDS	16,486	-	1,200	750,519	-	768,205
TOTAL FINANCIAL LIABILITIES	**10,963,713**	**1,154,132**	**1,279,992**	**899,030**	**1,669,826**	**15,966,693**
INTEREST SENSITIVITY GAP	**(3,801,007)**	**90,286**	**69,667**	**4,507,944**	**113,275**	**980,165**
AT 31 DECEMBER 2007						
TOTAL FINANCIAL ASSETS	4,784,361	139,894	305,363	241,443	1,261,540	6,732,601
TOTAL FINANCIAL LIABILITIES	2,996,429	656,956	440,882	-	1,971,755	6,066,022
INTEREST SENSITIVITY GAP	**1,787,932**	**(517,062)**	**(135,519)**	**241,443**	**(710,215)**	**666,579**
AT 31 DECEMBER 2008						
COMPANY						
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK KENYA	-	-	-	-	902,371	902,371
INVESTMENT SECURITIES - HTM	-	45,787	288,636	1,086,341	-	1,420,764
PLACEMENTS WITH OTHER BANKS	1,058,761	-	-	-	-	1,058,761
AMOUNTS DUE FROM GROUP BANKS	320,696	-	-	-	-	320,696
INVESTMENT SECURITIES - AFS	-	-	-	734,747	-	734,747
LOANS AND ADVANCES TO CUSTOMERS	4,517,693	433,945	92,780	1,812,020	-	6,856,438
TOTAL FINANCIAL ASSETS	**5,897,150**	**479,732**	**381,416**	**3,633,108**	**902,371**	**11,293,777**

(ii) Interest rate risk (Continued)

COMPANY

AT 31 DECEMBER 2008	UP TO 1 MONTH SHS 000	1-3 MONTHS SHS 000	3-12 MONTHS SHS 000	> 12 MONTHS SHS 000	NON INTEREST BEARING SHS 000	TOTAL SHS 000
LIABILITIES						
CUSTOMER DEPOSITS	7,322,639	861,743	464,367	52,035	-	8,700,784
DEPOSITS/BALANCES DUE TO BANKING INSTITUTIONS	773,949	-	-	-	-	773,949
AMOUNTS DUE TO GROUP BANKS	587,078	-	-	-	-	587,078
BORROWED FUNDS	-	-	-	327,761	-	327,761
TOTAL FINANCIAL LIABILITIES	**8,683,666**	**861,743**	**464,367**	**379,796**	**-**	**10,389,572**
INTEREST SENSITIVITY GAP	**(2,786,516)**	**(382,012)**	**(82,951)**	**3,253,313**	**902,371**	**904,205**
AT 31 DECEMBER 2007						
TOTAL FINANCIAL ASSETS	4,784,361	139,894	305,363	241,443	1,261,540	6,732,601
TOTAL FINANCIAL LIABILITIES	2,996,429	656,956	440,882	-	1,971,755	6,066,022
INTEREST SENSITIVITY GAP	**1,787,932**	**(517,062)**	**(135,519)**	**241,443**	**(710,215)**	**666,579**

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

The fair value of held-to-maturity investment securities at 31 December 2008 is estimated at Shs 2,788 million (2007: Shs 440 million) compared to their carrying value of Shs 2,788 million (2007: Shs 459 million). The fair values of the Group's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above.

(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 250 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.

	2008	2007
	SHS 000	SHS 000
TIER 1 CAPITAL		
SHARE CAPITAL	1,400,000	950,000
RETAINED EARNINGS	129,361	209,258
INVESTMENT IN SUBSIDIARY AND ASSOCIATES	(520,595)	(358,880)
TOTAL	**1,008,765**	**800,378**
TIER 2 CAPITAL		
REVALUATION RESERVES (25%)	1,071	-
STATUTORY RESERVES	63,074	48,042
TOTAL CAPITAL	**1,072,910**	**848,420**
RISK-WEIGHTED ASSETS		
ON-BALANCE SHEET	7,475,989	5,226,717
OFF-BALANCE SHEET	639,942	660,894
TOTAL RISK-WEIGHTED ASSETS	**8,115,931**	**5,887,611**
DEPOSIT LIABILITIES	**9,474,734**	**5,522,637**
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES	10.64%	13.49%
- (CBK MINIMUM 8%)		
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS	12.43%	13.59%
- (CBK MINIMUM 8%)		
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS	13.22%	14.41%
(CBK MINIMUM – 12%)		

9 INCOME TAX EXPENSE

	2008	2007
	SHS 000	SHS 000
GROUP		
CURRENT INCOME TAX	66,461	40,197
DEFERRED INCOME TAX (NOTE 18)	(13,390)	1,745
TOTAL	**53,071**	**41,942**

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	**271,420**	**157,811**
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2007: 30%)	81,426	47,343
Tax effect of:		
INCOME NOT SUBJECT TO TAX	(87,639)	(12,829)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	31,840	7,901
PRIOR YEAR OVER PROVISION OF DEFERRED TAX	(14,972)	(473)
OTHER - FINAL TAX ON GOVERNMENT PAPER AT 15%	42,416	-
INCOME TAX EXPENSE	**53,071**	**41,942**

10 DIVIDENDS

At the annual general meeting, a final dividend in respect of the year ended 31 December 2008 of Shs 46.43 per share (2007: Shs 60) amounting to a total of Shs 65 million (2007: Shs 57 million) is to be 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

	2008	2007
	SHS 000	SHS 000
GROUP		
CASH IN HAND	740,132	142,750
BALANCES WITH CENTRAL BANKS	1,042,970	304,917
TOTAL	**1,783,102**	**447,667**
COMPANY		
CASH IN HAND	370,553	142,750
BALANCES WITH CENTRAL BANK OF KENYA	531,818	304,917
TOTAL	**902,371**	**447,667**

12 INVESTMENT SECURITIES

	2008	2007
	SHS 000	SHS 000
A) HELD TO MATURITY		
GROUP		
LISTED DEBT SECURITIES	16,086	-
TREASURY BILLS AND BONDS:		
- MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION	101,167	-
- MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	2,626,407	459,097
TOTAL	**2,743,660**	**459,097**
COMPANY		
TREASURY BILLS AND BONDS:		
- MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION	45,787	-
- MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	1,374,977	459,097
TOTAL	**1,420,764**	**459,097**
B) AVAILABLE FOR SALE		
GROUP AND COMPANY		
TREASURY BONDS	734,747	321,523

The movement in treasury bonds available for sale may be summarised as follows:

AT START OF YEAR	**321,523**	**-**
ADDITIONS	3,857,334	2,726,700
DISPOSALS (SALE AND REDEMPTION)	(3,452,222)	(2,403,187)
GAINS FROM CHANGES IN FAIR VALUE TAKEN TO EQUITY (NOTE 24)	8,112	(1,990)
AT END OF YEAR	**734,747**	**321,523**
C) HELD FOR TRADING THROUGH PROFIT OR LOSS		
GROUP		
TREASURY BONDS	31,413	-

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

13 PLACEMENTS WITH OTHER BANKS

	2008	2007
	SHS 000	SHS 000
GROUP		
PLACEMENTS	815,976	726,320
LOANS AND ADVANCES TO OTHER BANKS	348,384	111,906
TOTAL	**1,164,360**	**838,226**
COMPANY		
PLACEMENTS	710,377	726,320
LOANS AND ADVANCES TO OTHER BANKS	348,384	111,906
TOTAL	**1,058,761**	**838,226**

14 LOANS AND ADVANCES TO CUSTOMERS

	2008	2007
	SHS 000	SHS 000
GROUP		
OVERDRAFTS	4,734,246	2,538,336
PERSONAL LOANS	321,212	257,776
MORTGAGES	78,898	52,842
COMMERCIAL LOANS	4,936,336	1,578,099
DISCOUNTED BILLS	280,772	190,555
GROSS LOANS AND ADVANCES	10,351,464	4,617,608
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(107,400)	(38,511)
- COLLECTIVELY ASSESSED	(8,240)	-
TOTAL	**10,235,824**	**4,579,097**
COMPANY		
OVERDRAFTS	3,957,896	2,538,336
PERSONAL LOANS	321,212	257,776
MORTGAGES	78,898	52,842
COMMERCIAL LOANS	2,294,999	1,578,099
DISCOUNTED BILLS	278,298	190,555
GROSS LOANS AND ADVANCES	6,931,303	4,617,608

14 LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	2008	2007
	SHS 000	SHS 000
LESS: PROVISION FOR IMPAIRMENT OF LOANS AND ADVANCES		
- INDIVIDUALLY ASSESSED	(69,706)	(38,511)
- COLLECTIVELY ASSESSED	(5,159)	-
TOTAL	**6,856,438**	**4,579,097**

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 2007	**45,782**	**14,806**	**60,588**
PROVISION FOR LOAN IMPAIRMENT	11,254	-	11,254
EXCHANGE DIFFERENCES	(1,559)	-	(1,559)
AT 31 DECEMBER 2007	**55,477**	**14,806**	**70,283**
AT 1 JANUARY 2008	**55,477**	**14,806**	**70,283**
CHARGE FOR THE YEAR	50,899	10,600	61,499
AMOUNTS RECOVERED DURING THE YEAR	(11,044)	-	(11,044)
LOANS WRITTEN OFF DURING THE YEAR AS UNCOLLECTIBLE	(1,801)	-	(1,801)
EXCHANGE DIFFERENCES	(3,297)	-	(3,297)
AT 31 DECEMBER 2008	**90,234**	**25,406**	**115,640**
COMPANY			
AT 1 JANUARY 2007	**28,816**	**-**	**28,816**
PROVISION FOR LOAN IMPAIRMENT	11,254	-	11,254
EXCHANGE DIFFERENCES	(1,559)	-	(1,559)
AT 31 DECEMBER 2007	**38,511**	**-**	**38,511**
AT 1 JANUARY 2008	**38,511**	**-**	**38,511**
PROVISION FOR LOAN IMPAIRMENT	34,492	5,159	39,651
EXCHANGE DIFFERENCES	(3,297)	-	(3,297)
AT 31 DECEMBER 2008	**69,706**	**5,159**	**74,865**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2008 was Shs 185 million (2007: Shs 104 million).

15 PROPERTY AND EQUIPMENT

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS AND EQUIPMENT	WORK IN PROGRESS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP					
AT 1 JANUARY 2007					
COST	12,000	10,990	69,795	21,067	113,852
ACCUMULATED DEPRECIATION	(450)	(5,269)	(22,781)	-	(28,500)
NET BOOK AMOUNT	**11,550**	**5,721**	**47,014**	**21,067**	**85,352**
YEAR ENDED 31 DECEMBER 2007					
OPENING NET BOOK AMOUNT	11,550	5,721	47,014	21,067	85,352
ADDITIONS	-	6,123	27,696	-	33,819
TRANSFERS	-	-	21,067	(21,067)	-
DISPOSALS		(2,165)	(53)	-	(2,218)
DEPRECIATION CHARGE	(180)	(2,809)	(18,999)	-	(21,988)
CLOSING NET BOOK AMOUNT	**11,370**	**6,870**	**76,725**	**-**	**94,966**
AT 31 DECEMBER 2007					
COST	12,000	14,948	118,505	-	145,453
ACCUMULATED DEPRECIATION	(630)	(8,078)	(41,780)	-	(50,488)
NET BOOK AMOUNT	**11,370**	**6,870**	**76,725**	**-**	**94,966**
YEAR ENDED 31 DECEMBER 2008					
OPENING NET BOOK AMOUNT	11,370	6,870	76,725	-	94,966
ARISING ON ACQUISITION OF SUBSIDIARY	132,490	3,001	94,315	5,440	235,246
ADDITIONS	1,921	10,944	231,891	14,846	259,602
TRANSFERS	-	-	5,362	(5,362)	-
DISPOSALS	-	(400)	(240)	-	(640)
DEPRECIATION CHARGE	(2,701)	(5,708)	(60,843)	-	(69,252)
CLOSING NET BOOK AMOUNT	**143,080**	**14,707**	**347,210**	**14,924**	**519,921**
AT 31 DECEMBER 2008					
COST	150,812	35,015	533,064	14,926	733,817
ACCUMULATED DEPRECIATION	(7,733)	(20,309)	(185,854)	-	(213,896)
NET BOOK AMOUNT	**143,079**	**14,706**	**347,210**	**14,926**	**519,921**

16 INTANGIBLE ASSETS - SOFTWARE

	2008	2007
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	**32,973**	**44,676**
ARISING ON ACQUISITION OF SUBSIDIARY	66,505	-
ADDITIONS	39,149	1,756
DISPOSALS	(760)	-
CHARGE FOR THE YEAR	(31,948)	(13,459)
AT END OF YEAR	**105,919**	**32,973**
AT 31 DECEMBER		
COST	177,457	68,602
ACCUMULATED AMORTISATION	(71,538)	(35,629)
NET BOOK AMOUNT	**105,919**	**32,973**
COMPANY		
AT START OF YEAR	**32,973**	**44,676**
ADDITIONS	33,627	1,756
CHARGE FOR THE YEAR	(15,502)	(13,459)
AT END OF YEAR	**51,098**	**32,973**
AT 31 DECEMBER		
COST	102,229	68,602
ACCUMULATED AMORTISATION	(51,131)	(35,629)
NET BOOK AMOUNT	**51,098**	**32,973**

17 INVESTMENT IN ASSOCIATE AND SUBSIDIARY

A) INVESTMENT IN ASSOCIATES – GROUP AND COMPANY

	2008	2007
	SHS 000	SHS 000
AT START OF THE YEAR	**358,880**	**162,889**
ACQUISITION	-	123,940
RIGHTS ISSUE	89,705	29,704
TRANSFER TO SUBSIDIARY	(223,637)	-
DIVIDENDS RECEIVED	(11,916)	-
SHARE OF PROFITS	29,059	42,347
AT END OF YEAR	**242,091**	**358,880**

	COUNTRY OF INCORPORATION	INTEREST HELD	ASSETS	LIABILITIES	REVENUES	PROFIT
		%	SHS 000	SHS 000	SHS 000	SHS 000
2008						
BOA BANK - TANZANIA LIMITED	TANZANIA	37.15%	7,385,370	6,693,743	(104,579)	62,292
2007						
BANK OF AFRICA - UGANDA LIMITED	UGANDA	47.73%	3,761,797	3,281,789	470,881	77,310
BOA BANK - TANZANIA LIMITED	TANZANIA	33%	4,974,909	4,578,646	345,312	56,195

B) INVESTMENT IN SUBSIDIARY

	2008	2007
	SHS 000	SHS 000
AT START OF THE YEAR	**-**	**-**
TRANSFER FROM INVESTMENT IN ASSOCIATES	223,637	-
SHARE OF ASSOCIATE POST ACQUISITION		
RESERVES MOVEMENT ADJUSTED ON ACQUISITION OF SUBSIDIARY	(70,829)	-
RIGHTS ISSUES	125,696	-
AT END OF YEAR	**278,504**	**-**

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 51.22% of the total shareholding in BOA-UGANDA. In 2007, the Bank's cost of investment in BOA-UGANDA was Shs 153 million and was included under investment in associates.

The results of BOA-UGANDA, which had previously been accounted for as an associate, have been accounted for as a subsidiary from 30 January 2008.

18 DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2007: 30%). The movement on the deferred tax account is as follows:

	2008	2007
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	**4,211**	**3,063**
CONSOLIDATION OF SUBSIDIARY	11,404	-
INCOME STATEMENT (CREDIT)/CHARGE (NOTE 9)	(13,390)	1,745
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	2,434	(597)
AT END OF YEAR	**4,659**	**4,211**
COMPANY		
AT START OF YEAR	**4,211**	**3,063**
INCOME STATEMENT (CREDIT)/CHARGE	(5,067)	1,745
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	2,434	(597)
AT END OF YEAR	**1,578**	**4,211**

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:

	1.01.2008	**ON ACQUISITION OF SUBSIDIARY**	**CHARGED (CREDITED) TO P&L**	**CREDITED TO EQUITY**	**31.12.2008**
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP					
DEFERRED INCOME TAX LIABILITIES					
PROPERTY AND EQUIPMENT	9,223	28,331	(4,785)	-	32,769
DEFERRED INCOME TAX ASSETS					
PROVISIONS	(4,415)	(4,402)	(13,768)	-	(22,585)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	(597)	-	-	2,434	1,837
TAX LOSSES	-	(12,525)	5,163	-	(7,362)
NET DEFERRED INCOME TAX LIABILITY	**4,211**	**11,404**	**(13,390)**	**2,434**	**4,659**
COMPANY					
DEFERRED INCOME TAX LIABILITIES					
PROPERTY AND EQUIPMENT	9,223	-	(3,465)	-	5,758
DEFERRED INCOME TAX ASSETS					
PROVISIONS	(4,415)	-	(1,602)	-	(6,017)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	(597)	-	-	2,434	1,837
NET DEFERRED INCOME TAX LIABILITY	**4,211**	**-**	**(5,067)**	**2,434**	**1,578**

18 DEFERRED INCOME TAX (CONTINUED)

	1.01.2008	ON ACQUISITION OF SUBSIDIARY	CHARGED (CREDITED) TO P&L	CREDITED TO EQUITY	31.12.2008
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
GROUP AND COMPANY					
DEFERRED INCOME TAX LIABILITIES					
PROPERTY AND EQUIPMENT	5,471	3,752	-	9,223	
DEFERRED INCOME TAX ASSETS					
PROVISIONS	(2,085)	(2,330)	-	(4,415)	
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	-	-	(597)	(597)	
TAX LOSSES	(323)	323	-	-	
NET DEFERRED INCOME TAX ASSET	**3,063**	**1,745**	**(597)**	**4,211**	

19 OTHER ASSETS

	2008	2007
	SHS 000	SHS 000
GROUP		
UNCLEARED EFFECTS	761,040	397,882
OTHER ASSETS	140,156	34,505
TOTAL	**901,196**	**432,387**
COMPANY		
UNCLEARED EFFECTS	194,468	397,882
OTHER ASSETS	56,342	34,505
TOTAL	**250,810**	**432,387**

20 CUSTOMER DEPOSITS

	2008	2007
	SHS 000	SHS 000
GROUP		
CURRENT AND DEMAND DEPOSITS	6,723,445	4,051,364
SAVINGS ACCOUNTS	959,898	143,098
FIXED DEPOSIT ACCOUNTS	6,136,712	1,328,175
TOTAL	**13,820,055**	**5,522,637**

	2008	2007
	SHS 000	SHS 000
COMPANY		
CURRENT AND DEMAND DEPOSITS	4,465,286	4,051,364
SAVINGS ACCOUNTS	7,261	143,098
FIXED DEPOSIT ACCOUNTS	4,228,237	1,328,175
TOTAL	**8,700,784**	**5,522,637**

21 DEPOSITS FROM OTHER BANKS

GROUP		
OVERNIGHT BORROWING	336,381	335,528
OTHER BALANCES DUE TO BANKS	562,936	78,980
TOTAL	**899,317**	**414,508**
COMPANY		
OVERNIGHT BORROWING	336,381	335,528
OTHER BALANCES DUE TO BANKS	437,569	78,980
TOTAL	**773,950**	**414,508**

22 OTHER LIABILITIES

GROUP		
ITEMS IN TRANSIT	19,667	97,649
BILLS PAYABLE	176,861	95,428
DUE TO CALYON PARIS	-	33,982
OTHER	120,832	53,374
TOTAL	**317,360**	**280,433**
COMPANY		
ITEMS IN TRANSIT	19,667	97,649
BILLS PAYABLE	162,576	95,428
DUE TO CALYON PARIS	-	33,982
OTHER	67,652	53,374
TOTAL	**249,895**	**280,433**

23 SHARE CAPITAL

	NUMBER OF SHARES	ORDINARY SHARES
	SHS 000	SHS 000
BALANCE AT 1 JANUARY 2007	**950,000**	**950,000**
BALANCE AT 1 JANUARY 2008	950,000	950,000
ISSUE OF SHARES	450,000	450,000
BALANCE AT 31 DECEMBER 2008	**1,400,000**	**1,400,000**

The total authorised number of ordinary shares is 1,400 with a par value of Shs 1,000 per share. In 2008 the bank issued an additional 450,000 shares which were fully paid.

24 REVALUATION RESERVE - AVAILABLE-FOR-SALE SECURITIES

	2008	2007
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	**(1,393)**	**-**
NET GAINS/(LOSSES) FROM CHANGES IN FAIR VALUE	8,112	(1,990)
DEFERRED INCOME TAX	(2,434)	597
AT END OF YEAR	**4,285**	**(1,393)**
COMPANY		
AT START OF YEAR	**(1,393)**	**-**
NET GAINS/(LOSSES) FROM CHANGES IN FAIR VALUE	8,112	(1,990)
DEFERRED INCOME TAX	(2,434)	597
AT END OF YEAR	**4,285**	**(1,393)**

25 REGULATORY RESERVES

	2008	2007
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	**48,042**	**39,395**
TRANSFER FROM RETAINED EARNINGS	25,735	8,647
AT END OF YEAR	**73,777**	**48,042**

COMPANY		
AT START OF YEAR	**48,042**	**39,395**
TRANSFER FROM RETAINED EARNINGS	15,032	8,647
AT END OF YEAR	**63,074**	**48,042**

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.

CONTINGENT LIABILITIES

	2008	2007
	SHS 000	SHS 000
GROUP		
ACCEPTANCES AND LETTERS OF CREDIT	1,708,025	496,705
GUARANTEES AND PERFORMANCE BONDS	1,497,963	1,211,320
TOTAL	**3,205,988**	**1,708,025**
COMPANY		
ACCEPTANCES AND LETTERS OF CREDIT	405,040	496,705
GUARANTEES AND PERFORMANCE BONDS	1,497,963	1,211,320
TOTAL	**1,903,003**	**1,708,025**

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

	2008	2007
	SHS 000	SHS 000
GROUP		
FOREIGN EXCHANGE FORWARD CONTRACTS	1,333,635	564,545
	1,333,635	564,545
COMPANY		
FOREIGN EXCHANGE FORWARD CONTRACTS	1,333,635	564,545
	1,333,635	564,545

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 4,908 million (2007: Shs 1,998 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

	2008	2007
	SHS 000	SHS 000
CASH AND BALANCES WITH CENTRAL BANKS (NOTE 11)	1,783,102	447,667
LESS: CASH RESERVE REQUIREMENT	(958,045)	(294,177)
GOVERNMENT AND OTHER SECURITIES (NOTE 12)	101,167	-
PLACEMENTS WITH OTHER BANKS	1,164,360	838,226
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 21)	(899,316)	(414,508)
AMOUNTS DUE FROM GROUP BANKS (NET)	(238,922)	(41,886)
TOTAL	**952,346**	**535,322**

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 5% (2006: 6%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

28 RELATED PARTY TRANSACTIONS

The Group is controlled by BOA GROUP 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:

	2008	2007
	SHS 000	SHS 000
(A) AMOUNTS DUE FROM GROUP COMPANIES		
GROUP		
DUE FROM BOA GROUP	-	40
COMPANY		
DUE FROM BOA GROUP	-	40
These balances are included under other assets.		
(B) AMOUNTS DUE FROM GROUP BANKS		
GROUP		
BANK OF AFRICA - UGANDA (BOA-UGANDA)	-	35,287
NATEXIS BANQUES	15,306	51,692
BOA BANK - TANZANIA	238,446	12
TOTAL	**253,752**	**86,991**
INTEREST INCOME EARNED ON THE ABOVE	1,708	4,083
LEDGER FEES EARNED ON THE ABOVE	24	18
COMPANY		
BANK OF AFRICA - UGANDA (BOA-UGANDA)	67,664	35,287
NATEXIS BANQUES	15,306	51,692
BOA BANK - TANZANIA	237,726	12
TOTAL	**320,696**	**86,991**
INTEREST INCOME EARNED ON THE ABOVE	1,640	4,083
LEDGER FEES EARNED ON THE ABOVE	30	18

(C) AMOUNTS DUE TO GROUP COMPANIES

	2008	2007
	SHS 000	SHS 000
GROUP		
DUE TO BOA GROUP (INCLUDED UNDER OTHER LIABILITIES)	-	2,146
DUE TO BOA GROUP (INCLUDED UNDER CUSTOMER DEPOSITS)	-	8,127
DUE TO NATEXIS (INCLUDED UNDER OTHER LIABILITIES)	-	907
TOTAL	**-**	**11,180**
COMPANY		
DUE TO BOA GROUP (INCLUDED UNDER OTHER LIABILITIES)	-	2,146
DUE TO BOA GROUP (INCLUDED UNDER CUSTOMER DEPOSITS)	-	8,127
DUE TO NATEXIS (INCLUDED UNDER OTHER LIABILITIES)	-	907
TOTAL	**-**	**11,180**

(D) AMOUNTS DUE TO GROUP BANKS

GROUP		
BANK OF AFRICA - MADAGASCAR (BOA-MADAGASCAR)	124,035	98,025
BANK OF ARFICA - COTE D'IVOIRE (BOA-COTE D'IVOIRE)	33	24,129
BOA BANK - TANZANIA	346,277	-
BANQUE DE CRÉDIT DE BUJUMBURA (BCB)	6,952	-
NATEXIS BANQUES	15,377	-
TOTAL	**492,674**	**122,154**
INTEREST EXPENSE INCURRED ON THE ABOVE	4,995	6,845
COMPANY		
BOA-MADAGASCAR	124,035	98,025
BOA-CÔTE D'IVOIRE	33	24,129
BOA-UGANDA	94,444	6,723
BOA-KENYA	-	-
BOA BANK - TANZANIA	346,237	-
BCB	6,952	-
NATEXIS BANQUES	15,377	-
TOTAL	**587,078**	**128,877**
INTEREST EXPENSE INCURRED ON THE ABOVE	5,497	6,845

(E) EXPENSES

GROUP		
MANAGEMENT FEE PAID TO BOA GROUP	45,954	28,216
COMMISSION ON GUARANTEE PAYABLE TO BOA GROUP	-	564
ACCOUNT CHARGES PAID TO NATEXIS	-	252
COMMISSION ON GUARANTEE AND ACCOUNT CHARGES - BOA-UGANDA	3	452

COMPANY		
MANAGEMENT FEE PAID TO BOA GROUP	23,318	28,216
COMMISSION ON GUARANTEE PAYABLE TO BOA GROUP	-	564
ACCOUNT CHARGES PAID TO NATEXIS	-	252
COMMISSION ON GUARANTEE AND ACCOUNT CHARGES - BOA-UGANDA	-	452

LOANS TO EMPLOYEES AND DIRECTOR

GROUP

Advances to customers at 31 December 2008 includes loans to employees amounting to Shs 226 million (2007: Shs 75 million).

There was a loan of Shs 18 million to a director as at 31 December 2008 (2007: Shs 6.5 million).

COMPANY

Advances to customers at 31 December 2008 includes loans to employees amounting to Shs 138 million (2007: Shs 75 million).

There was a loan of Shs 8 million to a director as at 31 December 2008 (2007: Shs 6.5 million)

	2008	2007
	SHS 000	SHS 000
GROUP		
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	11,047	4,646
COMPANY		
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	5,525	4,646

No provisions have been recognised in respect of loans given to related parties (2007: nil).

KEY MANAGEMENT COMPENSATION

GROUP		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	112,353	49,824
COMPANY		
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	70,297	49,824

The company has therefore been accounted for as a subsidiary and consolidated under the equity method. The step-by-step acquisition and resulting goodwill was achieved as follows:

	SHS 000
ACQUISITION OF INITIAL SHAREHOLDING ON 3 OCTOBER 2006	
CONSIDERATION PAID	123,105
FAIR VALUE OF NET ASSETS ACQUIRED AT 3 OCTOBER 2006	155,466
GOODWILL ON ACQUISITION	(32,361)
INCREASED IN SHAREHOLDING ON 6 JULY 2007	
CONSIDERATION PAID	29,703
FAIR VALUE OF NET ASSETS ACQUIRED AT 6 JULY 2007	10,349
GOODWILL ON SUBSEQUENT ACQUISITION	19,354
INCREASED IN SHAREHOLDING ON 30 JANUARY 2008	
CONSIDERATION PAID	40,965
FAIR VALUE OF NET ASSETS ACQUIRED AT 30 JANUARY 2008	14,456
GOODWILL ON SUBSEQUENT ACQUISITION	26,509
INCREASED IN SHAREHOLDING ON 1 OCTOBER 2008	
CONSIDERATION PAID	77,438
FAIR VALUE OF NET ASSETS ACQUIRED AT 1 OCTOBER 2008	77,438
GOODWILL ON SUBSEQUENT ACQUISITION	-
INCREASED IN SHAREHOLDING ON 28 NOVEMBER 2008	
CONSIDERATION PAID	7,292
FAIR VALUE OF NET ASSETS ACQUIRED AT 28 NOVEMBER 2008	4,807
GOODWILL ON SUBSEQUENT ACQUISITION	2,485
TOTAL GOODWILL RECOGNISED ON ACQUISITION AND CONSOLIDATION OF SUBSIDIARY	**15,988**

Goodwill represents the excess of cost of acquisition (including costs directly attributable to the acquisition) over the fair value of net assets of the acquirees at the dates of acquisition. Goodwill is tested for impairment annually as well as when there are indications of impairment. Any impairment loss is charged to the profit and loss account.

Notes

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.

	2008	2007
	SHS 000	SHS 000
GROUP AND COMPANY		
AT START OF YEAR	**5,203**	**5,288**
AMORTISATION CHARGE FOR THE YEAR	(85)	(85)
AT END OF YEAR	**5,118**	**5,203**

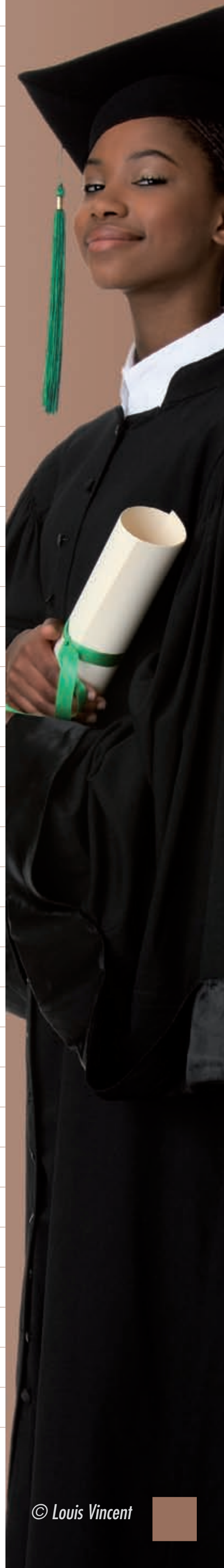
31 BORROWINGS

	2008	2007
	SHS 000	SHS 000
GROUP		
AT START OF YEAR	-	-
ARISING ON ACQUISITION OF SUBSIDIARY	674,613	-
ADDITIONS IN THE YEAR	327,761	-
TOTAL	**1,002,374**	**-**
COMPANY		
AT START OF YEAR	-	-
ADDITIONS IN THE YEAR	327,761	-
TOTAL	**327,761**	**-**

The carrying amounts of 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.

None of the borrowings were in default during the year.

Notes



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CONSOLIDATED BALANCE SHEET

	NOTES	2008 SHS 000	2007 SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANKS	11	1,783,102	447,667
INVESTMENT SECURITIES - HELD TO MATURITY	12 (A)	2,743,660	459,097
INVESTMENT SECURITIES - AVAILABLE FOR SALE	12 (B)	734,747	321,523
INVESTMENT SECURITIES - AT FAIR VALUE THROUGH PROFIT OR LOSS	12 (C)	31,413	-
PLACEMENTS WITH OTHER BANKS	13	1,164,360	838,226
AMOUNTS DUE FROM GROUP BANKS	28	253,752	86,991
INTANGIBLE ASSET -GOODWILL	29	15,988	-
INVESTMENT IN ASSOCIATE	17 (A)	242,091	358,880
LOANS AND ADVANCES TO CUSTOMERS	14	10,235,824	4,579,097
TAX RECOVERABLE		21,500	-
PROPERTY AND EQUIPMENT	15	519,921	94,966
INTANGIBLE ASSETS - SOFTWARE	16	105,919	32,973
PREPAID OPERATING LEASE RENTALS	30	5,118	5,203
OTHER ASSETS	19	901,196	432,387
TOTAL ASSETS		**18,758,591**	**7,657,010**
LIABILITIES			
CUSTOMER DEPOSITS	20	13,820,055	5,522,637
DEPOSITS FROM OTHER BANKS	21	899,317	414,508
AMOUNTS DUE TO GROUP BANKS	28	492,674	128,877
BORROWINGS	31	1,002,374	-
TAX PAYABLE		-	40,062
DIVIDENDS PAYABLE		-	3,375
DEFERRED INCOME TAX	18	4,659	4,211
OTHER LIABILITIES	22	317,360	280,433
TOTAL LIABILITIES		**16,536,439**	**6,394,103**
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
SHARE CAPITAL	23	1,400,000	950,000
REVALUATION RESERVE - AVAILABLE FOR SALE SECURITIES	24	4,285	(1,393)
TRANSLATION RESERVES		6,016	-
REGULATORY RESERVES	25	73,777	48,042
RETAINED EARNINGS		265,772	209,258
MINORITY INTEREST		407,302	-
PROPOSED DIVIDEND	10	65,000	57,000
TOTAL SHAREHOLDERS' EQUITY		**2,222,152**	**1,262,907**
TOTAL EQUITY AND LIABILITIES		**18,758,591**	**7,657,010**

The Financial Statements on pages 20 to 68 were approved for issue by the Board of Directors on 19th March 2009 and signed on its behalf by:

Paul DERREUMAUX	**Philippe LÉON-DUFOUR**	**Davinder SIKAND**	**Romesh VORA**
Chairman	Managing Director	Director	Company Secretary

COMPANY BALANCE SHEET

	NOTES	AT 31 DECEMBER 2008 SHS 000	AT 31 DECEMBER 2007 SHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	11	902,371	447,667
INVESTMENT SECURITIES – HELD TO MATURITY	12 (A)	1,420,764	459,097
INVESTMENT SECURITIES – AVAILABLE FOR SALE	12 (B)	734,747	321,523
PLACEMENTS WITH OTHER BANKS	13	1,058,761	838,226
AMOUNTS DUE FROM GROUP BANKS	28	320,696	86,991
INVESTMENT IN ASSOCIATE	17 (A)	242,091	358,880
INVESTMENT IN SUBSIDIARY	17 (B)	278,504	-
LOANS AND ADVANCES TO CUSTOMERS	14	6,856,438	4,579,097
TAX RECOVERABLE		7,134	-
PROPERTY AND EQUIPMENT	15	174,231	94,966
INTANGIBLE ASSETS - SOFTWARE	16	51,098	32,973
PREPAID OPERATING LEASE RENTALS	30	5,118	5,203
OTHER ASSETS	19	250,810	432,387
TOTAL ASSETS		**12,302,763**	**7,657,010**
LIABILITIES			
CUSTOMER DEPOSITS	20	8,700,784	5,522,637
DEPOSITS FROM OTHER BANKS	21	773,950	414,508
AMOUNTS DUE TO GROUP BANKS	28	587,078	128,877
BORROWINGS	31	327,761	-
TAX PAYABLE		-	40,062
DEFERRED INCOME TAX	18	1,578	4,211
DIVIDENDS PAYABLE		-	3,375
OTHER LIABILITIES	22	249,895	280,433
TOTAL LIABILITIES		**10,641,046**	**6,394,103**
CAPITAL AND RESERVES ATTRIBUTABLE TO EQUITY HOLDERS			
SHARE CAPITAL	23	1,400,000	950,000
REVALUATION RESERVE - AVAILABLE-FOR-SALE SECURITIES	24	4,285	(1,393)
REGULATORY RESERVES	25	63,074	48,042
RETAINED EARNINGS		129,358	209,258
PROPOSED DIVIDEND	10	65,000	57,000
TOTAL EQUITY		**1,661,717**	**1,262,907**
TOTAL EQUITY AND LIABILITIES		**12,302,763**	**7,657,010**

The Financial Statements on pages 20 to 68 were approved for issue by the Board of Directors on 19th March 2009 and signed on its behalf by:

Paul DERREUMAUX
Chairman

Philippe LÉON-DUFOUR
Managing Director

Davinder SIKAND
Director

Romesh VORA
Company Secretary

5 INTEREST INCOME - GROUP

	2008	2007
	SHS 000	SHS 000
LOANS AND ADVANCES	1,082,294	439,211
GOVERNMENT AND OTHER SECURITIES	199,810	40,240
BALANCES WITH OTHER BANKING INSTITUTIONS	87,120	64,150
TOTAL	**1,369,224**	**543,601**

6 INTEREST EXPENSE - GROUP

	2008	2007
	SHS 000	SHS 000
CUSTOMER DEPOSITS	523,529	188,874
DEPOSITS BY BANKS	47,406	20,271
BORROWED FUNDS	40,495	-
OTHER	200	-
TOTAL	**611,630**	**209,145**

7 EXPENSES BY NATURE - GROUP

	2008	2007
	SHS 000	SHS 000
The following items are included within operating expenses:		
STAFF COSTS (NOTE 8)	481,827	183,714
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 15)	69,252	21,988
AMORTISATION OF INTANGIBLE ASSETS (NOTE 16)	31,948	13,459
LOSS ON SALE OF PROPERTY AND EQUIPMENT	357	-
OPERATING LEASE RENTALS	38,189	23,290
AUDITORS' REMUNERATION	8,641	2,933
AMORTISATION OF PREPAID OPERATING LEASE RENTALS (NOTE 30)	85	85

8 EMPLOYEE BENEFITS EXPENSE - GROUP

The following items are included within employee benefits expense:

	2008	2007
	SHS 000	SHS 000
RETIREMENT BENEFIT COSTS:		
- DEFINED CONTRIBUTION SCHEME	14,273	6,686
- NATIONAL SOCIAL SECURITY FUND	14,000	169

15 PROPERTY AND EQUIPMENT (CONTINUED)

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS AND EQUIPMENT	WORK IN PROGRESS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
COMPANY					
AT 1 JANUARY 2007					
COST	12,000	10,990	69,795	21,067	113,852
ACCUMULATED DEPRECIATION	(450)	(5,269)	(22,781)	-	(28,500)
NET BOOK AMOUNT	**11,550**	**5,721**	**47,014**	**21,067**	**85,352**
YEAR ENDED 31 DECEMBER 2007					
OPENING NET BOOK AMOUNT	11,550	5,721	47,014	21,067	85,352
ADDITIONS	-	6,123	27,696	-	33,819
TRANSFERS	-	-	21,067	(21,067)	-
DISPOSALS	-	(2,165)	(53)	-	(2,218)
DEPRECIATION CHARGE	(180)	(2,809)	(18,999)	-	(21,988)
CLOSING NET BOOK AMOUNT	11,370	6,870	76,725	-	94,966
AT 31 DECEMBER 2007					
COST	12,000	14,948	118,505	-	145,453
ACCUMULATED DEPRECIATION	(630)	(8,078)	(41,780)	-	(50,488)
NET BOOK AMOUNT	**11,370**	**6,870**	**76,725**	**-**	**94,966**
YEAR ENDED 31 DECEMBER 2008					
OPENING NET BOOK AMOUNT	11,370	6,870	76,725	-	94,965
ADDITIONS	-	1,460	110,485	-	111,945
DISPOSALS	-	-	-	-	-
DEPRECIATION CHARGE	(180)	(4,188)	(28,311)	-	(32,679)
CLOSING NET BOOK AMOUNT	11,190	4,142	158,899	-	174,231
AT 31 DECEMBER 2008					
COST	12,000	16,408	228,990	-	257,398
ACCUMULATED DEPRECIATION	(810)	(12,266)	(70,091)	-	(83,167)
NET BOOK AMOUNT	**11,190**	**4,142**	**158,899**	**-**	**174,231**

DIRECTORS' REMUNERATION

	2008	2007
	SHS 000	SHS 000
GROUP		
SALARIES TO EXECUTIVE DIRECTORS		
(INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	42,717	19,157
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	5,726	500
COMPANY		
SALARIES TO EXECUTIVE DIRECTORS		
(INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	19,988	19,157
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	3,685	500

29 INTANGIBLE ASSET - GOODWILL

	BANK OF AFRICA - UGANDA
	SHS 000
GROUP	
AT START OF YEAR	-
GOODWILL ON ACQUISITION AND CONSOLIDATION OF SUBSIDIARY	15,988
AT END OF YEAR	**15,988**

EFFECT OF ACQUISITION OF SUBSIDIARY, BANK OF AFRICA - UGANDA LIMITED (BOA-UGANDA)

The acquisition of BOA-UGANDA was achieved in stages, with an initial 46% being acquired on 3 October 2006, followed by a further 2.17% on 6 July 2007. As at 31 December 2007, the Bank owned 48.17% of the total shareholding in BOA-UGANDA.

In January 2008, a rights issue was declared and members of BOA-UGANDA wishing to participate in the issue were required to make payments for their respective share allocations by 31 January 2008. All but one member paid up for their allotted shares. The member who had not paid for their allotted shares was given more time to effect payment. In September 2008, that member renounced his rights to the issue. Subsequently the renounced shares were allotted and paid up by the Bank in November 2008.

In October 2008 another rights issue was declared to which all the members participated and paid up for their allotted shares in October 2008.

As a result of the various transactions, as at 31 December 2008, the Bank's shareholding in BOA-UGANDA was 51.22%.

Report of the independent auditors

to the Members of BANK OF AFRICA - KENYA Limited.

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 20 to 68. These financial statements comprise the consolidated balance sheet at 31 December 2008 and the consolidated profit and loss account, statement of changes in equity and cash flow statement for the year then ended, together with the balance sheet of the company standing alone as at 31 December 2008 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. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an independent 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.

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 auditors 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 entity'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 in 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 to provide a basis for our opinion.

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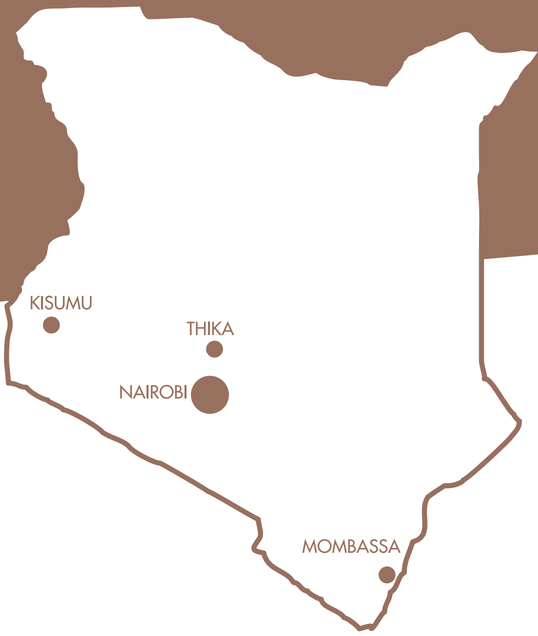

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BANK OF AFRICA KENYA
GROUPE BANK OF AFRICA