The 2004 annual report features some of the people whose past and present actions have made the BANK OF AFRICA what it is today, one of the most dynamic banking groups in its sector in sub-Saharan Africa. The Group wishes to express its pride and gratitude to these employees who, inspired by common values, work tirelessly to create customer satisfaction and to further the Group's success.

Staff members of BOA-KENYA's Nairobi branch

Photograph taken in April 2005, byKhamis Ramadhan / Panapress. © BOA

Message from the Managing Director


#

BANK OF AFRICA - KENYA Limited, a member of Groupe BANK OF AFRICA, was incorporated on 25 September 2003 and began business on 1 July 2004 through the take-over of the business developed in Nairobi and Mombasa by CALYON (formerly Credit Agricole Indosuez).

During the six months to 31 December 2004 the bank concentrated its activities on:

- Reorganisation of its business products and processes in order to benefit from the experience of Groupe BANK OF AFRICA in Africa. This extended to launching new products, reviewing internal procedures and revising the bank's tariff to better position the bank in the Kenyan banking market.
- Commencement of a review of the bank's information technology platform in order to bring the bank to the same footing as that of the Groupe BANK OF AFRICA network.
- Enhancement of the quality of service in delivery of the bank's services to its customers in order to not only maintain its existing excellent customer base but also to grow the customer portfolio.
- Introduction of retail banking activities during the fourth quarter of 2004 with a vigorous campaign in order to increase the number of business relationships. This involved the introduction of individual current accounts, saving accounts, time deposits, school fees loans and car loans amongst other products aimed at offering solutions that address all our customer's banking needs.
- Identification of new business locations in order to open in 2005 a new branch to add to the bank's existing network. The bank plans to increase its network to underpin its growth objectives as it expands its presence in the various sectors of the Kenyan banking industry.

After six months of activities, the bank closed the year with total assets of KES 4.9 billion. Lendings to customers stood at KES 3.1 billion while deposits from customers stood at KES 3.2 billion with a total staff of 53.

With an exceptional profit recorded upon the acquisition of Calyon's business, BANK OF AFRICA - KENYA Limited realised a net profit of KES 148.5 million.

Though Kenya's banking market is very competitive with 43 commercial banks in operation, our young bank will have the support of its strong shareholders to develop its business in order to grow and build on the success of the Groupe BANK OF AFRICA in West Africa

Philippe LEON-DUFOUR

Key facts

Annual report 2004

September 2003

- Incorporation of the company on 25 September 2003.

July 2004

- Commencement of operations in Kenya after the take-over of Calyon's (formerly Credit Agricole Indosuez) Kenyan business comprising of two branches.

September 2004

- Information technology mission undertaken to plan for the bank's migration to the Groupe BANK OF AFRICA banking application platform.

November 2004

- First Board of Directors meeting of the bank held in Nairobi.

December 2004

- Second Board of Directors meeting of the bank held in Niamey, Niger.
- Conclusion of the agreement for the purchase of 20% of BANK OF AFRICA - KENYA Limited's capital by Netherlands Development Finance Company (FMO) in Niamey.
- Participation by BANK OF AFRICA - KENYA Limited in the Groupe BANK OF AFRICA's 2004 meeting of the directors in Niamey, Niger.

Key figures

Annual report 2004 — in KES ‘000

Activity	
Deposits	3,195,176
Loans	3,057,452

Income	
Operating income	120,752
Operating expenses	152,879
Profit before income tax*	139,199

Structure	
Total Assets	4,941,660
Average number of employees	53

(*) After an exceptional profit of KES 171.3 million realised upon the acquisition of the Kenya branches of Calyon.

1 Euro = 107.12 KES

Board of directors

Members of the Board of Directors are 5, as follows:

- Mr. Paul DERREUMAUX, Chairman
- Mr. Georges ABALLO, Director
- Mr. Alexandre RANDRIANASOLO, Director
- Mr. Francis SUEUR, Director
- Mr. Philippe LEON-DUFOUR, Managing Director

Auditors

PricewaterhouseCoopers, Nairobi - Kenya

Capital

The authorised and issued capital of the bank is KES 500,000,000 divided into 500,000 ordinary shares of a par value of KES 1,000 each.

The following is the bank's shareholding structure:

AFRICAN FINANCIAL HOLDING (AFH)	10%
AFRICAN FINANCIAL HOLDING - OCEAN INDIEN	15%
BANK OF AFRICA - BENIN	20%
BANK OF AFRICA - COTE D'IVOIRE	15%
BANK OF AFRICA - MADAGASCAR	20%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	20%

Directors' report

The directors submit their report together with the audited financial statements for the 15 month period ended 31 December 2004 which disclose the state of affairs of the company.

Principal activity

The company was incorporated on 25 September 2003 but did not trade until 1 July 2004. It is engaged in the business of banking and provision of related services and is licensed under the Banking Act. On 30 June 2004 the company took over the business of Calyon (formerly Credit Agricole Indosuez) Kenya Branches.

Results and dividend

The profit for the period of KES 148,545,000 has been added to retained earnings. The directors do not recommend the payment of a dividend.

Directors

The directors who held office during the period and to the date of this report were:

Paul DERREUMAUX, Chairman	French	Appointed 25 september 2003
Zinda SAWADOGO	Ivorian	Appointed 25 september 2003 Resigned 27 november 2004
Francis SUEUR	French	Appointed 31 october 2003
Georges ABALLO	Beninese	Appointed 31 october 2003
Alexandre RANDRIANASOLO	Madagascan	Appointed 4 august 2004
Philippe LEON-DUFOUR, Managing Director	French	Appointed 26 november 2004

Auditors

The company's auditors, PricewaterhouseCoopers, who were appointed in the period, have indicated their 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 (Cap 488)

By order of the Board

Ramesh VORA

Secretary

24 February 2005

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 and prudent judgements and 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. 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 adequate systems of internal financial control.

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 LEON-DUFOUR

Managing Director

24 February 2005

Report of the independent auditors to the members of BANK OF AFRICA - KENYA Limited

We have audited the financial statements of BANK OF AFRICA - KENYA Limited for the fifteen-month period ended 31 December 2004 set out on pages 9 to 11 and pages 14 to 26.

Respective responsibilities of directors and auditors

The directors are responsible for the preparation of financial statements as set out on page 6. Our responsibility is to express an independent opinion on the financial statements based on our audit.

Basis of opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement. An audit includes an examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements. It also includes an assessment of the accounting policies used and significant estimates made by the directors, as well as an evaluation of the overall presentation of the financial statements.

We have obtained all the information and explanations that to the best of our knowledge and belief were necessary for the purposes of our audit and believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion proper books of account have been kept and the financial statements, which are in agreement with the company's books of account, give a true and fair view of the state of the company's financial affairs at 31 December 2004 and of its profit and cash flows for the period then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

PRICEWATERHOUSECOOPERS

Certified Public Accountant

Nairobi

24 February 2005

Profit and loss account

Annual report 2004 — in KES ‘000

	Notes	At 31/12/2004
Interest income	2	102,374
Interest expense	3	(27,768)
Net interest income		74,606
Fee and commission income		25,455
Fee and commission expense		(6,520)
Net fee and commission income		18,935
Foreign exchange income		26,839
Other income		372
Operating income		120,752
Operating expenses	4	(152,879)
Profit on acquisition of business	6	171,326
Profit before income tax		139,199
Income tax credit	7	9,346
Profit for the period		148,545

Balance

Assets

Assets	Notes	At 31/12/2004
Cash and balances with central bank of kenya	8	269,421
Government securities held to maturity	9	925,745
Deposits and balances due from banking institutions		517,049
Other assets	10	120,908
Loans and advances to customers	11.1	3,057,452
Current income tax recoverable		135
Deferred income tax assets	12	19,396
Property and equipment	13	26,096
Prepaid operating lease rentals	14	5,458
Total assets		4,941,660

Liabilities

Liabilities	Notes	At 31/12/2004
Customer deposits	15	3,195,176
Deposits and balances due to banking institutions	16	849,814
Other liabilities	17	248,125
Total liabilities		4,293,115

Shareholders' equity

Shareholders' equity	Notes	At 31/12/2004
Share capital	18	500,000
Retained earnings		148,545
Shareholders' equity		648,545
Total equity and liabilities		4,941,660

The financial statements were approved for issue by the board of directors on 24 February 2005 and signed on its behalf by:

Paul DERREUMAUX
Chairman
Philippe LEON-DUFOUR
Managing Director
Francis SUEUR
Director
Ramesh VORA
Secretary

Cash flow statement

Statement of changes in equity

Statement of changes in equity	Notes	Share capital*	Retained earnings*	Total equity*
At incorporation	18	2		2
Shares issued	18		499,998	499,998
Retained profit			148,545	148,545
At 31 december 2004		500,000	148,545	648,545

Cash flow statement

Cash flow statement	Notes	At 31/12/2004
Cash flows from operating activities		
Interest receipts		93,412
Interest payments		(28,481)
Net fee and commission receipts		18,935
Other income received		26,856
Payments to employees and suppliers		(147,505)
Tax paid		(135)
Cash flows used in operating activities		
Before changes in operating assets and liabilities		(36,918)
Changes in operating assets and liabilities:		
• Cash reserve ratio		(198,378)
• Loans and advances		(468,433)
• Other assets		(7,250)
• Customer deposits		(985,941)
• Other liabilities		(44,015)
• Treasury bills and bonds maturing after 91 days		(49,616)
Net cash used in operating activities		(1,790,551)
Cash flows from investing activities		
Net cash inflow from acquisition of business from calyon		1,034,887
Purchase of property and equipment	13	(6,188)
Proceeds from sale of property and equipment		380
Net cash inflow from investing activities		1,029,079
Cash flows from financing activities		
Issue of shares	18	500,000
Net decrease in cash and cash equivalents		(261,472)
Cash and cash equivalents at end of period	20	(261,472)

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

Financial statements

The financial statements represent the results and financial position of the company since incorporation on 25 September 2003 to 31 December 2004. The company acquired the Kenyan operations of Calyon (formerly Credit Agricole Indosuez) on 30 June 2004 and commenced business on 1 July 2004.

Basis of preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS)

The financial statements are presented in the functional currency, Kenya Shillings (KES), rounded to the nearest thousand, and are prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates.

Interest income and expense

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments on an accrual basis using the effective yield method based on the actual purchase price. Interest income includes coupons earned on fixed income investment and trading securities and accrued discount and premium on treasury bills and other discounted instruments. 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 cashflows for the purpose of measuring the recoverable amount.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful life as follows:

Leasehold buildings	1.5 %
Furniture, fixtures and equipment	20.0 %

Motor vehicles	33.3 %
Office fixtures and fittings	20.0 %

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of fixed assets are determined by reference to their carrying amount and are taken into account in determining operating profit.

The assets acquired upon the acquisition of the Kenyan operations of Calyon (formerly Credit Agricole Indosuez) were recorded at fair value and subsequently depreciated on a straight-line basis over their estimated useful lives.

Prepaid operating lease

The bank carries leasehold land as prepaid operating lease, stated at cost less accumulated amortisation.

Amortisation is calculated to write down the cost of the lease over the lease term.

Translation of foreign currencies

Transactions during the year in foreign currencies are converted into Kenya shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya shillings at the rates ruling at that date. The resulting differences are dealt with in the profit and loss account in the year in which they arise.

Investment securities

The bank classifies government securities into the following two categories: held-to-maturity and available-for-sale assets. Government securities with fixed maturity, where directors' have both the intent and the ability to hold to maturity, are classified as held-to-maturity. Government securities 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 are classified as available-for-sale. The directors determine the appropriate classification of its investments at the time of the purchase.

Government securities are initially recognised at cost (which includes transaction costs). Available-for-sale financial assets are subsequently re-measured at fair value based on quoted bid prices or amounts derived from cash flow models.

Held-to-maturity investments are carried at amortised cost using the effective yield method, less any provision for impairment.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate. By comparison, the recoverable amount of an instrument measured at fair value is the present value of expected future cash flows discounted at the current market rate of interest for a similar financial asset.

Interest earned whilst holding government securities is reported as interest income.

Loans and advances and provisions for loan impairment

Loans and advances are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

Provisions for loan impairment are established if there is objective evidence that the company will not be able to collect all amounts due according to the original contractual terms of loans. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted at the original effective interest rate of loans.

Specific provisions are recognised for loans and advances that are individually significant. A general provision is measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. This is estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is deemed uncollectable, it is written off against the related provision for impairment losses.

Subsequent recoveries are credited to the provision for impairment losses in the profit and loss account.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the provision for impairment losses in the profit and loss account.

Income tax

Current income tax is the amount of income tax payable on the profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, 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 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, it is not accounted for. Deferred income tax is determined using tax rates 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.

Employee benefits

Retirement benefits obligations

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

The company'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 company has no further obligation once the contributions have been paid.

Other entitlement

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

Derivative financial instruments

Forward foreign exchange contracts are carried at their fair value. Fair values are obtained from appropriate pricing models. Gains and losses on forward foreign exchange contracts are included in net trading income as they arise.

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.

Acceptances and letters of credit

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

Dividends

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.

Notes

1. General information

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

REINSURANCE PLAZA

TAIFA ROAD

P.O. BOX 69562

00400 NAIROBI

2. Interest income

Interest income	2004 (Kes '000)
Loans and advances	80,244
Government securities	18,819
Balances with other banking institutions	3,311
Total	102,374

3. Interest expense

Customer deposits	20,888
Deposits from other banks	6,880
Total	27,768

4. Operating expenses

The following items are included within operating expenses:

Staff costs (note 5)	69,318
Depreciation (note 13)	5,332
Amortisation of prepaid operating lease rentals (note 14)	42
Gain on sale of property and equipment	(355)
Operating lease rentals	7,142
Auditors remuneration	1,562

5. Staff costs

The following items are included in staff costs:

Retirement benefit costs	2,473

The number of persons employed by the bank at 31 december 2004 was 53.

6. Profit on acquisition of business

Profit on acquisition is the excess of the fair value of net assets acquired over the purchase consideration on the acquisition of the assets and assumption of liabilities of the Kenyan branches of Calyon (formerly Credit Agricole Indosuez) less the acquisition costs. The acquisition costs are those costs directly attributed to the acquisition and include legal, accountant's and consultant fees, and other direct costs such as travel and accommodation costs.

Profit on acquisition of business	2004 (Kes '000)
Excess of the fair value of net assets	
Acquired over the purchase consideration	226,148
Acquisition costs	(54,822)
Profit on acquisition	171,326

7. Income tax credit

Current income tax	
Deferred income tax (note 12)	9,346
Income tax credit	9,346

The tax on operating profit differs from the theoretical amount that would arise using the basic tax rate as follows:

Profit before tax	139,199
Prima facie tax calculated at statutory income tax rate of 30%	41,760
Tax effect of expenses not deductible for tax purposes	436
Tax effect of income not subject to tax	(51,542)
Income tax credit	(9,346)

8. Cash and balances with CENTRAL BANK OF KENYA

Cash in hand	68,702
Balances with CENTRAL BANK OF KENYA	200,719
Total	269,421

9. Government securities

Treasury bills and bonds:	
Maturing within 91 days of the date of acquisition	
Maturing after 91 days of the date of acquisition	925,745
Total	925,745

Treasury bills and bonds are debt securities issued by the Government of Kenya and are classified as held to maturity investments.

10. Other asset

Other assets	2004
	KES '000
Uncleared effects	72,757
Other assets	48,151
Total	120,908

Uncleared effects relate to cheques in hand at the last day of the year pending subsequent clearing.

11. Loans and advances to customers

Loans and advances to customers	2004
	KES '000

11.1. Gross advances to customer by type

Overdrafts	2,303,332
Commercial loans	753,979
Mortages	53,043
Bills discounted	11,476
Gross loans and advances	3,121,830
Less: Provision for impairment of loans and advances	
Specific	(30,878)
Général	(33,500)
Loans and advances to customers net of provisions	3,057,452

All loans have been written down to their estimated recoverable amount. The aggregate amount of non-performing loans amounted to Shs 30.9 million as at 31 December 2004.

11.2. Economic sector risk concentrations

Economic sector risk concentrations	2004	
	KES '000	%

Economic sector concentrations within the loan portfolio was as follows:

Manufacturing	1,399,815	45%
Electricity and water	161,856	5%
Wholesale and retail trade	849,943	27%
Social, community and personnal services	1,103	
OTHER	709,113	23%
Total	3,121,830	100%

12. Deferred income tax

Deferred income tax is calculated on all temporary differences under the liability method using the enacted tax rate of 30%. The movement on the deferred tax account is as follows

	2004
	KES '000
Deferred income tax asset arising from acquisition of business	10,050
Income statement crédit (note 7)	9,346
Total	19,396

The deferred income tax asset is attributable to the following items:

Général provision for BAD and doubtful debts	10,050
Tax losses	7,866
Property and equipment	887
Other provisions	593
Total	19,396

13. Property and equipment

	Buildings	Furniture Fixtures and equipment	Motor Véhicles	Total
	KES '000	KES '000	KES '000	KES '000
Cost				
Acquired from calyon	12,000	12,712	554	25,266
ADDITIONS		3,504	2,684	6,188
Disposals		(40)	(31)	(71)
AT 31 December 2004	12,000	16,176	3,207	31,383
Depreciation				
Charge for the period	90	4,702	540	5,332
ON disposals		(14)	(31)	(45)
AT 31 December 2004	90	4,688	509	5,287
Net book amount				
AT 31 December 2004	11,910	11,488	2,698	26,096

14. Prepaid operating lease rentals

Prepaid operating lease rentals	2004
	KES '000
Acquired from calyon	5,500
Amortisation	(42)
Total	5,458

15. Customer deposits

Customer deposits by type	
Demand deposits	2,551,769

Time deposits	643,407
Total	3,195,176

16. Deposits and balances due to banking institutions

Overnight Borrowing	652,228
Balances due to group banks (note 26)	46,524
Other balances due to banks	151,062
Total	849,814

17. Other liabilities

Items in transit	174
Bills payable	99,322
Due to calyon Paris	126,726
Other	21,903
Total	248,125

18. Share capital

	Number of shares	Ordinary shares
		KES '000
Shares issued at incorporation	2	2
Shares issued since incorporation	499,998	499,998
Total	500,000	500,000

The total authorised number of ordinary shares is 500,000 with a par value of KES 1,000 per share. All issued shares are fully paid.

19. Off balance sheet financial instrument contingent liabilities and commitments

The bank conducts business involving acceptances, 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. In the opinion of the directors no liability is expected to crystallise in respect of these amounts.

Contingent liabilities	2004
	KES '000
Letters of credit	52,549
Letters of guarantee	430,221
Acceptances	50,306
Total	533,076

Commitments	
Forward foreign exchange commitments	680,861

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented, but reimbursement by the customer is normally immediate.

Letters of credit commit the bank 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 bank will only be required to meet these obligations in the event of the customer's default.

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.

20. Analysis of cash and cash equivalents

Analysis of cash and cash equivalents	2004
	KES '000
Cash and balances with CENTRAL BANK OF KENYA	269,421
Cash reserve requirment (See below)	(198,378)
Due to BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NET)	(332,515)
Total	(261,472)

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 to and 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 6% of the average outstanding customer deposits over a cash reserve cycle period of one month.

21. Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. Although the bank maintains trade with other members of the Groupe Bank of Africa and other correspondent banks, it held no significant foreign currency exposure as at 31 December 2004.

22. Interest rate risk

The bank is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The directors set limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored regularly. The table below summarises the exposures to interest rate risk. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity date. The bank does not bear an interest rate risk with regard to off balance sheet items. All figures are in thousands of Kenya Shillings.

	Up to	1-3	3-6	6-12	1-3	Over	Non-interest	Total
	1 Month	Months	Months	Months	Years	3 Years	bearing	
At 31 December 2004								
Assets								
Cash and balances with CENTRAL BANK OF KENYA							269,421	269,421
Government securities		198,107	319,819		399,226		8,593	925,745
Deposits and balances due from BANKING INSTITUTIONS	486,893						30,156	517,049
Other Assets							120,908	120,908
Advances to customers	2,688,237	208,943	15,799	31,619	104,527	3,455	4,872	3,057,452
Tax recoverable							135	135
Deferred income tax asset							19,396	19,396
Property and equipment							26,096	26,096
Prepaid operating							5,458	5,458

lease rentals								
Total assets	3,175,130	407,050	335,618	31,619	503,753	3,455	485,035	4,941,660

Equity and liabilities

CUSTOMER DEPOSITS	1,888,748	117,833	12,136	4,900			1,171,559	3,195,176
Deposits and balances due to BANKING INSTITUTIONS	843,785		4,101				1,928	849,814
Other Liabilities							248,125	248,125
Equity							648,545	648,545
Total equity and liabilities	2,732,533	117,833	16,237	4,900			2,070,157	4,941,660
Interest sensitivity GAP	442,597	289,217	319,381	26,719	503,753	3,455	(1,585,122)	

23. Liquidity risk

Cash and balances with CENTRAL BANK OF KENYA	260,838	7,126	754	626	77		269,421
Government securities		198,107	320,428		407,210		925,745
Deposits and balances due from BANKING INSTITUTIONS	517,049						517,049
Other assets	82,683	32,411	1,869	3,945			120,908
Advances to customers	2,621,152	212,841	17,498	35,014	131,471	39,476	3,057,452
Tax recoverable				135			135
Deferred income tax asset					19,396		19,396

Property and equipment					26,096		26,096
Prepaid operating lease rentals					424	5,034	5,458
Total asset	3,481,722	450,485	340,549	39,720	584,674	44,510	4,941,660

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs and guarantees. The bank sets limits on the minimum proportion of maturing funds available to meet such calls. The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at 31 December to the contractual maturity date. All figures are in thousands of Kenya Shillings.

	Up to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-5 Years	Over 5 Years	Total
At 31 December 2004							
Assets							
Cash and balances with CENTRAL BANK OF KENYA	260,838	7,126	754	626	77		269,421
Government securities		198,107	320,428		407,210		925,745
Deposits and balances due from BANKING INSTITUTIONS	517,049						517,049
Other assets	82,683	32,411	1,869	3,945			120,908
Advances to customers	2,621,152	212,841	17,498	35,014	131,471	39,476	3,057,452
Tax recoverable				135			135
Deferred income tax asset					19,396		19,396
Property and equipment					26,096		26,096

Prepaid operating lease rentals					424	5,034	5,458
Total asset	3,481,722	450,485	340,549	39,720	584,674	44,510	4,941,660

Equity and Liabilities

Customer deposits	3,052,129	118,761	12,561	10,441	1,284		3,195,176
Deposits and balances due to BANKING INSTITUTIONS	845,713		684	684	2,733		849,814
Other liabilities	115,380	2,415	39,027	1,073	90,230		248,125
Equity						648,545	648,545
Total equity and liabilities	4,013,222	121,176	52,272	12,198	94,247	648,545	4,941,660
Net liquidity GAP	(531,500)	329,309	288,277	27,522	490,427	(604,035)	

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. 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 bank does not maintain cash resources to meet all these needs as experience shows that a minimal level of investment of maturing funds can be predicted with high level of certainty. 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 bank and its exposure to changes in interest rates and exchange rates.

24. Fair values and effective interest rates of financial assets and liabilities

In the opinion of the directors, the fair values of the bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out in note 22. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the company at the balance sheet date.

The weighted average effective interest rates for the principal financial assets and liabilities at 31 December 2004 were as follows:

	IN KES	IN USD
Deposits with BANKING INSTITUTIONS		
Government securities	5%	
Loans and advances	10%	4%
Deposits due to BANKING INSTITUTIONS	11%	2%
Customer deposits	3%	1%

25. Credit risk

The bank takes on exposure to credit risk which is the risk that a counterparty will be unable to pay amounts in full when due. The bank structures the levels of credit risk it undertakes by placing limits on the amounts of risk accepted in relation to one borrower, or groups of borrowers. Such risks are monitored on a revolving basis and are subject to an annual or more frequent review. Limits on the level of credit risk by product and industry sector are approved by the credit committee.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayments obligations and by changing these lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

26. Related party transactions

The ultimate parent company of the bank is AFRICAN FINANCIAL HOLDING (AFH) incorporated in Luxembourg. There are other companies which are related to BANK OF AFRICA - KENYA Limited through common shareholdings or common directorships.

In the normal course of business, placements and borrowing of foreign currencies are made with group companies at market interest rates.

The following transactions were carried out with related parties:

26.1. Expenses

	2004
	KES ‘000
Management fee paid to AFH	12,154

	2004
	KES ‘000

26.2. Balance due to group companies

DuetoO AFH (included under other liabilities)	923

26.3. Balance due to group banks

BANK OF AFRICA - COTE D’IVOIRE	26,845

BANK OF AFRICA - MADAGASCAR	19,679
Total	46,524

26.4. Director's fees

• Fess for services as director	
• Salaires to executive directors	2,496
Total	2,496

Advances to customers as at 31 December 2004 include loans to employees amounting to KES 70 million while customers' deposits include deposits from employees of KES 72 million.

All facilities and arrangements relating to the above balances have been made in the normal course of business and on terms similar to those applicable to third parties.