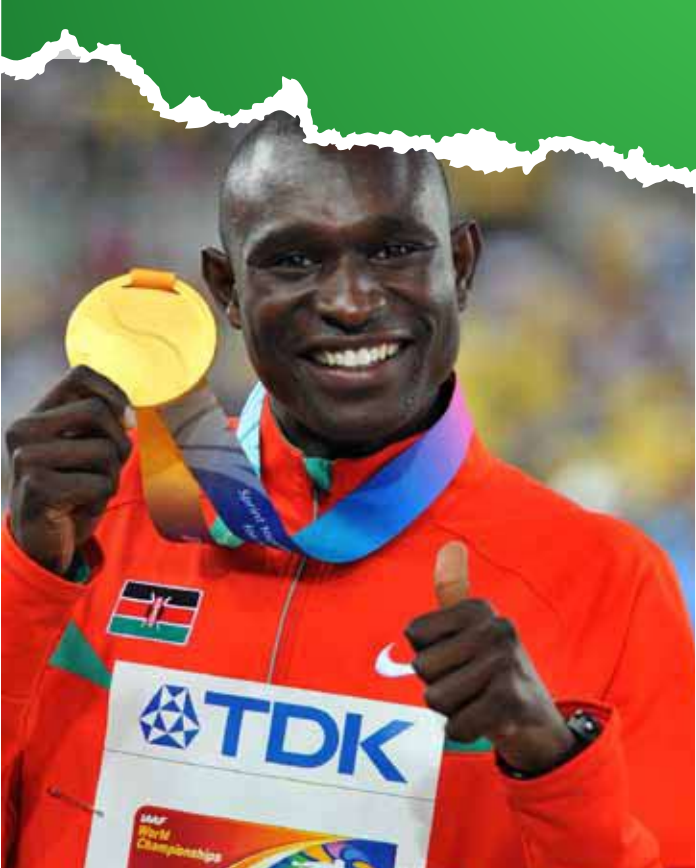


2011 Annual Report & Financial Statements



National Bank

THE BANK WHERE YOU BELONG

VISION AND MISSION STATEMENT

OUR VISION

To be the preferred Bank in the provision of comprehensive financial solutions in the region.

OUR MISSION

At National Bank, we are dedicated to excellence in providing competitive, comprehensive financial solutions, meeting the changing needs of our customers, being a responsible corporate citizen, providing attractive opportunities to our employees and improving shareholders' value.

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Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN in accordance with Article 47 of the Bank's Articles that the Forty Third Annual General Meeting of the Shareholders of National Bank of Kenya Limited will be held at the Tsavo Ball Room Kenyatta International Conference Centre, Nairobi on Friday 8 June 2012 at 10.00 a.m. to transact the following business:-

A. ORDINARY BUSINESS

1. To read the Notice convening the Meeting.
2. To receive and consider the audited financial statements for the year ended 31 December 2011 together with the directors' and auditors' reports thereon.
3. (a) To note payment of a dividend of Sh. 0.15 per share (3%) to Preference Shareholders and also (b) To approve payment of first and final dividend of Sh. 0.40 per share to Ordinary and Participating Preference Shareholders. The dividend will be payable to shareholders on register at close of business on 12th April 2012.
4. To elect Directors:-
 - i) Mr M E G Muhindi, who retires by rotation and, being eligible, offers himself for re-election.
 - ii) Mr F L Atwoli, who retires by rotation and, being eligible, offers himself for re-election.
 - iii) The Managing Trustee, NSSF, who retires by rotation and, being eligible, offers himself for re-election.
5. To authorise payment of Directors' fees.
6. To confirm that the auditors, Messrs. Deloitte & Touche, shall continue in office and to authorize the Directors to fix their remuneration in accordance with Section 159(2) of the Companies Act (Cap. 486).

B. To transact any other business of the Annual General Meeting for which notice has been given.

By Order of the Board
Leonard G Kamweti
Company Secretary
National Bank Building
Harambee Avenue, Nairobi

16 March 2012

NOTES

1. A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
2. In the case of a member being a limited liability company or corporate body, the form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. A Proxy Form is available at:-
 - a) the Bank's website www.nationalbank.co.ke or
 - b) the Bank's Head Office National Bank Building 9th Floor Harambee Avenue Nairobi or
 - c) any of the Bank's branches and agencies countrywide.
4. Shareholders who will not be able to attend the Annual General Meeting are requested to complete and return the proxy form:-
 - a) by hand to the Registered Office of the Bank
 - b) by mail to "The Shares Registrar, National Bank of Kenya Limited, P.O. Box 72866 - 00200 Nairobi",
 - c) by e-mailing a scanned proxy and copy of national identification card in PDF format to proxyform@nationalbank.co.ke
5. Proxies must be received by the company not less than 48 hours before the meeting i.e not later than 10.00 a.m. on Wednesday 6 June 2012.
6. In accordance with Article 125 of the Company's Articles of Association a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website www.nationalbank.co.ke or from the Registered Office of the Company. An abridged set of the Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statement for year ended 31 December 2011 have been published in two daily newspapers with nationwide circulation.
7. Registration of Members and proxies attending the Annual General Meeting will commence at 7:00 a.m. and will close at 11:00 a.m. Production of a national identification card, a passport or other acceptable means of identification and the Member's share certificate or current Central Depository Corporation statement of account for their shares in the Company will be required.

Ilani ya Mkutano Mkuu wa Mwaka

NOTISI INATOLEWA HAPA KWAMBA, kwa mujibu wa kifungu nambari 47 cha sheria za Benki, mkutano wa arobaini na tatu wa pamoja wa mwaka wa wanahisa wa National Bank of Kenya Limited utafanyika Tsavo Ball Room, Jumba la Kimataifa la Jomo Kenyatta, Nairobi Ijumaa Juni 8 2012 kuanzia saa nne asubuhi ili kuangazia shughuli zifuatazo:

A. SHUGHULI ZA KAWAIDA

1. Kusoma Notisi ya kuitishwa kwa mkutano
2. Kupokea na kuchunguza taarifa kuhusu matumizi ya pesa iliyofanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31 2011 pamoja na ripoti kutoka kwa wakurugenzi na wakaguzi wa pesa.
3. (a) Kufahamu malipo ya mgawo wa faida ya senti 0.15 kwa kila hisa (3%) kwa wamiliki wa hisa maalumu na pia (b) kuidhinisha malipo ya kwanza na ya mwisho ya senti 0.40 kwa kila hisa kwa wamiliki wa hisa za kawaida na washiriki wa hisa maalumu. Malipo haya ya mgawo wa faida yatatolewa kwa wanahisa ambao majina yao yatakuwa kwenye rejista kufikia Aprili 12 2012.
4. Kuwachagua wakurugenzi:-
 - i) Bw M E G Muhindi anayestaafu kwa zamu na kwa kuwa anastahili, amejitokeza ili kuchaguliwa tena
 - ii) Bw F L Atwoli anayestaafu kwa zamu na kwa kuwa anastahili, amejitokeza ili kuchaguliwa tena.
 - iii) Msimamizi wa Hazina, NSSF, anayestaafu kwa zamu na kwa kuwa anastahili amejitokeza ili kuchaguliwa tena.
5. Kupitisha malipo ya wakurugenzi.
6. Kuthibitisha kwamba wakaguzi wa pesa, Deloitte & Touche wataendelea mbele na jukumu lao na kuwapa uhuru wakurugenzi kuamua kiwango cha malipo yao kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni (kifungu nambari 486)

B. Kutekeleza shughuli zingine zozote za Mkutano wa Pamoja wa Mwaka ambazo notisi yake itakuwa imetolewa.

**Kwa Amri ya Halmashauri
Leonard G. Kamweti
Katibu wa Kampuni
Jumba la National Bank
Barabara ya Harambee, Nairobi**

Machi 16 2012

MUHIMU

1. Mwanachama aliye na ruhusa kuhudhuria mkutano na kupiga kura anaweza kumteua wakala kufika na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama wa Kampuni
2. Katika hali ambapo mwanachama ni kampuni maalumu au shirika, ni lazima fomu ya wakala iwe imepigwa muhuri wa kawaida au chini ya afisa au wakili aliyeidhinishwa kwa kuandika.
3. Fomu ya uwakilishi inapatikana kupitia:
 - a) Wavuti wa benki www.nationalbank.co.ke au;
 - b) Makao makuu ya benki Jumba la National Bank orofa ya 9 barabara ya Harambee Avenue Nairobi au;
 - c) Matawi na mawakala ya benki kote nchini.
4. Wanahisa ambao hawataweza kuhudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya wakala na kuirudisha kwa:-
 - a) njia ya mkono kupitia ofisi ya benki iliyosajiliwa
 - b) njia ya barua kwa "Msajili wa hisa, National Bank of Kenya Limited, Slp 72866-00200 Nairobi"
 - c) Kupitia barua pepe ya fomu ya wakala na nakala ya kitambulisho cha kitaifa kwa mfumo wa "PDF" kwa proxyform@nationalbank.co.ke
5. Wakala wawe wamepokelewa na kampuni masaa 48 kabla ya kuanza kwa mkutano yaani kabla ya saa nne asubuhi Jumatano Juni 6 2012.
6. Kwa mujibu wa kifungu nambari 125 cha Sheria za Kampuni, nakala nzima ya ripoti ya mwaka na kaguzi za pesa zinaweza kupatikana kupitia wavuti wa kampuni www.nationalbank.co.ke au ofisi ya kampuni iliyosajiliwa. Muhtasari wa mizania, taarifa kuhusu mapato, taarifa kuhusu mabadiliko ya umiliki wa hisa na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika Desemba 31 2011 zimechapishwa kupitia magazeti mawili ya kila siku yanayosambazwa kote nchini.
7. Usajili wa wanachama na wakala watakuohudhuria mkutano utaanza saa moja asubuhi na utafungwa saa tano asubuhi. Utoaji wa kitambulisho cha kitaifa, hati ya kusafiria au stakabadhi nyingine za kujitambulisha zinazokubalika na cheti cha hisa cha uanachama au taarifa hivi punde ya akaunti ya CDS kuhusu hisa zao katika kampuni zitahitajika.

Board of Directors/**Wakurugenzi**



Mohamed Abdirahman Hassan, Chairman

Appointed to the Board and Chairman on 3rd June 2011 he was a director Dyer and Blair Investment Bank and is Chairman Kenya National Trading Corporation Limited. He holds a MSc Finance (Strathclyde, Glasgow), B Com (Finance) (University of Nairobi) and an Advance Management Program (Strathmore University/IESE Business School, Barcelona). He is a Chartered Financial Analyst (CFA). Age 40 years.



Reuben M Marambii, Managing Director

Appointed to the Board as Managing Director in December 1998. He is a Career Banker and has worked in various Commercial Banks and also the Central Bank, all in senior management positions. He holds a B. Com (Accounting) (University of Nairobi) degree. Age 67 years.



Joseph K Kinyua, PS Treasury, Non-Executive Director

He is a Senior Economist and has served in various capacities in the Government and CBK, including Financial Secretary in the Ministry of Finance, PS Ministry of Agriculture, and Chief Economist at Central Bank of Kenya. He has also worked with the IMF in Washington DC (USA). He is Alternate Governor of the World Bank; a Director in the Board of the East African Development Bank (EADB); and a Director at large in the Board of the African Economic Research Consortium (AERC). He holds an MA degree and a BA degree both in Economics (University of Nairobi). Age 60 years.



Sylvia M Kitonga, Non-Executive Director

Appointed to the Board and Vice-Chairperson on 3rd June 2011. She is an Advocate at the High Court and a Certified Public Secretary. She served in various public and private institutions, banks and firms before her appointment. She holds an LLB (University of Nairobi). Age 57 years.



Eng. Erastus K Mwangera, Non-Executive Director

Appointed to the Board on the 3 June 2011. He is a Chartered Engineer and has served as PS and Chairman of Kenya Airports Authority. He is an Engineering & Management Consultant and holds a Bsc. Civil Engineering (Wales). He is also a Registered Consulting Engineer and Fellow of the Institution of Engineers of Kenya. Age 62 years.



Alex Kazongo, Managing Trustee NSSF, Non-Executive Director

Appointed to the Board in June 2009. He is the Managing Trustee of NSSF and has served in senior management positions in both public and private sectors. He is also a Director at East African Portland Cement and Consolidated Bank Ltd. and holds a B. Com (Accounting) (University of Nairobi) and is a Certified Public Accountant. Age 48 years.

Board of Directors/**Wakurugenzi**



George Omino, Alt to PS Treasury, Non-Executive Director

Appointed to the Board in January 2008, he is an Economist and has a wealth of experience in Regulating and Supervising on banks and other financial institutions as a Bank Examiner. He is Head of Financial Services Sector in Economic Affairs Department, Ministry of Finance and holds BA (Economics) University of Nairobi and MSc (Finance) (Strathclyde Business School). Age 56 years.



Michael E G Muhindi, Non-Executive Director

Appointed to the Board in April 2000, the Board Chairman on 8th May, 2000 to 3rd June, 2011. He is an Economist and a career Banker and has served on various bank boards in senior capacity as well as Deposit Protection Fund. He holds a BA Economics (University College, Nairobi). Age 69 years.



Francis L Atwoli MBS, Non-Executive Director

Appointed to the Board in April 2003. A long serving Career Trade Unionist and Member of the Board of Trustees of NSSF, Secretary General of COTU (Kenya). He is a member of ILO Governing Body President of Trade Union Federation of Eastern Africa, General Secretary of Kenya Plantation and Agricultural Workers Union, Chairman East African Trade Union Confederation, OATUU Deputy Treasurer, Vice President International Trade Confederation Brussels and American Trained Labour Leader (George Mean College of Labour Studies USA) Age 60 years.



Isaiah M Mworira, Deputy Managing Director, Customer Services

Appointed to the Board in June 2005, as Executive Director - Finance. He has served in various senior capacities since joining the Bank in 1999. He holds a B Com Accounting (University of Nairobi) and is a Certified Public Accountant. Age 57 years.



Ali Ismail Noor, Deputy Managing Director, Support Services

Appointed to the Board in July 2008, he joined the Bank in 1995 and served in various capacities before his appointment. Has been a Member and Chairman of the Kenya Institute of Bankers Executive Council, he is also a Board Member of NEMA and holds a BA (University of Nairobi) an MSc HR (Manchester) and an LLB (University of Nairobi). Age 50 years.



Leonard G Kamweti, Company Secretary

Appointed in February 1996 as Secretary to the Board. He is an Advocate of the High Court and a Certified Public Secretary and has over 20 years experience in Legal and Company Secretary Practice. He holds an LLB (University of Nairobi). Age 49 years.

Chairman's Statement



I am pleased to present to you shareholders the Annual Report and Financial Statements of the Bank for the year ended 31 December 2011.

Despite the slight decline in the overall performance due to the various challenges, the Bank achieved remarkable growth in income and total assets.

The operating environment remained extremely competitive and this had the effect of increasing interest costs to much higher level compared to the previous year. Interest rate increases rose to unprecedented levels in the fourth quarter of year 2011 but have since then shown signs of stabilising.

The growth in income was driven mainly by increase in net interest income of 16%. However, operating expenses and provisions against non-performing advances combined, increased by 22%. This increase in expenses is largely attributed to rise in costs associated with branch expansion, high inflation and the need to take up more provisions in order to maintain a clean loan book.

Nonetheless, the total assets of the Bank grew by 15% to Sh. 68.7 billion from 60.0 billion in the previous year. This growth was driven by increase in customer deposits which grew by 19% to Sh. 56.7 billion from Sh. 47.8 billion while net advances grew by 35% to 28.1 billion from Sh. 20.8 billion in the previous year respectively.

Two new branches in Maua and Machakos were added to the Bank's expanding network thus bringing the total number of outlets to 50 as at the end of year 2011. More outlets are due to become operational in 2012.

THE ECONOMY

After picking up reasonably well in the previous year, the Kenyan economy was faced with a most challenging period in year 2011. The deteriorating macro economic environment saw inflation rate rise sharply, lending rates double and the Kenya Shilling weaken significantly against the major currencies. Despite the difficulties encountered, the economic growth for the year 2011 was projected to grow by 4% according to the projections of Central Bank and the Kenya National Bureau of Statistics. Whereas growth in agricultural production was lower than in the previous year, its earnings grew by 4.8% supported by high international commodity prices and exchange rates. Continued investment in infrastructure and real estate saw the construction sector grow by nearly 7% at a time when other sectors such as manufacturing and energy performed poorly.

Inflation rates soared in 2011 reaching an all time high of 19.7% in November but later declined marginally to 18.9% in December 2011. Much of the inflationary pressure experienced in most of 2011 was attributed to the supply side factors particularly food and fuel.

In the second half of 2011 the Kenya Shilling suffered rapid depreciation against the US Dollar as well as other major currencies. In October 2011 the shilling reached an all time low of Sh. 107/US Dollar having depreciated by over 30% since the beginning of the year.

In order to tame the high inflation and continued weakening of the Kenya Shilling, the Monetary Policy Committee reviewed upwards the Central Bank Rate (CBR) progressively up to 18% at the end of 2011. This upward increase was intended to suppress the supply of bank credit and consequently demand for goods, services and private sector investment.

BANKING SECTOR

The Kenyan Banking Sector continued to register improved growth in year 2011, driven by increase in deposits, retention of profits and injection of capital.

According to Central Bank of Kenya, the sector registered improved performance in earnings and capital growth as well as reduction in the level of non-performing loans compared to the previous year.

Chairman's Statement (continued)

While the number of Commercial Banks and Mortgage Finance Companies remained at last year's level of 43 and 1 respectively, the number of deposit taking microfinance institutions increased by 3 to 6 and foreign exchange bureaus declined from 126 to 118. The number of Credit Reference Bureaus remained two.

RESULTS FOR THE YEAR 2011

The Bank's trading results for the year ended 31 December 2011 reflect pre-tax profit of Sh. 2.4 billion which is 9% below the previous year's profit before tax of Sh. 2.7 billion.

The decrease in profitability was largely attributed to increased interest costs, higher operating expenses resulting from high inflation, expenses associated with branch expansion and increased provisions against non-performing advances.

Another contributing factor was the decline in value of bonds held for sale following changes in market interest rates. The loss arising from revaluation of bonds was a reversal of the position in the previous year when appreciation in the value of bonds held for sale contributed positively to the Bank's profitability.

In addition to the decrease arising from overall decline in performance as reflected in profit before tax, the decline in the after tax profit was accelerated further by higher taxation as a result of adjustments made for items that are not tax deductible and in particular, unrealized losses from bond valuations.

Profit after tax for the year 2011 was Sh. 1.55 billion compared to Sh. 2.02 billion for the previous year, a 23% decrease.

Total Assets of the Bank however, increased by 15% to Sh. 68.7 billion from Sh. 60 billion in the previous year.

Dividend

The Board of Directors is recommending to this Annual General Meeting a first and final dividend of Sh. 0.40 per share to the holders of the ordinary and Preference shares and a further Sh. 0.15 per share to the holders of Preference shares. The dividend payout is guided by the policy approved by your Board

CORPORATE GOVERNANCE

The Board is responsible for the governance of the Bank and is committed to ensuring that the business is conducted with integrity and in compliance with the law, internationally accepted good corporate governance principles and practices. In this regard, the Board confirms that the Bank complies with all relevant legislation, including provisions of the Banking Act and prudential guidelines issued by the Central Bank of Kenya.

The Board fulfills its fiduciary obligations to the shareholders by providing policy direction and maintaining oversight over strategic, financial, operational and compliance risks of the Bank. In carrying out the above responsibilities the Board delegates its authority to the Managing Director to oversee the day to day business operations of the Bank.

Board Meetings

The Board holds regular meetings and on occasions special meetings as and when need arises. The meetings review monthly performance against targets as well as dealing with business and operational issues referred to the Board by Management.

The Central Bank of Kenya inspection report and external Auditors' reports are reviewed at some of these meetings and appropriate actions taken.

During the year the Board held 23 meetings. Details of attendance of the meetings by the non-executive directors of the Bank are as indicated in the table below.

Name of Director	Total number of meetings	Number of meetings attended
M A Hassan	15	15
S M Kitonga	15	14
E K Mwangera	15	15
M E G Muhindi	23	23
F L Atwoli	23	8
MT NSSF	23	17
PS – Treasury	23	23
P W D Ngumi*	8	8
A C Juma*	8	7
J N Riria*	8	6

*Retired on 3 June 2011

Board Evaluation

The Board carried out a peer evaluation exercise for the year 2011 as part of good corporate governance practice and also in order to comply with the Central Bank of Kenya requirement. The results of the evaluation were submitted to the Central Bank of Kenya.

All the directors, apart from those who retired in June 2011 and therefore were not subject to evaluation, scored above average on individual basis.

Composition of the Board

Seven out of the ten members of the Board including the Chairman are non-executive directors. Of these, the Permanent Secretary to the Treasury and Managing Trustee National Social Security Fund are institutional directors of the Board. The other five non-executive directors are considered by the Board to be independent and free from any business interest or other relationship that could influence the exercise of their personal independent judgement.

Board Committees

The Board has seven standing committees which meet regularly under the terms of reference set by the Board. The Committees meet and make recommendations to the Board on matters falling under their respective mandates as follows:-

1. **Nominations Committee**: is responsible for Board appointments. It meets once a year or more should a need arise.

- Audit & Risk Committee:** Its responsibility is to ensure that the systems of internal controls and effective risk management are properly administered. Through this Committee, the Board is able to discharge its supervisory and good corporate governance responsibilities. These include, among others, the Bank's relationship with the independent external auditors, the reliability of the financial statements, external communication and maintenance of an effective risk management framework including compliance and internal controls.
- Finance & ICT Committee:** Is responsible for review of financial performance of the Bank as well as the ICT systems supporting the Bank's business. The committee also reviews interim as well as annual results prior to publication.
- Credit, Legal & Remedial Committee:** Is responsible for the credit function in the Bank. The committee reviews credit growth, administration and any legal issues arising thereon.
- Human Resources, CSR & Administration Committee:** Is largely responsible for human resource policies, staff remuneration and welfare. The committee is also responsible for overseeing administrative matters including projects implementation and Corporate Social Responsibility function in the Bank.
- Operations, Marketing & Business Development Committee:** Is responsible for review of the Bank's business growth, marketing as well as the brand image.
- Tender, Supplies & Premises Committee:** is responsible for all tender procurement referred to the Board for consideration as well as review of the status of tender execution and procurement policies in general.

Communication with Shareholders

The Bank is committed to ensuring that shareholders, financial markets and other stakeholders are provided with adequate and timely information on its performance. This is achieved by the distribution of the Bank's annual report, posting of current development in its website, the release in the media of its quarterly and annual results as well as any other pertinent disclosures.

The Bank is committed to complying with its obligations as stipulated in the Capital Market Act and Nairobi Securities Exchange rules.

Directors' Emoluments and Loans

The aggregate of emoluments paid to Directors for services rendered during the year is disclosed in the notes to the financial statements. Since the last Annual General Meeting of the Company, no director has received or become entitled to receive any benefit other than the directors' fees and allowances and amounts received by Executive Directors of the Bank under employment contracts. Loans and advances of directors are also disclosed in the financial report.

Board and management changes

During the year, Ms Sylvia M Kitonga, Eng. Erastus K Mwangera and myself joined the Board of the Bank following retirement (by rotation) of Mr A C Juma, Mr P W D Ngumi and Dr J Riria.

I take this opportunity to thank Mr Juma, Mr Ngumi and Dr Riria for their service and dedication to the Bank during their tenure as Directors.

Also during the year, two executive director positions of Finance and Human Resources & Administration were upgraded to Deputy Managing Director, Customer Services and Deputy Managing Director, Support Services respectively, in order to reflect the additional responsibilities placed under them.

OUTLOOK FOR THE YEAR 2012

The high inflation levels, interest rates and volatile exchange rate coupled with effects of high international commodity prices are likely to dampen Kenya's economic growth in year 2012. However, inflation level could slacken in the event that the climatic conditions improves and consequently stimulate agricultural production.

The year 2012 therefore is likely to be a challenging one for the Kenyan economy although a positive growth is still anticipated. However, the key possible source of risk to the economy may be the forthcoming general elections. The lack of clarity on the timing of elections and the push to make some key amendments to the constitution pose a risk to potential investors and cause them to delay investment decisions.

The Bank will endeavour to play its role in the economy and continue to offer services to our customers through provision of a wider range of products and services in addition to increased geographical presence.

The year 2012 will also witness the completion of two major ICT systems in the Bank, the Bank Fusion Universal Banking (BFUB) Corebanking system and an integrated Debit/Credit card management system. The two systems will enable the Bank to provide more effective and efficient services to our customers.

On a different note the long serving Managing Director of the Bank since December 1998, Mr R M Marambii, and who has worked extremely hard to turn around the Bank will be exiting at the end of year 2012 upon expiry of his current contract. The Bank will ever remain appreciative of the great service Mr Reuben Marambii has rendered to it.

The Board has nearly completed the recruitment process for a new Chief Executive to replace the outgoing Managing Director.

APPRECIATION

Finally, I would like to record my sincere gratitude to you shareholders for the continued support, to the Directors for their commitment and service to the Bank and to the management and staff for their dedication and service to the Bank.

To our customers and key service providers we sincerely thank you for your continued patronage, loyalty and commitment to the Bank.

God bless you all.

MOHAMED A HASSAN

Chairman

Taarifa ya Mwenyekiti

Nina furaha kuwasilisha kwenu wanahisa ripoti ya mwaka na taarifa kuhusu matumizi ya pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2011.

Licha ya upungufu mdogo katika matokeo ya jumla kutokana na changamoto mbali mbali, Benki ilipata ukuaji wa kuridhisha wa kimapato na raslimali kwa jumla.

Mazingira ya utekelezaji shughuli yalizidi kuwa na ushindani mkali na hii ikapelekea kuongezeka kwa gharama za riba kwa viwango vya juu ikilinganishwa na mwaka uliotangulia. Viwango vya riba viliongezeka kwa viwango visivyotarajiwa Wakati wa kipindi cha nne cha mwaka 2011 lakini kwa sasa vimeonyesha ishara ya kuwa thabiti.

Ukuaji wa mapato ulichochea na mapato halisi kutona na riba ya asilimia 16 (16%). Hata hivyo, gharama za matumizi zikijumulishwa maandalizi ya kukabiliana na mikopo isiyolipika ziliongezeka kwa asilimia 22 (22%). Ongezeko hili la matumizi limechangiwa sana na ongezeko la gharama hasa kutokana na upanuzi wa mtandao wa matawi, mfumuko wa juu wa bei za bidhaa na haja ya kugharamia mikopo na ilikuwa na rekodi bora ya vitabu vya madeni.

Hata hivyo, kwa jumla, raslimali za Benki zilikuwa kwa asilimia 15 (15%) hadi shilingi bilioni 68.7 kutoka shilingi bilioni 60 mwaka uliotangulia. Ongezeko hili lilichangiwa na hifadhi za wateja ambazo zilikuwa kwa asilimia 19 (19%) hadi shilingi bilioni 56.7 kutoka shilingi bilioni 47.8 huku malipo ya awali yakiimarika kwa asilimia 35 (35%) hadi shilingi bilioni 28.1 kutoka shilingi bilioni 20.8 kwa mwaka uliotangulia mtawalia.

Matawi mawili mapya ya Maua na Machakos yaliongezwa kwenye mtandao wa upanuzi wa Benki na kufanya idadi ya jumla ya matawi kufikia 50 mwisho wa mwaka 2011. Matawi zaidi yanatazamiwa kuanza kutekeleza shughuli mwaka 2012.

UCHUMI

Baada ya kuanza vyema mwaka uliotangulia, uchumi wa taifa la Kenya ulikumbana na kipindi cha changamoto nyingi cha mwaka 2011. Kuzorota kwa mazingira ya chumi ndogo kulishuhudia kupanda kwa mfumuko wa bei za bidhaa ghafla na kupelekea viwango vya riba kutokana na mikopo kupanda maradufu huku shilingi ya Kenya ikidhoofika dhidi ya sarafu kubwa za mataifa ya kigeni. Licha ya hali ngumu iliyoshuhudiwa, kiwango cha ukuaji wa uchumi mwaka 2011 kilibashiriwa kufikia asilimia 4 (4%) kwa mujibu wa ubashiri wa Benki Kuu ya Kenya na Idara ya Takwimu za Kitaifa. Huku ukuaji katika uzalishaji wa kilimo ukiwa ni wa chini ikilinganishwa na mwaka uliotangulia, mapato yake yaliongezeka kwa asilimia 4.8 (4.8%) yakichochea na bei za juu za bidhaa kimataifa na viwango vya ubadilishanaji wa fedha za kigeni. Kuendelea kuwekeza kwenye miundo misingi na ujenzi wa mitaa kulishuhudia sekta ya ujenzi kuimarika kwa karibu asilimia 7 (7%) wakati ambapo sekta nyingine kama vile viwanda na kawi zikipata matokeo duni.

Viwango vya mfumuko wa bei vilipanda sana mwaka 2011 na kufikia asilimia 19.7 (19.7%) mwezi Novemba lakini baadaye vikashuka kidogo hadi asilimia 18.9 (18.9%) mwezi Desemba mwaka 2011. Shinikizo kubwa la mfumuko wa bei iliyoshuhudiwa mwaka 2011 lilisababishwa na mahitaji hasa ya chakula na mafuta.

Katika kipindi cha pili cha mwaka 2011, shilingi ya Kenya ilidhoofika ghafla dhidi ya dola ya Marekani na sarafu nyinginezo muhimu za

kigeni. Mwezi Oktoba mwaka 2011, shilingi ya Kenya ilifikia kiwango cha shilingi 107 dhidi ya dola ya Marekani baada ya kushuka kwa zaidi ya asilimia 30 (30%) kikiwa kiwango cha chini zaidi tangu mwanzo wa mwaka.

Ili kukabiliana na mfumuko wa juu wa bei za bidhaa na kuendelea kudhoofika kwa shilingi ya Kenya, kamati ya sera za kifedha ilibadilisha kwa kupandisha kiwango cha riba cha Benki Kuu (CBR) hadi asilimia 18 (18%) kufikia mwisho wa mwaka 2011. Ongezeko hili la juu lilikusudiwa kudidimiza utoaji wa mikopo na hatimaye mahitaji ya bidhaa, huduma na uwekezaji kwenye sekta za kibnafsi.

SEKTA YA BENKI

Sekta ya benki nchini Kenya iliendelea kusajili uimarikaji mwaka 2011 kutokana na ukuaji wa akiba, uhifadhi wa faida na kuingizwa kwa mtaji.

Kulingana na Benki Kuu ya Kenya sekta ya benki ilipata ukuaji katika mapato na mtaji pamoja na upungufu kwenye mikopo isiyolipika ikilinganishwa na mwaka uliotangulia.

Huku idadi ya Benki za kibiashara na kampuni zinazotoa mikopo ya rehani zikisalia sawia na kiwango cha mwaka uliotangulia kikiwa 43 na 1 mtawalia, idadi ya taasisi za uwekaji akiba ziliongezeka kutoka 3 hadi 6 huku benki za ubadilishanaji fedha za kigeni zikipungua kutoka 126 hadi 118. Kulikuwa na taasisi mbili za ushauri kuhusu mikopo.

MATOKEO YA MWAKA 2011

Matokeo ya kibishara ya Benki kwa mwaka uliomalizika Desemba 31, 2011 yanaashiria faida kabla ya ushuru ya Shilingi bilioni 2.4 kiwango ambacho ni chini kwa asilimia 9 (9%) ikilinganishwa na faida ya mwaka uliotangulia ya shilingi bilioni 2.7 kabla ya kutozwa ushuru.

Kupungua kwa faida kulitokana na kuongezeka kwa gharama za riba, gharama za juu za utekelezaji kutokana na mfumuko wa juu wa bei za bidhaa, gharama zinazohusiana na upanuzi wa mtandao wa matawi na maandalizi dhidi ya mikopo isiyolipika.

Jambo lingine lililochangia swala hili ni kudidimiza kwa thamani ya hati za dhamana za serikali zilizoshikiliwa kwa mauzo yaliyotokana na kubadilika kwa viwango vya riba kwenye masoko. Hasara iliyotokana na kupungua kwa hati za dhamana za serikali iliashiria kinyume cha hali ya mwaka uliotangulia ambapo ongezeko la thamani ya hati za dhamana za serikali zilizoshikiliwa kwa mauzo zilichangia vyema kwa faida ya Benki.

Pamoja na hayo, upungufu kutokana na kupungua kwa jumla ya matokeo kama ilivyoonyeshwa kupitia faida kabla ya ushuru, kupungua kwa faida baada ya ushuru pia kulichochea zaidi na ushuru wa juu kutokana na mabadiliko yaliyofanyiwa bidhaa ambazo hazitozwi ushuru na hasara isiyoepekuka kutokana na mabadiliko ya thamani ya hati za dhamana za serikali.

Faida kabla ya ushuru kipindi cha mwaka 2011 ilikuwa shilingi bilioni 1.55 ikilinganishwa na shilingi bilioni 2.02 mwaka uliotangulia na kuashiria punguko la asilimia 23 (23%).

Hata hivyo, jumla ya raslimali za benki ziliongezeka kwa asilimia 15 (15%) hadi bilioni 68.7 kutoka bilioni 60 mwaka uliotangulia.

Taarifa ya Mwenyekiti (inaendelea)

Mgawo wa Faida

Halmashauri ya wakurugenzi inatoa pendekezo kwenye Mkutano Mkuu wa Pamoja wa Mwaka kutolewa kwa malipo ya kwanza na ya mwisho ya mgawo wa faida wa senti 40 kwa kila hisa kwa wamiliki wa hisa za kawaida na maalumu na malipo ya ziada ya senti 15 kwa kila hisa kwa wamiliki wa hisa maalumu. Malipo ya mgawo wa faida imeongozwa na sera zilizopitishwa na Halmashauri.

USIMAMIZI WA SHIRIKA

Halmashauri ina wajibu wa usimamizi wa Benki na imejitolea kuhakikisha kwamba biashara inatekelezwa kwa uadilifu na kwa kutii sheria na taratibu za usimamizi wa mashirika zinazokubalika kimataifa. Kwa sababu hiyo, Halmashauri inathibitisha kwamba Benki inaafikiana na sheria zote zinazohusika vikiwemo vifungu vya sheria za benki na masharti yaliyotolewa na Benki Kuu ya Kenya.

Halmashauri inatimiza wajibu wake kwa wanahisa kwa kutoa sera za mwongozo na uangalizi kuhusu mkakati, fedha, utekelezaji kuafikiana na athari zinazokabili biashara. Kwa kutekeleza majukumu yaliyotajwa hapo juu, Halmashauri humwagiza Mkurugenzi Mtendaji kusimamia shughuli za kila siku za utekelezaji wa biashara za Benki.

Mikutano ya Halmashauri

Halmashauri huaandaa mikutano ya kila mara na wakati mwingine mikutano maalumu pale haja inapotokea. Mikutano hii hufanya tathmini ya biashara ya kila mwezi dhidi ya viwango vilivyotarajiwa pamoja na kuangazia maswala ya kibiashara na utekelezaji wa shughuli zilizoелеkezewa Halmashauri na Usimamizi.

Ripoti za uchunguzi ya Benki Kuu wa Kenya na ile ya wakaguzi wa nje huchunguzwa wakati wa mikutano kama hii na hatua zinazohitajika kuchukuliwa.

Wakati wa kipindi hiki cha mwaka, Halmashauri ilifanya mikutano 23. Maelezo kuhusu jinsi wakurugenzi wasio wafanyakazi wa Benki waliohudhuria mikutano hiyo ni kama ilivyoielezwa kupitia jedwali lililoko hapa chini:

Jina la Mkurugenzi	Jumla ya Mikutano	Jumla ya Mikutano aliyohudhuria
M A Hassan	15	15
S M Kitonga	15	14
E K Mwongera	15	15
M E G Muhindi	23	23
F L Atwoli	23	8
MT NSSF	23	17
PS – Treasury	23	23
P W D Ngumi*	8	8
A C Juma*	8	7
J N Riria*	8	6

*alistaafu Juni 3, 2011

Tathmini ya Halmashauri

Halmashauri ilitekeleza zoezi la tathmini mwaka 2011 kama sehemu ya usimamizi bora wa shirika na pia kuafikiana na mahitaji ya Benki Kuu ya Kenya. Matokeo kuhusu tathmini hiyo yaliwasilishwa kwa Benki Kuu ya Kenya.

Wakurugenzi wote isipokuwa tu wale waliokuwa wamestaafu mwezi wa Juni 2011, ambao hawakuhitajika kushiriki zoezi hili, walipata alama za kibinafsi zilizozidi kiwango cha wastani.

Muundo wa Halmashauri

Saba kati ya wanachama kwenye Halmashauri akiwemo Mwenyekiti ni wakurugenzi wasio wafanyakazi wa Benki. Kati ya hawa, katibu wa kudumu katika wizara ya fedha na msimamizi wa hazina ya uzeeni (NSSF) ni wakurugenzi wa kitaasisi kwenye halmashauri. Wakurugenzi wengine watano wasio wafanyakazi wanachukuliwa na halmashauri kuwa watu huru na wasio na uhusiano wa kibiashara ambao unaweza kushawishi utekelezaji wa maamuzi huru ya kibinafsi.

Kamati za Halmashauri

Halmashauri ina kamati saba zinazokutana mara kwa mara chini ya masharti rejelezi yaliyowekwa na Halmashauri. Kamati hizo hukutana na kutoa mapendekezo kwa Halmashauri kuhusiana na maswala yaliyo chini ya wajibu wao kama ifuatayo:-

- Kamati ya uteuzi:** Ina jukumu la uteuzi wa Halmashauri. Huwa inakutana mara moja kwa mwaka au zaidi haja inapotokea
- Kamati ya ukaguzi na athari za kibiashara:** Jukumu lake ni kuhakikisha mifumo ya ndani ya uthibiti na usimamizi bora wa athari za kibiashara zinazingatiwa vyema. Kupitia kamati hii, Halmashauri inaweza kutekeleza vyema majukumu yake ya uongozi na usimamizi bora wa shirika. Miongoni mwa majukumu haya ni pamoja na uhusiano wa Benki na wakaguzi wa hesabu wa kutoka nje, utegemeaji wa ripoti za pesa, mawasiliano yanayotolewa nje na mfumo wa udumishaji wa mbinu za kukabiliana na athari za kibiashara ikiwemo uzingatiaji na uthibiti wa ndani.
- Kamati ya fedha na teknolojia ya habari na mawasiliano:** Ina jukumu la kutathmini matokeo ya fedha za Benki pamoja na mifumo ya teknolojia ya habari na mawasiliano inayofanikisha biashara za Benki. Pia, kamati hii huchunguza matokeo ya muda kati ya mwaka na ile ya mwisho wa mwaka kabla hayajachapishwa
- Kamati ya mikopo, maswala ya kisheria na usahihishaji:** Inawajibika shughuli za mikopo kwa Benki. Kamati hii hutathmini ukuaji wa mikopo ya Benki, usimamizi wa mikopo na maswala ya kisheria yanayoibuka kutokana na mikopo hiyo.
- Kamati ya usimamizi wa kitengo cha wafanyakazi na wajibu wa shirika kwa jamii:** Inahusika pakubwa na sera za usimamizi wa wafanyakazi, marupurupu na maslahi yao. Pia, kamati hii

Taarifa ya Mwenyekiti (inaendelea)

ina wajibu wa kuangazia maswala ya usimamizi ikiwemo uzinduzi wa miradi na utekelezaji wa wajibu wa Benki kwa maslahi ya jamii.

6. *Kamati ya utejekezaji, uvumishaji na ustawi wa biashara:* Ina wajibu wa kutathmini ukuaji wa biashara za Benki, uvumishaji pamoja na sura ya bidhaa.
7. *Kamati ya zabuni, utoaji matumizi na majumba:* Ina wajibu wa taratibu zote za zabuni zilizowasilishwa mbele ya Halmashauri ili kuzingatiwa pamoja na kutathmini hali ya utekelezaji wa zabuni na sera za uwakala kwa jumla.

Mawasiliano na Wanahisa

Benki imejitolea kuhakikisha kwamba wanahisa, masoko ya kifedha na washika dau wengine wanapokea mawasiliano yanayohitajika kwa wakati unaofaa kuhusiana na matokeo yake. Hii huafikiwa kupitia usambazaji wa ripoti za mwaka kuhusu Benki, kuchapishwa kwa maendeleo yake ya sasa kupitia wavuti wake, kuchapishwa kupitia vyombo vya habari matokeo yake ya kila baada ya miezi mitatu na ya kila mwaka pamoja na fichuzi nyingine muhimu.

Kwa sababu hiyo, Benki imejitolea kuafikiana na wajibu wake kama ilivyofanuliwa kupitia sheria za masoko ya hisa na masharti ya soko la ubadilishanaji fedha la Nairobi.

Marupurupu ya Wakurugenzi na Mikopo

Jumla ya Marupurupu na mikopo iliyolipwa wakurugenzi kutokana na huduma walizotoa kipindi hiki cha mwaka imefichuliwa kupitia nukuu za taarifa kuhusu matumizi ya pesa. Tangu kufanyika kwa mkutano wa pamoja wa mwaka wa kampuni, hakuna mkurugenzi aliyepokea au kuruhusiwa kupokea manufaa mengine bali na ada za wakurugenzi, marupurupu na viwango vilivyopokelewa na wakurugenzi wa Benki ambao ni wafanyakazi chini ya kandarasi za uajiri. Mikopo na marupurupu ya wakurugenzi pia imeelezewa kupitia ripoti hii ya matumizi ya pesa.

Mabadiliko ya Halmashauri ya Usimamizi

Wakati wa kipindi hiki cha mwaka, Sylvia M Kitonga, Mhandisi Erastus K Mwongera na mimi tulijiunga na Halmashauri ya Benki kufuatia kustaafu (kwa zamu) kwa Bw A C Juma, Bw P W D Ngumi na Dkt J Riria.

Nachukua fursa hii kuwashukuru Bw Juma, Bw Ngumi na Dkt Riria kutokana na huduma zao na kujitolea kwao kwa Benki wakati wa kipindi cha huduma zao kama wakurugenzi.

Vile vile, wakati wa kipindi hiki cha mwaka, nyadhifa mbili za wakurugenzi ambazo ni wafanyakazi zikiwa fedha na kitengo cha wafanyakazi na usimamizi zilipandishwa vyeo hadi naibu meneja mkurugenzi, huduma kwa wateja na naibu meneja mkurugenzi, huduma za usaidizi mtawalia ili kuakisi majukumu ya ziada yaliyotolewa kwao.

MTAZAMO WA MWAKA 2012

Viwango vya juu vya mfumuko wa bei, viwango vya riba na hali isiyotabirika ya viwango vya ubadilishanaji fedha vikiandamana na bei za hali ya juu za bidhaa ulimwenguni vinatarajiwa kupunguza ukuaji wa uchumi wa Kenya mwaka 2012. Hata hivyo, mfumuko wa bei za bidhaa unaweza kuimarika kidogo endapo hali ya hewa itaweza kuimarika na wakati huo kuchangia uzalishaji wa chakula.

Kwa sababu hiyo, mwaka 2012 unaweza kuwa wenye changamoto kwa uchumi wa Kenya hata ingawa ukuaji unaoinuka unatarajiwa. Hata hivyo, hatari kubwa inayoweza kukabili uchumi ni uchaguzi mkuu unaotarajiwa kufanyika. Ukosefu wa uwazi kuhusu wakati wa kufanyika kwa uchaguzi na shinikizo la kufanyia mabadiliko vipengele muhimu vya katiba zinatoa athari za kibiashara kwa wawekezaji wanaotarajiwa na kuwafanya kusubiri kutekeleza maamuzi yao ya uwekezaji.

Benki itajitolea kutekeleza jukumu lake katika uchumi na itaendelea kutoa huduma zake kwa wateja wetu kupitia utoaji wa bidhaa mbali mbali na huduma pamoja na kuendelea kupanuka kimaeneo.

Mwaka 2012 pia utashuhudia kukamilika kwa mitambo miwili muhimu ya teknolojia ya habari na mawasiliano kwa Benki zikiwa, mfumo wa Bank Fusion Universal Banking (BFUB) na mfumo wa pamoja wa usimamizi wa kadi za mikopo. Mifumo hii miwili itaiwezesha Benki kutoa huduma zinazofaa zaidi na kwa wakati unaofaa kwa wateja wetu.

Kwingineko, Meneja Mkurugenzi wa Benki ambaye amehudumu tangu Desemba 1998, Bw R Marambii, na ambaye amefanya kazi kwa bidhi na kubadilisha hali ya Benki anatarajiwa kustaafu mwisho wa mwaka 2012 baada ya kumalizika kwa kandarasi yake ya sasa. Benki itazidi kukumbuka huduma ambazo Bw Marambii ametoa kwake.

Halmashauri inakaribia kukamilisha hatua za kumwajiri Afisa Mkuu Mtendaji mpya kuchukua mahali pa Meneja Mkurugenzi anayeondoka.

SHUKRANI

Mwisho, ningependa kutoa shukrani zangu za dhati kwenu wanahisa kwa kuendelea kutuunga mkono, kwa wakurugenzi kutokana na kujitolea kwao kuhudumia Benki na kwa usimamizi na wafanyakazi kwa kuwajibika katika kuhudumia Benki.

Kwa wateja wetu na watoaji huduma muhimu tunawashukuru sana kutokana na kuendelea kuwa waaminifu, watiifu na kujitolea kwa Benki.

Mungu awabariki nyote.

MOHAMMED A HASSAN

Mwenyekiti

Managing Director's Statement



In the year 2011 the Bank's business saw growth in terms of income generated as well as in total assets. In spite of this growth, however, the overall profitability declined below the previous year's by 23% in profit after tax. The decline in profit before tax was much lower at 9%.

The decline in net profit was largely attributed to higher operational costs due to inflation, branch expansion costs, provisions for non-performing loans linked to credit expansion and higher taxation than in year 2010.

Performance Review

Net interest income for the year increased to Sh. 5.1 billion from Sh. 4.4 billion in 2010 while fees and commissions rose to Sh. 1.46 billion from Sh. 1.37 billion in 2010. This is a clear indication that the top line business of the Bank is growing.

While the increase in operating costs is to some extent to be blamed for the decline in the profitability, it is important to appreciate that the costs associated with branch expansion are on the other hand an investment upon which future growth in profitability will be hinged.

Similarly the growth of the loan portfolio by Sh. 7.2 billion also came with the need for increased provisions against non performing accounts. Stringent measures have now been put in place to contain increases in provisions in the future.

The second half of year 2011 saw rapid increase in interest rates across the industry and this explains the significant increase in interest expense over the previous year by about Sh. 300 million.

Improving our efficiency

In order to serve our customers better we have continued to invest in modern technological systems.

In the course of the year 2011 the Bank commenced the implementation of a new core Banking system – Bank Fusion- Universal Banking System (BFUB) which will be completed in four phases. We expect to complete full implementation by end of 2012 but the main component of this system is already in use.

The cheque Truncation System which is a modern cheque clearing system went live in October 2011 for all banks in the country. Through this system cheques are now cleared using electronic images thus eliminating the physical movement of cheques and improving efficiency.

The Bank is also in the process of implementing a new integrated debit/ credit card management system. This new system will enable the Bank to meet new business and industry compliance requirements besides improving efficiency in serving our customers.

Managing Director's Statement (continued)

Over the past few years the Bank has established a strong relationship with our correspondent banks overseas in order to ensure that adequate credit lines are available to our customers who are engaged in foreign business. Our customers are able to transact increased volumes of business to virtually all corners of the globe with the exception of where there are trade restrictions with the rest of the world.

Our branch network has continued to expand albeit with a cautious approach due to the significant initial expenditure involved. New branches were opened in Maua and Machakos by the end of the year while in 2012 additional branches are expected to be operational in Mtwapa, Kericho, Garissa, Changamwe, Bomet and Thika.

During the year also the following 9 agencies were upgraded to become branches offering a full range of banking services; Mutomo, Kianjai, Kenyatta University, Jomo Kenyatta International Airport, Moi's Bridge, St. Pauls University, Moi University, Moi International Airport and Wilson Airport.

In addition 12 ATMS were installed in the year 2011 to bring the total number to 102.

Products and Services

In our endeavour to meet our customer expectations, we launched several products among them Super Chama loan, Inua Biashara, SME Loan, Uchuuzi SME Current account, Miwa Loan, Kenya Seed Loan, Business Club Loan/overdraft, school overdraft, Stima Loan and Equity Release Mortgage facility among others.

In 2011 the Bank became an MPESA super Agent and a Western Union Money transfer service provider. To serve our customers with greater convenience we extended the banking hours to 4.00 p.m on week days and to 12.00 noon on Saturdays across the network. Our Westlands and Eastleigh branches have longer working hours of up to 5.00 p.m. on week days and on Saturdays up to 4.00 p.m. for Westlands and 2.00 p.m. for Eastleigh.

At the Jomo Kenyatta international Airport branch we continue to offer 24 hour service.

The NBK Business Club has continued to grow in numbers and popularity. In the year 2011 the club made successful business experiential/exposure trips to Istanbul – Turkey via Dubai and Guangzhou-China.

Strategic Plan

During the year, we rolled out a Strategic plan for the next three year period 2011-2013 which among other objectives envisages overall business growth, branch expansion and increased product range.

NBK Insurance Agency Limited

The Bank now has a fully operational Insurance agency which is adequately staffed with trained personnel capable of providing insurance services both to our customers as well as non-account holders.

Conclusion

We certainly had a challenging year 2011. We sought opportunities for growth by putting our customers at the heart of the business and offering appropriate products and services that we believe met their needs. National Bank has embarked on a challenging road of expanding its branch network which brings with it initial high costs but which need to be incurred if we are to lay a firm foundation for future growth.

As I come to the end of my exciting and challenging term at the helm of the Bank by the end of 2012 my greatest joy and pride is that National Bank is now a solid Institution which can only scale to higher heights.

May I conclude by extending my gratitude and appreciation to the Board, Management team and all National Bank Staff who continue to contribute to the success of the business.

I also thank our shareholders and customers for their valued support.

REUBEN M MARAMBII

Managing Director

Ripoti kutoka kwa Meneja Mkurugenzi

Mwaka 2011, biashara ya Benki ilishuhudia ukuaji wa mapato na rasilmali kwa jumla. Hata hivyo, licha ya ukuaji huu, kiwango cha faida kwa jumla baada ya kutozwa ushuru kilipungua kwa asilimia 23 (23%) ikilinganishwa na mwaka uliotangulia. Kiwango cha upungufu wa faida kabla ya ushuru kilikuwa cha chini kwa asilimia (9%).

Kupungua kwa faida baada ya kutozwa ushuru kulichangiwa sana na gharama za juu za utekelezaji kutokana na mfumuko wa bei za bidhaa, gharama za ongezeko la matawi, maandalizi ya kukabiliana na mikopo isiyolipika inayotokana na ukuaji wa mikopo na kiwango cha juu cha ushuru ikilinganishwa na mwaka 2010.

Tathmini ya matokeo

Mapato halisi kutokana na riba kipindi hiki cha mwaka yaliongezeka hadi shilingi bilioni 5.1 kutoka shilingi bilioni 4.4 mwaka 2010 huku ada na malipo maalumu zikiimarika na kufikia shilingi bilioni 1.46 kutoka bilioni 1.37 mwaka 2010. Hii ni ishara wazi kwamba upeo wa juu wa biashara ya Benki unakuwa.

Huku gharama za utekelezaji biashara zikilaumiwa kwa kiwango fulani kusababisha kupungua kwa faida, ni muhimu kutambua, kwa upande mwingine kwamba, gharama zinazoandamana na upanuzi wa matawi ni uwekezaji ambao utategemewa kwa ukuaji wa faida siku za usoni.

Vile vile, ukuaji wa sehemu ya mikopo kwa shilingi bilioni 7.2 uliandamana pia na maandalizi ya kukabiliana na madeni yasiyolipika. Kwa sasa, hatua madhubuti zimewekwa ili kudhibiti ongezeko hili siku za usoni.

Kipindi cha pili cha mwaka 2011 kilishuhudia ongezeko la ghafla la viwango vya riba katika biashara hii na swala hili linafanua ongezeko muhimu la gharama za riba ikilinganishwa na mwaka uliotangulia kwa hadi shilingi milioni 300.

Kuimarisha utenda kazi wetu

Ili kutoa huduma bora kwa wateja wetu, tumeendelea kuwekeza katika miundo ya kisasa ya teknolojia. Katika kipindi cha mwaka 2011, Benki ilizindua mfumo mpya muhimu wa Bank Fusion-Universal Banking System (BFUB) ambao utakamilishwa kwa awamu nne. Tunatarajia kufikia matumizi kamili mwisho wa mwaka 2012 lakini sehemu muhimu ya mfumo huu tayari inatumika.

Cheque Truncation System ambao ni mfumo wa kisasa wa kupitisha malipo ya hundi ulianza kutumiwa na mabenki yote kote

nchini mwezi Oktoba 2011. Kupitia mfumo huu, kwa sasa, hundi zinalipwa kwa njia ya elektroniki hivyo kuondoa mtindo wa awali wa kupeleka hundi halisi na kuimarisha utendaji kazi.

Benki pia iko kwenye harakati za kuzindua mfumo wa pamoja wa usimamizi wa kadi ya deni. Mfumo huu mpya utaiwezesha Benki kufikia biashara mpya na kutimiza masharti ya kibiashara pamoja na kuimarisha utendaji kazi wakati tunapohudumia wateja.

Kwa kipindi cha miaka michache iliyopita, Benki imeanzisha ushirikiano thabiti na benki zinazotangamana nayo katika mataifa ya kigeni kuhakikisha kwamba kuna mawasiliano kamili kuhusu mikopo kwa wateja wetu ambao wanajihusisha na biashara za kigeni. Wateja wetu wanaweza kuendesha viwango vya juu vya biashara maeneo yote ya ulimwengu isipokuwa mataifa ambayo yamewekewa vikwazo vya kibiashara na mataifa mengine duniani.

Mtandao wetu wa matawi unaendelea kupanuka ingawa kwa uangalifu kutokana na gharama kuu za awali zilizohusika. Matawi mapya yalifunguliwa huko Maua na Machakos mwisho wa mwaka 2011 huku mwaka 2012 mengine yakitarajiwa kuzinduliwa huko Mtwapa, Kericho, Garissa, Changamwe, Bomet na Thika.

Wakati wa kipindi hiki cha mwaka, wakala 9 za Benki zilipandishwa hadhi na kuwa matawi yanayotoa huduma kamili za Benki. Matawi hayo ni Mutomo, Kianjai, Kenyatta University, Jomo Kenyatta International Airport, Moi's Bridge, St Pauls University, Moi University, Moi International Airport na Wilson Airport.

Zaidi ya hayo, mitambo 12 ya ATM iliwekwa mwaka 2011 na kufanya jumla ya mitambo hiyo kufikia 102.

Bidhaa na huduma

Kupitia mwito wetu wa kutimiza matarajio ya wateja, tulizindua aina mbali mbali za bidhaa miongoni mwao ikiwa Super Chama Loan, Inua Biashara, SME loan, Uchuuzi SME Current account, Miwa Loan, Kenya seed Loan, Business Club Loan/ overdraft, School Overdraft, Stima Loan na Equity Release Mortgage miongoni mwa bidhaa nyingine.

Mnamo mwaka 2011, Benki ilipata kuwa wakala wa huduma za MPESA na Western Union Money transfer. Ili kuwahudumia wateja ipasavyo, tuliongeza muda wa huduma za Benki hadi kufikia saa kumi jioni siku za wiki na saa sita adhuhuri siku za Jumamosi kote katika mtandao wetu. Matawi yetu ya Westlands

Ripoti kutoka kwa Meneja Mkurugenzi (inaendelea)

na Eastleigh yana muda mrefu wa kuhudumu hadi saa kumi na moja siku za wiki na saa kumi jioni siku za Jumamosi kwa tawi la Westlands na saa tisa alasiri tawi la Eastleigh.

Katika tawi la Jomo Kenyatta International Airport, tunaendelea na utoaji wa huduma kwa masaa 24.

Kitengo cha NBK Business Club kinaendelea kukua kwa idadi na umaarufu. Mwaka 2011, kitengo hiki kilifanya ziara iliyofaulu ya kujifahamisha huko Istanbul - Turkey kupitia Dubai na Guangzhou - China

Mpango wa mkakati

Wakati wa kipindi hiki cha mwaka, tulizindua mkakati wa miaka mitatu ijayo kwa kipindi cha mwaka 2011-2013 ambao miongoni mwa malengo mengine ni kuwania ukuaji wa jumla wa biashara, upanuzi wa matawi na kuongeza aina ya bidhaa.

NBK Insurance Agency Limited

Kwa sasa,benki ina kitengo kamili cha utoaji huduma za bima ambacho kina maafisa waliohitimu na ambao wana uwezo wa kutoa huduma za bima kwa wateja wetu pamoja na wale wasio na akaunti nasi.

Hitimisho

Bila shaka tulikuwa na mwaka wa 2011 wenye changamoto. Tulitafuta nafasi za ukuaji kwa kuwazingatia kikamilifu wateja wetu katika biashara na kuwapa bidhaa na huduma walizohitaji ambazo tunaamini ziliafikiana na mahitaji yao. NBK imeanza mkondo wenye changamoto wa upanuzi wa mtandao wa matawi yake ambao unaambatana na gharama za awali za juu ambazo zinahitaji kutumika endapo tutaandaa msingi imara wa ukuaji siku za usoni.

Ninapofikia kikomo cha kipindi changu ambacho ni cha kusisimua na chenye changamoto kwenye uongozi wa Benki ifikapo mwisho wa mwaka 2012, furaha yangu kuu na fahari ni kwamba National Bank ni kituo thabiti ambacho kinaweza kupaa upeo wa juu.

Namalizia kwa kutoa shukrani zangu kwa Halmashauri, wasimamizi na wafanyakazi wote wa National Bank ambao wanaendelea kutoa mchango wao kwa ustawi wa biashara.

Pia, nawashukuru wanahisa na wateja kutokana na mchango wao wenye thamani kubwa.

REUBEN M MARAMBII

Meneja Mkurugenzi

Corporate Social Responsibility

CORPORATE SOCIAL RESPONSIBILITY (CSR)

During the year 2011, National Bank enhanced its expenditure budget on Corporate Social Responsibility programmes which were spread across the country. The main objective of these CSR programmes is to help manage our business activities in a way that benefits the communities in which we operate and the society in general.

Driven by the CSR policy, the Bank has managed to reach out

to various deserving sections of our society in areas of health, education, sports, vulnerable groups and the environment.

HEALTH

The Bank continued to support health programmes and initiatives in various medical institutions in the country. In 2011, the Bank partnered with health institutions in organizing medical camps to sensitise the general public on health matters and treat various ailments. They included a diabetes medical camp in conjunction with Karatina District Hospital, a general illness medical camp at



1. Medical Services PS Mary Ngare (left) and the National Bank of Kenya chairman Mohammed A Hassan cut a tape off a dialysis machine at the Renal Unit of KNH during a ceremony to hand over 3 Dialysis machines to the hospital. Looking on is a patient and the KNH board chairperson Mrs Margaret Wanjohi.
2. With National Bank sponsorship, Athletics Kenya (AK) was able to host successful local and international events. The 2011 sponsorship was Sh. 30 million.
3. Mr Reuben M Marambii (left) MD NBK presents a donation of Sh. 2.2 million to Mr Madhi Mohammed of the Kenya Red Cross. The money will be used for both short and long term interventions to ensure food security in East Pokot.
4. Ms Sylvia M Kitonga, Vice Chairperson, NBK Board presents a cheque of Sh. 2 million to construct a Home Science room to Dr Manu Chandaria, Chairman of Starehe Girls Centre board of trustees, while Mrs Margaret Wanjohi, Principal of the school, Mr Reuben M Marambii, MD, NBK and students cheer.

Corporate Social Responsibility (continued)

the main Bungoma Bus Terminus and another one in Wundanyi constituency in Taita Taveta County.

The Bank also supported various hospitals in the provision of medical equipment to help alleviate suffering of patients. In June 2011, the Bank donated three (3) dialysis machines and 575 chairs worth Sh. 5.8 Million to the Kenyatta National Hospital. The Bank also financed construction of an income generating cafeteria for the Mutomo Mission Hospital at a cost of Shs.2.9 million. Income from the cafeteria will feed into the hospital budget and increase its capacity to serve the community. At the Mama Lucy Kibaki District Hospital in Eastlands Nairobi, the Bank donated dental equipment to enable the hospital attend to dental patients.

SPORTS

The Bank's involvement with sporting activities and especially athletics is now widely acknowledged in the country. In the year under review, the Bank gave a sponsorship of Sh. 30 Million to Athletics Kenya, for youth junior and senior athletics programmes. The Bank was also the main sponsor of the Kenyan team that represented the country in the world's athletics championships in Daegu, South Korea in August 2011. The team performed very well and did the Bank and indeed the country proud. The Bank also facilitated the Kenya Athletics team to Maputo, Mozambique for the all Africa Games and the Youth athletics team to the Commonwealth Youth Games held in Isle of Man in Great Britain in September last year.

In order to recognize and reward sporting excellence in our country the Bank sponsored the Athletics Kenya Gala Awards and Sports Person of the Year Awards (SOYA) in December 2011. Other sponsorships included; the Tegla Lorupe Peace Foundation race, The KASS marathon, Ndalat Gaa Cross country Race, Eastern branch Athletics championships and cross-country events countrywide as well as various sporting activities by schools and colleges across the country.

EDUCATION

National bank has continued to support educational programmes in schools across the country. This support was in form of construction of class rooms, provision of basic utilities like text books, desks, sanitation units, and laboratory equipments. In this regard, the Bank donated Sh. 2 Million to Starehe Girls Centre to put up a Home Science block to be used for practical learning by girls at the school. Other notable beneficiaries are Ibinzo Girls Secondary School where the Bank donated Sh. 0.5 million for the construction of a classroom, and Mituntu Girls Secondary School where the Bank helped complete a twin dormitory.

In Karirikania, Pawteng, Vyemani and Kenyatta University primary schools the Bank provided desks and chairs for the classrooms, while at Lela Mixed Secondary School in Ahero the Bank assisted in the construction of twin sanitation units. In addition the Bank has a school's trophy programme that saw many schools and educational centres across the country benefit during their prize giving and educational days. Through, this programme the Bank was able to reward academic excellence and sporting talent of the best performing students and schools.

VULNERABLE GROUPS

In response to the severe drought experienced in parts of the country in 2011, the Bank donated a total of Sh. 5.7 million through the Kenya Red Cross in support of both short and long term solutions for the people living in the severely affected areas of the country.

The Bank also undertook other various initiatives aimed at uplifting the lives of the vulnerable members of our society. These included donations of basic amenities like food stuff, beddings, and water tanks among others.



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Corporate Information

DIRECTORS

Non-executive

Mr M A Hassan - Chairman
Ms S M Kitonga - Vice Chairperson
PS Treasury
National Social Security Fund (NSSF)
Eng. E K Mwongera
Mr F L Atwoli
Mr M E G Muhindi

Executive

Mr R M Marambii - Managing Director
Mr I M Mworira - Deputy Managing Director - Customer Services
Mr A N Ismail - Deputy Managing Director - Support Services

BOARD COMMITTEES

STAFF, CSR & ADMINISTRATION COMMITTEE

Ms S M Kitonga*
Eng. E K Mwongera
Mr M E G Muhindi
PS Treasury

AUDIT & RISK COMMITTEE

Ms S M Kitonga*
Eng. E K Mwongera
Mr M E G Muhindi
Mr F L Atwoli
NSSF

CREDIT, LEGAL & REMEDIAL COMMITTEE

Ms S M Kitonga*
Eng. E K Mwongera
Mr M E G Muhindi
NSSF
PS Treasury

FINANCE & ICT COMMITTEE

Eng. E K Mwongera*
Ms S M Kitonga
Mr M E G Muhindi
NSSF
PS Treasury

TENDER, SUPPLIES & PREMISES COMMITTEE

Eng. E K Mwongera*
Mr F L Atwoli
Mr M E G Muhindi
NSSF
PS Treasury

NOMINATIONS COMMITTEE

Mr F L Atwoli*
Ms S M Kitonga
Eng. E K Mwongera
Mr M E G Muhindi
NSSF
PS Treasury

OPERATIONS, MARKETING & BUSINESS DEVELOPMENT COMMITTEE

Eng. E K Mwongera*
Ms S M Kitonga
Mr M E G Muhindi
NSSF
PS Treasury

COMPANY SECRETARY

L G Kamweti
Certified Public Secretary (Kenya)
Harambee Avenue
P O Box 72866 City Square
00200 Nairobi

REGISTERED OFFICE

National Bank Building
18 Harambee Avenue
P O Box 72866 City Square
00200 Nairobi

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 GPO
00100 Nairobi

* - Chairman of the Committee

Report of the Directors/Ripoti ya Wakurugenzi

The directors present their report together with the audited financial statements for the year ended 31 December 2011.

ACTIVITIES

The principal activity of the bank, which is licensed under the Banking Act, is the provision of banking, financial and related services.

RESULTS

	2011 Sh '000	2010 Sh '000
Profit before taxation	2,443,850	2,697,823
Taxation	(897,737)	(675,904)
Profit for the year	<u>1,546,113</u>	<u>2,021,919</u>

DIVIDEND

The directors recommend payment of dividend as follows:

- That a first and final dividend of 3% (2010 - 3%) be paid to the holders of the Preference Shares over and above any further dividend that may be paid to them and the ordinary shareholders in respect of the financial year ending 31 December 2011.
- That a first and a final dividend of Sh. 0.40 (2010 - Sh. 0.60/= per share) to the holders of the Ordinary Shares in respect of the financial year ending 31 December 2011 to shareholders registered at the close of business on 12 April 2012.

DIRECTORS

The present members of the board are as shown on page 4-5. The following changes took place on 3 June 2011

Retirement from the board

- Mr A C Juma
- Dr J N Riria
- Mr P W D Ngumi

Appointment into the board

- Ms Sylvia M Kitonga
- Mr Mohammed A Hassan
- Eng. Erastus K Mwongera

In accordance with Articles 90 & 92:

- Mr M E G Muhindi, who retires by rotation and, being eligible, offers himself for re-election.
- Mr F L Atwoli, who retires by rotation and, being eligible, offers himself for re-election.
- The Managing Trustee, NSSF, who retires by rotation and, being eligible, offers himself for re-election.

AUDITORS

The auditors, Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159(2) of the Companies Act and subject to approval by the Central Bank of Kenya in accordance with Section 24(1) of the Banking Act.

ON BEHALF OF THE BOARD

L G Kamweti
Company Secretary

Nairobi
16 March 2012

Wakurugenzi wanawasilisha ripoti yao ikiandamana na taarifa kuhusu matumizi ya pesa iliyofanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31 2011.

SHUGHULI

Shughuli maalumu ya Benki ambayo imesajiliwa chini ya Sheria za Benki ni utoaji wa huduma za benki, fedha na zile zinazohusiana.

MATOKEO

	2011 Sh '000	2010 Sh '000
Faida kabla ya ushuru	2,443,850	2,697,823
Ushuru	(897,737)	(675,904)
Faida kwa mwaka	<u>1,546,113</u>	<u>2,021,919</u>

MGAWO WA FAIDA

Wakurugenzi wanapendekeza kutolewa kwa malipo ya mgawo wa faida kama ifuatavyo:

- Kwamba mgawo wa kwanza na wa mwisho wa faida wa 3% (2010- 3%) ulipwe kwa wamiliki wa hisa maalumu juu na zaidi ya mgawo mwingine wa faida ambao unaweza kuwa umetolewa kwao na kwa wanahisa wa kawaida kwa mujibu wa kipindi cha mwaka wa biashara uliomalizika Desemba 31 2011.
- Kwamba mgawo wa kwanza na wa mwisho wa faida wa senti 40 (2010- senti 60 kwa hisa) kwa wamiliki wa hisa za kawaida kwa mujibu wa kipindi cha biashara kilichomalizika Desemba 31 2011 kwa wanahisa ambao watakuwa kwenye sajili kufikia Aprili 12 2012.

WAKURUGENZI

Wakurugenzi wa sasa katika Halmashauri wameonyeshwa kupitia ukurasa wa 4-5. Mabadiliko yafuatayo yalifanyika Juni 3 2011.

Kustaafu kutoka Halmashauri:

- Bw A C Juma
- Dkt J N Riria
- Bw P W D Ngumi

Uteuzi kwenye Halmashauri

- Sylvia M Kitonga
- Bw Mohammed A Hassan
- Mhandisi Erastus K Mwongera

Kwa Mujibu wa vifungu nambari 90 na 92:

- Bw M E G Muhindi ambaye anastaafu kwa zamu na kwa kuwa hali inamruhusu amejitokeza ili kuchaguliwa tena
- Bw F L Atwoli ambaye anastaafu kwa zamu na kwa kuwa hali inamruhusu amejitokeza ili kuchaguliwa tena
- Msimamizi wa Hazina, NSSF, ambaye anastaafu kwa zamu na kwa kuwa hali inamruhusu amejitokeza ili kuchaguliwa tena

WAKAGUZI WA PESA

Wakaguzi wa pesa Deloitte & Touche wameonyesha nia yao kuendelea na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni na kwa kutegemea idhini kutoka Benki Kuu ya Kenya kuambatana na sehemu ya 24 (1) ya Sheria za Benki .

KWA NIABA YA HALMASHAURI

L G Kamweti
Katibu wa Kampuni

Nairobi
Machi 16 2012

Statement of Directors' Responsibilities

Taarifa ya majukumu ya Wakurugenzi

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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 in the manner required by the Kenyan 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 Bank and of the Bank's operating results. The directors further accept responsibility for the maintenance of accounting records which 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 Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Sheria ya makampuni nchini Kenya zinawahitaji wakurugenzi kuandaa taarifa ya matumizi ya pesa kwa kipindi cha mwaka wa biashara ambayo itatoa taswira halisi na ya maana ya shughuli za Benki kufikia mwisho wa kipindi cha matumizi ya pesa na matokeo ya utekelezaji shughuli za Benki kwa kipindi hicho cha mwaka. Pia, inawahitaji wakurugenzi kuhakikisha kwamba Benki inahifadhi vyema rekodi zake za hesabu ambazo zinatoa ufichuzi wa maana na wa kweli wakati wowote kuhusu hali ya kifedha ya Benki. Pia, wana wajibu wa kulinda raslimali za Benki.

Wakurugenzi wana jukumu la kutayarisha taarifa za matumizi ya pesa na kutoa picha halisi na iliyo sawa kwa mujibu wa viwango vya kimataifa vya utoaji habari za fedha na mahitaji ya sheria za makampuni nchini Kenya na kwa mwelekeo wa kimataifa ambao wakurugenzi wataona unafaa kuwawezesha kuandaa taarifa za matumizi ya pesa ambazo zitakuwa huru dhidi ya ukosefu mkubwa wa kielelezo iwe ni kwa udanganyifu au makosa.

Wakurugenzi wanakubali jukumu kuhusiana na taarifa ya mwaka ya matumizi ya pesa ambayo imetayarishwa kwa kutumia sera za uhasibu zinazohitajika na kuungwa mkono na uamuzi na makadirio ya maana kwa mujibu wa viwango vya kimataifa na kwa njia inayohitajika na sheria za makampuni nchini Kenya. Wakurugenzi wanakubaliana kwa maoni sawa kwamba taarifa za matumizi ya pesa zinatoa taswira na hali halisi ya kifedha ya Benki na matokeo ya utekelezaji shughuli zake. Zaidi ya hayo, wakurugenzi wanakubali jukumu la uhifadhi wa rekodi za fedha ambazo zinaweza kutegemewa wakati wa kuandaa taarifa za matumizi ya pesa pamoja na mifumo mingine ya ndani inayohitajika kwa uhifadhi wa hesabu pesa.

Hakuna jambo lililojitokeza mbele ya wakurugenzi kuashiria kwamba Benki itashindwa kutekeleza majukumu yake kwa muda wa miezi kumi na mbili ijayo kuanzia tarehe ya kutolewa kwa taarifa hii.

M A Hassan

Chairman/Mwenyekiti

R M Marambii

Managing Director/Mkurugenzi Mkuu

Machi 16, 2012

Independent Auditors' Report to the members of National Bank of Kenya Limited

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Kenya Limited, set out on pages 24 to 69 which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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 of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the bank as at 31 December 2011 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

As required by the Kenyan Companies Act we report to you, based on our audit, 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 bank, so far as appears from our examination of those books; and
- iii) the bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

Ripoti ya Wakaguzi Huru kwa Wanachama wa National Bank of Kenya Ltd

Ripoti kuhusu ukaguzi wa pesa

Tumefanyia ukaguzi taarifa zilizoambatanishwa hapa za matumizi ya pesa za National Bank of Kenya Limited kama zilivyoonyeshwa kupitia ukurasa wa 24 hadi 69 ambazo zinajumuisha taarifa kuhusu hali ya kifedha kufikia Desemba 31, 2011, na taarifa ya kina kuhusu mapato, mabadiliko ya umiliki wa hisa na taarifa kuhusu mtiririko wa fedha kwa kipindi hiki cha mwaka uliomalizika, na pia muhtasari wa sera muhimu za ukaguzi wa pesa na vidokezo vingine.

Wajibu wa wakurugenzi kuhusiana na taarifa za matumizi ya pesa

Wakurugenzi wana jukumu la kutayarisha taarifa za matumizi ya pesa na kutoa picha halisi na iliyo sawa kwa mujibu wa viwango vya kimataifa za utoaji habari za fedha na mahitaji ya Sheria za Makampuni nchini Kenya na kwa udhibiti wa ndani ambao wakurugenzi wataona unafaa kuwezesha kuandaa taarifa za matumizi ya pesa ambazo zitakuwa huru dhidi ya upotovu, iwe ni kwa udanganyifu au makosa.

Wajibu wa wakaguzi wa pesa

Wajibu wetu ni kutoa maoni kuhusiana na taarifa hizi za matumizi ya pesa kwa kutegemea ukaguzi wetu. Tulitekeleza ukaguzi wetu kwa mujibu wa viwango vya kimataifa vya ukaguzi wa kifedha. Viwango hivyo vinatuhitaji kuzingatia mahitaji ya kimaadili, kupanga na kutekeleza ukaguzi ili kupata uhakika wa maana endapo taarifa za matumizi ya pesa ziko huru dhidi ya upotovu wowote.

Ukaguzi unahusu kuzingatia taratibu ili kupata ushahidi wa viwango na fichuzi zilizoko kwenye taarifa ya matumizi ya pesa. Taratibu zilizochaguliwa zinategemea uamuzi wetu, ikiwemo tathmini kuhusiana na athari za maelezo yasiyo ya kweli kuhusiana na taarifa za matumizi ya pesa, iwe ni kwa hila au makosa. Wakati wa kufanya tathmini hizo za athari, tulizingatia uthibiti wa ndani kutayarisha taarifa za matumizi ya pesa zinazotoa picha halisi na iliyo sawa ili kubuni taratibu za ukaguzi wa pesa ambazo zilihitajika kwa hali halisi iliyo lakini sio kwa kusudi la kutoa maoni kuhusu vidokezo vya ukaguzi wa ndani. Pia ukaguzi unahusu kutathmini upya utengaji wa sera za ukaguzi wa pesa zilizotumika na makisio ya maana yaliyofanywa na wakurugenzi, pamoja na kutathmini uwasilishaji wote wa taarifa za matumizi ya pesa.

Tunaamini kwamba ushahidi kuhusu ukaguzi wa pesa ambao tumepata unatoshia na unafaa kusimamia msingi wa ukaguzi wetu.

Maoni

Kwa maoni yetu, taarifa hizi za matumizi ya pesa zilizoambatanishwa hapa zinatoa hali halisi na sawa ya shughuli za kifedha za benki kufikia Desemba 31, 2011 na kuhusiana na faida na mtiririko wa fedha wakati wa kipindi hiki cha mwaka uliomalizika kwa mujibu wa viwango vya kimataifa vya kuripoti na mahitaji ya Sheria za Makampuni nchini Kenya.

Ripoti kuhusu mahitaji mengine ya kisheria

Kama inavyohitajika kupitia sheria za makampuni nchini Kenya, kwa kutegemea ukaguzi wetu wa pesa, tunaripoti kwenu kwamba:

- i) Tumepata maelezo yote yanayohitajika na ufafanuzi ambao kwa maoni na imani yetu zilifaa kwa madhumuni ya kufanya ukaguzi wetu;
- ii) Kwa maoni yetu, rekodi bora ya vitabu vya pesa ilihifadhiwa na benki, kama inavyoonekana kupitia uchunguzi wa vitabu hivyo; na
- iii) Taarifa za benki kuhusiana na hali ya kifedha na taarifa ya kina kuhusu mapato zinawiana na vitabu vya hesabu.

DELOITTE & TOUCHE
Certified Public Accountants (Kenya)

16 March 2012
Nairobi

Statement of Comprehensive Income

For the year ended 31 December 2011

	Note	2011 Sh '000	2010 Sh '000
INTEREST INCOME	4	6,457,997	5,430,761
INTEREST EXPENSE	5	(1,376,887)	(1,064,055)
NET INTEREST INCOME		5,081,110	4,366,706
Fee and commission income		1,468,038	1,376,713
Fee and commission expense		(6,166)	(6,236)
NET FEE AND COMMISSION INCOME	6	1,461,872	1,370,477
Gains on foreign exchange dealings	7	310,015	282,738
Other operating income	8	942,142	1,079,995
Operating expenses	9	(4,658,866)	(4,039,440)
Impairment losses on loans and advances	16(c)	(692,423)	(362,653)
PROFIT BEFORE TAXATION		2,443,850	2,697,823
TAXATION	11	(897,737)	(675,904)
PROFIT FOR THE YEAR		1,546,113	2,021,919
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,546,113	2,021,919
EARNINGS PER SHARE - basic & diluted	12	Sh 3.19	Sh 4.18

Statement of Financial Position

As at 31 December 2011

	Note	2011 Sh '000	2010 Sh '000
ASSETS			
Cash and balances with Central Bank of Kenya	13	5,564,998	4,845,862
Deposits and balances due from banking institutions	14	3,388,191	1,408,699
Government securities	15	26,678,099	29,609,060
Loans and advances to customers (net)	16	28,068,218	20,844,636
Other assets	17	1,728,157	712,106
Other investments	18	62,872	48,053
Tax recoverable	11(c)	-	88,299
Investment in subsidiary companies	19	19,963	19,963
Property and equipment	20	2,740,003	2,385,466
Operating lease prepayments	21	11,615	11,763
Intangible assets	22	402,400	52,787
TOTAL ASSETS		68,664,516	60,026,694
LIABILITIES			
Customer deposits	23	56,728,163	47,804,607
Deposits and balances due to banking institutions	24	155,613	780,203
Other liabilities	25	933,635	1,279,482
Taxation payable	11(c)	322,357	-
Due to a subsidiary company	26	21,976	21,976
Unclaimed dividends	27(a)	21,728	10,515
Deferred tax liability	28	24,570	200,300
TOTAL LIABILITIES		58,208,042	50,097,083
CAPITAL RESOURCES			
Share capital	29	7,075,000	7,075,000
Revaluation surplus		603,559	643,100
Revenue reserve		2,501,448	2,006,611
Statutory reserve		276,467	204,900
SHAREHOLDERS' FUNDS		10,456,474	9,929,611
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		68,664,516	60,026,694

The financial statements on pages 24 to 69 were approved by the board of directors on 16 March 2012 and were signed on its behalf by:

M A Hassan	Chairman
S M Kitonga	Director
R M Marambii	Managing Director
L G Kamweti	Company Secretary

Statement of Changes in Equity

For the year ended 31 December 2011

	Note	Share capital Sh '000	Share premium Sh '000	Revaluation surplus Sh '000	Revenue reserve Sh '000	Statutory reserve Sh '000	Total Sh '000
At 1 January 2010		6,675,000	370,585	682,641	53,563	125,903	7,907,692
Profit for the year		-	-	-	2,021,919	-	2,021,919
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	2,021,919	-	2,021,919
Transfer of excess depreciation		-	-	(56,487)	56,487	-	-
Deferred tax on excess depreciation		-	-	16,946	(16,946)	-	-
Transfer to statutory reserve		-	-	-	(78,997)	78,997	-
Issue of bonus shares	29	400,000	(370,585)	-	(29,415)	-	-
At 31 December 2010		7,075,000	-	643,100	2,006,611	204,900	9,929,611
At 1 January 2011		7,075,000	-	643,100	2,006,611	204,900	9,929,611
Profit for the year		-	-	-	1,546,113	-	1,546,113
Other comprehensive income		-	-	-	-	-	-
Total comprehensive income for the year		-	-	-	1,546,113	-	1,546,113
Transfer of excess depreciation		-	-	(56,487)	56,487	-	-
Deferred tax on excess depreciation		-	-	16,946	(16,946)	-	-
Transfer to statutory reserve		-	-	-	(71,567)	71,567	-
Dividends declared - year 2010	27(a)	-	-	-	(1,019,250)	-	(1,019,250)
At 31 December 2011		7,075,000	-	603,559	2,501,448	276,467	10,456,474

The revaluation surplus is not distributable and represents the surplus arising from the revaluation of property.

The statutory reserve is not distributable and represents the excess of loan loss provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39.

Statement of Cash Flows

For the year ended 31 December 2011

	Note	2011 Sh '000	2010 Sh '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	30(a)	5,538,891	(4,637,529)
Taxation paid	11(c)	(662,811)	(876,971)
Net cash generated from/(used in) operating activities		4,876,080	(5,514,500)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	20	(669,511)	(594,337)
Purchase of intangible assets	22	(387,369)	(25,795)
Purchase of other investments	18	-	(895)
Proceeds from disposal of property and equipment		-	400
Net cash used in investing activities		(1,056,880)	(620,627)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	27(a)	(1,008,037)	(9)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		2,811,163	(6,135,136)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		3,093,804	9,228,940
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	30(b)	5,904,967	3,093,804

Notes to the Financial Statements

For the year ended 31 December 2011

1. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of comprehensive income.

Adoption of new and revised International Financial Reporting Standards (IFRSs)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2011*

The following new and revised IFRSs have been applied in the current year and had no material impact on the amounts reported in these financial statements.

<p>Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)</p>	<p>The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The bank continued to disclose such items in the statement of changes in equity and the amendment had no effect on the bank's financial statements.</p>
<p>IAS 24 Related Party Disclosures (as revised in 2009)</p>	<p>IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.</p> <p>The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has resulted in the bank not disclosing the transactions with and the balances due to and due from the government, government agencies and parastatals as has previously been done.</p>
<p>Amendments to IAS 32 Classification of Rights Issues</p>	<p>The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application.</p> <p>The application of the amendments has had no effect on the amounts reported in the current and prior years because the bank has not issued instruments of this nature.</p>
<p>Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement</p>	<p>IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions.</p> <p>The application of the amendments had no effect on the bank's financial statements.</p>

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2011(continued)*

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	<p>The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.</p> <p>The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the bank has not entered into any transactions of this nature.</p>
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the bank's financial statements.

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2011*

	Effective for annual periods beginning on or after
<i>New and Amendments to standards</i>	
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 12, Income Taxes - Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
<i>New interpretation</i>	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods*

◆ IFRS 9, Financial Instruments

IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition.

IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was recognised in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted. IFRS 9 is effective for annual periods beginning

on or after 1 January 2015, with earlier application permitted. The directors anticipate that the adoption of this new standard will not materially affect the amounts reported in the financial statements.

◆ IFRS 10: Consolidated Financial Statements

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- ◆ power over the investee
- ◆ exposure, or rights, to variable returns from its involvement with the investee, and
- ◆ the ability to use its power over the investee to affect the amount of the returns.

The directors anticipate that the adoption of this new standard will not materially affect the amounts reported in the financial statements.

◆ IAS 27 Separate Financial Statements (2011)

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10 Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

(iii) *Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2011 and future annual periods (continued)*

The standard is effective for annual periods beginning on or after 1 January 2013. The bank will apply this amendment prospectively. The directors anticipate no material impact to the bank's financial statements.

◆ IFRS 13 Fair Value Measurements

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. The IFRS is the result of joint efforts by the IASB and FASB to develop a converged fair value framework. The IFRS defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements).

With some exceptions, the standard requires entities to classify these measurements into a 'fair value hierarchy' based on the nature of the inputs:

- ◆ Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;
- ◆ Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- ◆ Level 3 - unobservable inputs for the asset or liability.

The directors anticipate that the adoption of this new standard will not materially affect the amounts reported in the financial statements.

(iv) *Early adoption of standards*

The bank did not early-adopt any new or amended standards in 2011.

Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the revaluation of certain properties and investments.

Consolidation

Consolidated financial statements have not been prepared. While some of the subsidiary companies are dormant, one subsidiary company began trading during the year ended 31 December 2010 but the results and net assets of the trading subsidiary are insignificant. The amounts involved in are not material and consolidated financial statements would therefore be of no real value to the shareholders of the bank.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as fair value through profit and loss, are recognized within interest income and interest expense in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability.

The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Interest income includes interest on loans and advances, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

Fees and commissions

In the normal course of business, the bank earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable.

Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and accumulated impairment losses.

Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss. Each year, the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

The bank's policy is to professionally revalue property at least once every five years. The last valuation was carried out as at 31 December 2009.

Depreciation

Freehold land is not depreciated.

Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual instalments over their estimated useful lives. The annual rates in use are:

Buildings on long leasehold and freehold land	2%
Buildings on short leasehold land	Over the unexpired period of the lease
Computers	25%
Motor vehicles	20%
Equipment, furniture and fittings	12.5%

Short leasehold land refers to leases whose lease period does not exceed 50 years.

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

Leasehold land

Payments to acquire leasehold interest in land are treated as operating lease prepayments and amortised over the period of the lease.

Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred.

However, costs that are clearly associated with an identifiable and unique product which will be controlled by the bank and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 4 years.

Taxation

Current taxation is provided on the basis of the results for the year as shown in the financial statements, adjusted in accordance with the tax legislation.

Deferred taxation is provided, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized.

Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the end of the reporting period. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains or losses on exchange are dealt with in the profit or loss.

Offsetting

Financial assets and liabilities are offset and the net amount reported in the statement of financial position 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.

Statutory reserve

IAS 39 requires the bank to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Central Bank of Kenya prudential guidelines require the bank to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Retirement benefit costs

The bank operates both a defined contribution and a defined benefits scheme for its employees. The assets of these schemes are held in separate trustee administered funds. The schemes are funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules.

The bank also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The bank's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Sh 200 per employee per month.

The bank's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.

Certain employees of the bank are entitled to service gratuity on resignation or termination of employment based on the salary at the time of such resignation or termination of services. The service gratuity is provided for in the financial statements as it accrues to each employee.

Financial instruments

A financial asset or liability is recognised when the bank becomes party to the contractual provisions of the instrument.

Other investments

Other investments comprise quoted and unquoted equity instruments. Unquoted investments are classified as available for sale and are stated at cost less impairment loss where applicable. Quoted investments are classified as fair value through profit or loss and are stated at their fair value determined by the published price in the stock exchange markets they are traded in.

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 investments at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

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 designated by management. Derivatives are also categorised as held for trading.

Financial assets at fair value through profit or loss are subsequently 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 or loss in the period in which they arise.

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. Loans and advances are recognized when cash is advanced to borrowers.

Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Held to maturity

Held-to-maturity investments 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. Where a sale occurs, other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Financial assets (continued)

Available-for-sale financial assets (continued)

Where fair value cannot be reliably measured, the unquoted investment is carried at cost. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the bank's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is included in profit or loss for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment together with financial assets with similar risk characteristics.

Objective evidence that financial assets are impaired can include observable data that comes to the attention of the bank about the following loss events:

- ◆ Significant financial difficulty of the borrower
- ◆ default or delinquency by a borrower,
- ◆ restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider,
- ◆ indications that a borrower or issuer will enter bankruptcy,

- ◆ the disappearance of an active market for a security, or
- ◆ other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that is, on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral types, 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.

a) Assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

b) Assets carried at fair value

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

c) 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

1. ACCOUNTING POLICIES (continued)

Financial liabilities

Debt and equity instruments are classified, as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

After initial recognition, the bank measures all financial liabilities including customer deposits and borrowings other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Repurchase agreement transactions

Securities purchased from the Central Bank of Kenya under agreements to resell ("reverse repo's"), are disclosed as balances with the Central Bank of Kenya as they are held to maturity after which they are repurchased and are not negotiable/discounted during the tenure. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective yield method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Bank as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Bank as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the 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. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

In the process of applying the bank's accounting policies, management has made 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These are dealt with below:

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (continued)

Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a 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 bank, or national or local economic conditions that correlate with defaults on assets in the bank.

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.

Held -to-maturity investments

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

Property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

3. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the bank.

The bank's objectives when managing capital are:

- ◆ To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders.

- ◆ To maintain a strong capital base to support the current and future development needs of the business.

- ◆ To comply with the capital requirements set by the Central Bank of Kenya (CBK).

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed 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 Sh. 700 million by 31 December 2011 (2010: Sh. 500 million). This minimum level is expected to increase gradually to Sh. 1 billion by 2012.
- b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%;
- c) Maintain a 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 had met all the above requirements by the Central Bank of Kenya as at 31 December 2011 and 31 December 2010.

The bank's regulatory capital is analysed into two tiers:

- ◆ Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- ◆ Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, qualifying subordinated liabilities and collective impairment allowances.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

There have been no material changes in the bank's management of capital during the period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

3. CAPITAL MANAGEMENT (continued)

Regulatory capital (continued)

The bank's regulatory capital position at 31 December was as follows:

	2011 Sh '000	2010 Sh '000
Tier 1 capital		
Ordinary share capital	7,075,000	7,075,000
Retained earnings	2,501,448	2,006,611
	9,576,448	9,081,611
Tier 2 capital		
Revaluation surplus	150,890	160,775
Statutory reserves	276,467	204,900
	427,357	365,675
Total regulatory capital	10,003,805	9,447,286
Risk weighted assets		
On- balance sheet	31,335,588	22,255,913
Off- balance sheet	2,886,054	3,335,009
	34,221,642	25,590,922
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum-12%)	29.5%	36.9%
Tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum-8%)	28.2%	35.5%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by ALCO committee and is subject to review by the Board.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives are also taken into account. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

	2011 Sh '000	2010 Sh '000
4 INTEREST INCOME		
Loans and advances	3,517,134	2,302,655
Deposits and balances due from banking institutions	60,924	22,790
Treasury bills – Held to maturity	28,936	341,167
Treasury bonds – Held to maturity	1,983,817	2,303,783
Treasury bonds – Held for trading	867,186	460,366
	6,457,997	5,430,761
5 INTEREST EXPENSE		
(a) On deposits:		
Fixed and short term deposits	945,207	807,827
Savings accounts	47,893	96,790
Demand deposits	239,231	148,260
	1,232,331	1,052,877
(b) On borrowed funds:		
Repurchase agreement with Central Bank of Kenya	55,701	5,231
Placements from banks and financial institutions	88,855	5,947
	144,556	11,178
	1,376,887	1,064,055
6 FEES AND COMMISSION		
(a) INCOME		
Letters of credit	18,233	7,299
Foreign currency transactions fees and commissions	19,003	19,138
Local currency transactions fees and commissions	1,177,791	1,090,226
Ledger fees	253,011	260,050
	1,468,038	1,376,713
(b) EXPENSE		
Letters of credit	(6,166)	(6,236)
	1,461,872	1,370,477
7 GAINS ON FOREIGN EXCHANGE DEALINGS		
Gains on foreign currency dealings arose from dealings in foreign currency transactions and also on the translation of foreign currency assets and liabilities.		
	2011 Sh '000	2010 Sh '000
8 OTHER OPERATING INCOME		
Bad debts recovered	962,688	365,069
Fair value (losses)/gains on government securities held for trading (note 15(c))	(184,838)	590,745
Rental income	43,728	38,421
Gain on disposal of property and equipment	-	400
Miscellaneous income	77,950	75,835
Write back of unclaimed customer balances and pay orders	27,795	9,525
Gain on revaluation of other investment (note 18)	14,819	-
	942,142	1,079,995

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

	2011 Sh '000	2010 Sh '000
9 OPERATING EXPENSES		
Staff costs (Note 10)	2,635,180	2,266,835
Directors' emoluments - fees	16,644	10,595
- other (executive remuneration)	58,794	48,174
Depreciation (note 20)	314,974	279,872
Amortisation of operating lease prepayments (note 21)	148	148
Amortisation of intangible assets (note 22)	37,756	30,086
Repairs and maintenance	187,805	157,095
Security	117,521	98,951
Telephone and postage	119,288	107,946
Operating lease rentals	118,488	91,210
Rates and insurance	94,898	82,529
Contribution to Deposit Protection Fund	70,169	57,185
Software fees	82,930	82,024
Training & research	36,045	42,136
Legal and other professional fees	34,880	52,495
Auditors' remuneration	7,979	7,403
Banking license and fee	8,598	8,220
Loss on revaluation of other investments	-	5,351
Other operating expenses	716,769	611,185
	4,658,866	4,039,440
10 STAFF COSTS		
Salaries and wages	2,201,130	1,865,703
Pension costs - defined benefit scheme	1,494	1,370
- defined contribution scheme	273,379	243,096
National Social Security Fund Contributions	3,944	3,819
Other staff costs	155,233	152,847
	2,635,180	2,266,835
11 TAXATION		
(a) Taxation charge		
Current taxation:		
Current taxation based on the chargeable profit for the year	1,065,698	661,199
Prior year current taxation underprovision	7,769	12,529
	1,073,467	673,728
Deferred taxation (note 28):		
Current year credit	(281,883)	(2,182)
Prior year underprovision	106,153	4,358
	(175,730)	2,176
	897,737	675,904

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

11 TAXATION (continued)

	2011 Sh '000	2010 Sh '000
(b) Reconciliation of taxation charge to the expected taxation based on accounting profit		
Accounting profit before taxation	2,443,850	2,697,823
Tax at the applicable rate of 30%	733,155	809,347
Tax effect of expenses not deductible for tax	113,358	56,650
Tax effect of income not taxable	(62,698)	(206,980)
Prior year current tax underprovision	7,769	12,529
Prior year deferred taxation underprovision	106,153	4,358
	897,737	675,904
(c) Tax (payable)/recoverable		
At 1 January	88,299	(114,944)
Charge for the year (note 11(a))	(1,073,467)	(673,728)
Paid in the year	662,811	876,971
At 31 December	(322,357)	88,299

12 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the number of ordinary shares in issue during the year.

	2011 Sh '000	2010 Sh '000
Earnings		
Profit after tax (Sh '000)	1,546,113	2,021,919
Preference dividend (Sh'000)		
- 3% negotiated preferential dividend	170,250	170,250
- Participation pari passu with ordinary shareholders	483,523	681,000
Total preference dividend	653,773	851,250
Earnings attributable to ordinary shareholders (Sh'000)	892,340	1,170,669
Weighted average number of ordinary shares ('000)		
At 31 December	280,000	280,000
Earnings per share		
Basic and diluted (Sh)	3.19	4.18

The holders of the non-cumulative preference shares are entitled to a non-cumulative dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the preference share capital, if the directors declare a dividend on ordinary shares. In addition, whenever the profits of the bank in respect of any year are more than sufficient to pay the preferential dividend, the holders of preference shares are entitled to participate in the surplus pari passu with the holders of ordinary shares (note 29).

There were no potentially dilutive instruments outstanding at the end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2011 Sh '000	2010 Sh '000
Cash on hand	2,250,352	1,988,893
Balances with Central bank of Kenya		
- Cash ratio requirement	2,803,909	2,304,358
- Other	510,737	552,611
	5,564,998	4,845,862

As at 31 December 2011, the cash ratio requirement was 5.25% (2010 – 4.5%) of eligible deposits. The cash ratio requirement is not available for the day to day operations of the company and is non interest bearing.

14 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

Deposits due from banking institutions:

Foreign currency deposits	88,700	89,928
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Balances due from banking institutions:

Local currency	2,581,409	12,112
Foreign currency	718,082	1,306,659
	3,388,191	1,408,699

Maturity analysis of deposits and balances due from banking institutions:

Maturity within 91 days after placement	3,299,491	1,332,503
Maturity 91 days after placement	88,700	76,196
	3,388,191	1,408,699

The effective interest rate on deposits due from banking institutions at 31 December 2011 was 9.53% (2010 – 1.15%).

Included in deposits due from banking institutions is an amount of Sh. 88,700,250 (2010-Sh. 89,821,800) held under lien as collateral for letters of credit and guarantees issued to the bank's customers.

15 GOVERNMENT SECURITIES

	2011 Sh '000	2010 Sh '000
(a) Government securities are categorised as follows;		
Treasury bills held to maturity – At amortised cost	-	2,085,761
Treasury bonds held to maturity – At amortised cost	9,674,647	-
Treasury bonds held to maturity (long term non – negotiable) – At amortised cost		
- Interest bearing	16,174,584	16,174,584
- Non interest bearing	-	560,047
Treasury bonds held for trading – At fair value through profit or loss	828,868	10,788,668
	26,678,099	29,609,060

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

15 GOVERNMENT SECURITIES (continued)

The Government of Kenya issued the bank with long term non-negotiable treasury bonds amounting to Sh. 20 billion on 1 June 2007 in part settlement of its debt with the bank. In January 2008, the Government of Kenya cleared the balance of debt outstanding as at 31 December 2007 with a zero coupon non- negotiable bond of Sh1.062 billion. The bonds began maturing during the year 2010.

	2011 Sh '000	2010 Sh '000
(b) Maturity analysis of government securities:		
(i) Treasury bills - Held to maturity		
Maturing after 91 days of the date of acquisition	-	2,100,000
Less: unearned discount	-	(14,239)
	-	2,085,761
(ii) Treasury Bonds - Held to Maturity		
Maturity between 3 and 10 years	9,674,647	-
(iii) Treasury bonds - (long term non-negotiable bonds) – Held to maturity		
<i>Interest bearing:</i>		
Maturing between 1 and 3 years	5,047,917	5,047,917
Maturing between 3 and 10 years	5,054,167	5,054,167
Maturing after 10 years	6,072,500	6,072,500
	16,174,584	16,174,584
<i>Non interest bearing:</i>		
At discounted present value		
Zero coupon bond maturing within 1 year	-	560,047
	16,174,584	16,734,631
(iv) Treasury Bonds - Held for trading		
Maturing between 3 and 10 years	828,868	10,788,668
	26,678,099	29,609,060
(c) Movement of treasury bonds held for trading – At fair value through profit or loss		
At 1 January	10,788,668	-
Purchased during the year	-	10,197,923
Disposed during the year	(9,774,962)	-
Fair value (loss)/gain (note 8)	(184,838)	590,745
At 31 December	828,868	10,788,668
(d) The weighted average effective interest rate for Government securities is as summarized below:		
	2011 %	2010 %
Treasury bills – At amorised cost	-	5.97
Treasury bonds – At amorised cost	11.32	12.87
Treasury bonds – At fair value through profit or loss	13.00	12.87

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

16 LOANS AND ADVANCES TO CUSTOMERS

	2011 Sh '000	2010 Sh '000
(a) Overdrafts	3,471,066	2,960,205
Mortgages	3,164,406	3,549,878
Loans	22,290,947	15,020,174
Gross loans and advances	28,926,419	21,530,257
Provision for impaired loans and advances:		
- Individually assessed	(854,456)	(681,581)
- Collectively assessed	(3,745)	(4,040)
	(858,201)	(685,621)
	28,068,218	20,844,636

Included in net advances of Sh. 28,068,218,000 (2010 – Sh. 20,844,636,000) are loans and advances amounting to Sh. 300,219,000 (2010 – Sh. 225,053,000), net of specific provisions, which have been classified as non-performing (impaired).

Included in loans and advances to customers are staff loans amounting to Sh. 2,892,804,000 (2010 – Sh. 2,333,860,000).

The effective interest rate on loans and advances was 17.50 % as at 31 December 2011 (2010-14.06%).

	2011 Sh '000	2010 Sh '000
(b) ANALYSIS OF GROSS ADVANCES BY MATURITY		
Maturing:		
Within one year	6,109,006	5,712,232
One year to three years	5,778,821	5,682,473
Three to five years	7,194,598	4,236,961
Over five years	9,843,994	5,898,591
	28,926,419	21,530,257
(c) PROVISION FOR LOANS AND ADVANCES		
At 1 January	685,621	894,350
Provisions during the year	692,423	362,653
Recoveries during the year	(32,331)	(71,860)
Bad debts written off during the period	(487,512)	(499,522)
At 31 December	858,201	685,621
17 OTHER ASSETS		
Inter bank clearing items	743,579	417,176
Rent and service charge receivable	16,488	10,877
Other receivables	968,090	284,053
	1,728,157	712,106

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

18 OTHER INVESTMENTS

	2011 Sh '000	2010 Sh '000
Unquoted		
Available for sale		
At cost:		
IDB Capital Limited	1,501	1,501
African Export Import Bank (US\$ 10,000)	7,615	7,615
	9,116	9,116
Quoted		
Designated at fair value through profit or loss		
At market value:		
VISA International	49,920	32,827
Safaricom Limited	3,836	6,110
	53,756	38,937
	62,872	48,053
Movement in quoted investments:		
At 1 January	38,937	43,393
Purchase of investments	-	895
Fair value gain/(loss)	14,819	(5,351)
At 31 December	53,756	38,937

Visa International shares were allotted to the bank at no cost by virtue of the bank's membership to the Visa International network of users and are quoted at the New York Stock Exchange.

Safaricom shares are quoted on the Nairobi Securities Exchange.

19 INVESTMENT IN SUBSIDIARY COMPANIES

At cost:

	2011 Sh '000	2010 Sh '000
Natbank Trustee and Investment Services Limited, 100% owned	19,963	19,963
Kenya National Capital Corporation Limited, 100% owned	-	-
NBK Insurance Agency Limited 100% owned	-	-
	19,963	19,963

The subsidiary companies have not been consolidated. Kenya National Capital Corporation Limited and Natbank Trustee and Investment Services Limited are dormant. NBK Insurance Agency Limited began trading in 2010. The principal activity of the company is the provision of insurance agency services. However, its results and net assets are insignificant. Non-consolidation of the subsidiaries therefore has no material impact on the bank's net assets and profit for the year and hence does not add any real value to the shareholders. The results and net assets of the subsidiary companies are as outlined below:

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

19 INVESTMENT IN SUBSIDIARY COMPANIES (continued)

	NBK Insurance Agency Limited		Natbank Trustee and Investment Services Limited		Kenya National Capital Corporation Limited	
	2011 Sh '000	2010 Sh '000	2011 Sh '000	2010 Sh '000	2011 Sh '000	2010 Sh '000
Profit/(loss) after taxation	12,822	(458)	-	-	-	-
Net assets						
Total assets	31,063	-	21,976	21,976	-	-
Total liabilities	(1,124)	(458)	(19,963)	(19,963)	-	-
Net assets	29,939	(458)	2,013	2,013	-	-

The subsidiary companies listed above are incorporated in Kenya under the Companies Act.

20 PROPERTY AND EQUIPMENT

	Freehold land and buildings Sh '000	Buildings on long & short leasehold land Sh '000	Motor vehicles, equipment, furniture & fittings Sh '000	Computers Sh '000	Capital work in progress Sh '000	Leasehold improvements Sh '000	Total Sh '000
COST OR VALUATION							
At 1 January 2010	188,000	1,042,000	669,845	658,715	266,118	209,508	3,034,186
Additions	-	1,541	134,667	89,526	171,533	197,070	594,337
Disposals	-	-	(2,834)	-	-	-	(2,834)
At 31 December 2010	188,000	1,043,541	801,678	748,241	437,651	406,578	3,625,689
Comprising:							
Cost		1,541	801,678	748,241	437,651	406,578	2,395,689
Valuation – 2009	188,000	1,042,000	-	-	-	-	1,230,000
At 31 December 2010	188,000	1,043,541	801,678	748,241	437,651	406,578	3,625,689
At 1 January 2011	188,000	1,043,541	801,679	748,242	437,652	406,578	3,625,689
Additions	-	38,451	155,196	80,288	357,148	38,428	669,511
At 31 December 2011	188,000	1,081,992	956,874	828,529	794,799	445,006	4,295,200
Comprising:							
Cost	-	39,992	956,874	828,529	794,799	445,006	3,065,200
Valuation – 2009	188,000	1,042,000	-	-	-	-	1,230,000
At 31 December 2011	188,000	1,081,992	956,874	828,529	794,798	445,006	4,295,200
DEPRECIATION							
At 1 January 2010	-	-	368,358	529,208	-	65,619	963,185
Charge for the year	2,580	26,539	88,317	81,120	-	81,316	279,872
Disposal	-	-	(2,834)	-	-	-	(2,834)
At 31 December 2010	2,580	26,539	453,841	610,328	-	146,935	1,240,223
At 1 January 2011	2,580	26,539	453,841	610,328	-	146,935	1,240,223
Charge for the year	2,580	28,409	99,851	95,133	-	89,001	314,974
At 31 December 2011	5,160	54,948	553,692	705,461	-	235,936	1,555,197

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

20 PROPERTY AND EQUIPMENT (continued)

	Freehold land and buildings Sh '000	Buildings on long & short leasehold land Sh '000	Motor vehicles, equipment, furniture & fittings Sh '000	Computers Sh '000	Capital work in progress Sh '000	Leasehold improve- ments Sh '000	Total Shs '000
NET BOOK VALUE							
At 31 December 2011	182,840	1,027,044	403,182	123,068	794,799	209,070	2,740,003
At 31 December 2010	185,420	1,017,002	347,837	137,913	437,651	259,643	2,385,466
NET BOOK VALUE (Cost basis)							
At 31 December 2011	63,430	284,226	403,182	123,068	794,799	209,070	1,877,775
At 31 December 2010	64,998	218,711	347,837	137,913	437,651	259,643	1,466,753

Included in computers, motor vehicles, equipment, furniture and fittings are assets with a cost of Sh. 634,092,493 (2010 – Sh 559,416,249) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh. 138,519,982 (2010 – Sh. 124,461,000).

The bank's properties were revalued as at 31 December 2009 by independent valuers, Metrocosmo Limited, registered valuers and estate agents. Valuations were made on the basis of open market value for existing use. The book values of the properties were adjusted to the revalued amounts. Any increase arising on the revaluation was recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset were recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss.

Capital work in progress mainly relates to the acquisition of banking software related hardware; construction of bank's business continuity centre project and the branch expansion programme.

21 OPERATING LEASE PREPAYMENTS

	2011 Sh '000	2010 Sh '000
COST		
At 1 January and 31 December	14,663	14,663
AMORTISATION		
At 1 January	2,900	2,752
Charge for the year	148	148
At 31 December	3,048	2,900
NET BOOK VALUE		
At 31 December	11,615	11,763

The operating lease prepayment relates to leasehold land. The leasehold land was valued as at 31 December 2009 by independent valuers, Metrocosmo Limited, registered valuers and estate agents on the basis of open market value for existing use at Sh. 504,400,000.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

22 INTANGIBLE ASSETS

	Computers software Sh '000	Capital work in progress Sh '000	Total Sh '000
COST			
At 1 January 2010	326,414	-	326,414
Additions	25,795	-	25,795
At 31 December 2010	352,209	-	352,209
At 1 January 2011	352,209	-	352,209
Additions	46,912	340,457	387,369
At 31 December 2011	399,121	340,457	739,578
AMORTISATION			
At 1 January 2010	269,336	-	269,336
Charge for the year	30,086	-	30,086
At 31 December 2010	299,422	-	299,422
At 1 January 2011	299,422	-	299,422
Charge for the year	37,756	-	37,756
At 31 December 2011	337,178	-	337,178
NET BOOK VALUE			
At 31 December 2011	61,943	340,457	402,400
At 31 December 2010	52,787	-	52,787

Capital work in progress relates to ongoing work in respect of implementation of a new core banking system.

Included in intangible assets are assets with a cost of Sh. 248,096,864 (2010 – Sh. 231,865,000) which were fully amortised but still in use. The normal annual depreciation charge on these assets would have been Sh. 62,024,216 (2010 – Sh. 57,966,000).

23 CUSTOMER DEPOSITS

	2011 Sh '000	2010 Sh '000
Fixed deposit accounts	15,561,630	14,556,911
Savings accounts	12,463,001	11,680,904
Current and demand accounts	27,006,306	20,457,166
Foreign currency deposits	1,697,226	1,109,626
	56,728,163	47,804,607
MATURITY ANALYSIS OF CUSTOMER DEPOSITS		
(a) From Government and parastatals:		
Payable within 90 days	26,771,854	23,761,409
Payable after 90 days and within one year	122,868	898,686
	26,894,722	24,660,095

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

23 CUSTOMER DEPOSITS (continued)

(b) From Private Sector and individuals:

Payable within 90 days

Payable after 90 days and within one year

At 31 December

The effective interest rate on interest bearing customer deposits was 7.52% (2010 – 2.42%)

2011 Sh '000	2010 Sh '000
28,315,801	22,022,565
1,517,640	1,121,947
29,833,441	23,144,512
56,728,163	47,804,607

24 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

Deposits due to Banking and financial institutions

Balances due to Banking and financial institutions

2011 Sh '000	2010 Sh '000
155,613	174
-	780,029
155,613	780,203

The effective interest rate on deposits due to banking institutions at 31 December 2011 was 1.50 % (2010 – 1.79%). The deposits are payable within 90 days after the end of the reporting period.

25 OTHER LIABILITIES

Bills payable

Other liabilities

2011 Sh '000	2010 Sh '000
205,575	262,862
728,060	1,016,620
933,635	1,279,482

26 DUE TO A SUBSIDIARY COMPANY

Natbank Trustee and Investment Services Limited

The balance relates to non-interest bearing amounts held with the bank

21,976	21,976
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27 DIVIDENDS

a) Unclaimed dividends

At 1 January

Dividends declared - 2010

Dividends paid

At 31 December

10,515	10,524
1,019,250	-
(1,008,037)	(9)
21,728	10,515

Unclaimed dividends relates to dividends declared in past years by the bank but not collected by the shareholders or their representatives.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

27 DIVIDENDS (continued)

(b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A first and final dividend is to be proposed at the next annual general meeting in respect of 2011 is as follows:

	Dividend per share	Total dividend
	Sh	Sh
Preference shares	0.55	624,250,000
Ordinary shares	0.40	112,000,000

The financial statements for the year ended 31 December 2011 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2012.

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

28 DEFERRED TAX LIABILITY

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

Liabilities:

Revaluation surplus on property

Assets:

Excess of depreciation over capital allowances

Unrealised fair value loss on government securities

Gratuity provision

General provisions

Movement on the deferred tax account is as follows:

At 1 January

Prior year underprovision – note 11(a)

Profit or loss charge – note 11(a)

At 31 December

	2011 Sh '000	2010 Sh '000
Revaluation surplus on property	236,260	253,206
Excess of depreciation over capital allowances	(133,075)	(50,955)
Unrealised fair value loss on government securities	(74,452)	-
Gratuity provision	(2,365)	(153)
General provisions	(1,798)	(1,798)
	(211,690)	(52,906)
	24,570	200,300
At 1 January	200,300	198,124
Prior year underprovision – note 11(a)	106,153	4,358
	306,453	202,482
Profit or loss charge – note 11(a)	(281,883)	(2,182)
At 31 December	24,570	200,300

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

29 SHARE CAPITAL

Authorised:

600,000,000 Ordinary shares of Sh. 5 each

1,200,000,000 Preference shares of Sh. 5 each

Issued and fully paid:

280,000,000 Ordinary shares of Sh. 5 each

1,135,000,000 Preference shares of Sh. 5 each

Movement in ordinary shares:

At 1 January 2010

Issue of new ordinary shares through capitalization
of share premiums and revenue reserves*

At 31 December 2010

At 1 January 2011 and 31 December 2011

	2011 Sh '000	2010 Sh '000
	3,000,000	3,000,000
	6,000,000	6,000,000
	9,000,000	9,000,000
	1,400,000	1,400,000
	5,675,000	5,675,000
	7,075,000	7,075,000
	Number of shares	Share capital Sh'000
	200,000,000	1,400,000
	80,000,000	400,000
	280,000,000	1,400,000
	280,000,000	1,400,000

* During the year ended 31 December 2010, the bank converted Sh. 370,585,000 from share premium account and Sh. 29,415,000 from the it's accumulated revenue reserves into share capital by issuing bonus shares at a rate of 2 ordinary shares for every 5 such shares held. This resulted in the issue of 80,000,000 ordinary shares. There was no change in ordinary and preference shares during the year.

The following special rights and privileges are attached to the preference shares:

- The preference shares are not redeemable
- The holders of such non-cumulative preference shares shall be entitled to receive out of the profits of the bank as a first charge a non-cumulative preferential dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the Preference Shares held by them respectively if the directors declare a dividend on the distributable profits.
- Whenever the profits of the bank in respect of any year shall be more than sufficient to pay the preferential dividend aforesaid to the close of such year, the holders of the preference shares shall be entitled to participate in the surplus pari passu with the holders of the ordinary shares provided that such participation shall be non-cumulative.
- In the event of the bank being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first place in repaying the holders of the said preference shares, and of any other shares entitled to rank pari passu with them, the full amount paid up thereon, and, subject as aforesaid, such surplus assets shall belong to and be divided among the other members of the company.
- The holders of the preference shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the bank.
- The preference shares aforesaid shall be issued to such persons and on such terms and conditions as the board may think fit.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

30 NOTES TO THE STATEMENT OF CASH FLOWS

	2011 Sh '000	2010 Sh '000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation	2,443,850	2,697,823
Adjustments for:		
Depreciation	314,974	279,872
Amortisation of intangible assets	37,756	30,086
Amortization of operating lease prepayments	148	148
Gain on disposal of equipment	-	(400)
Loss/(gain) on revaluation of other investments	(14,819)	5,351
Profit before working capital changes	2,781,909	3,012,880
Increase in cash ratio requirement	(499,551)	(476,750)
Decrease/(increase) in Government securities	2,930,961	(5,375,205)
Increase in loans and advances to customers	(7,223,582)	(7,688,181)
Increase in other assets	(1,016,051)	(329,410)
Increase in customer deposits	8,923,556	5,809,161
(Decrease)/increase in other liabilities	(345,847)	174,070
(Increase)/decrease in deposits and balances due from financial institutions	(12,504)	235,906
Cash generated from/(used in) operations	5,538,891	(4,637,529)
(b) Analysis of the balances of cash and cash equivalents		
Cash on hand (note 13)	2,250,352	1,988,893
Balances with Central Bank of Kenya (note 13)	510,737	552,611
Deposits and balances due from banking institutions (note 14)	3,299,491	1,332,503
Deposits and balances due to banking institutions (note 24)	(155,613)	(780,203)
	5,904,967	3,093,804

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advance.

31 FINANCIAL RISK MANAGEMENT

Introduction and overview

The bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the bank's business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. The most important types of risk include:

- ◆ Credit risk
- ◆ Liquidity risk
- ◆ Market risk- includes currency, interest rate and price risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board has established a Board Audit and Risk Committee and a risk department to assist in the discharge of this responsibility. The board has also established various board committees that are responsible for developing and monitoring risk management in their respective areas.

These committees comprise of non executive members and report regularly to the Board of Directors.

The bank's risk management policies are established to identify and analyse the risks faced by the bank, 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 bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The bank's Audit and Risk Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The Committee is assisted in these functions by internal audit and the risk departments. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit & Risk Committee. The risk department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

i) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the bank's loans and advances to customers and other banks and investment securities.

For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit, Legal & Remedial Committee. A separate Credit Division, reporting to the Credit, Legal & Remedial 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 authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit, Legal & Remedial Committee or the Board of Directors as appropriate.
- ◆ *Reviewing and assessing credit risk.* The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Management of credit risk (continued)

- ◆ *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).
- ◆ *Developing and maintaining the bank's risk gradings* in order to categorise exposures according to the degree of risk of financial loss 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. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Credit, Legal & Remedial Committee.
- ◆ *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.
- ◆ *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the bank in the management of credit risk.

Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents the maximum credit risk exposure to the bank at 31 December 2011 and 2010, without taking into account any collateral held or other credit enhancements attached.

	2011 Sh '000	2010 Sh '000
On- balance sheet items		
a) Government securities held for trading	828,868	10,788,668
Government securities held to maturity	25,849,231	18,820,392
	26,678,099	29,609,060
b) Deposits and balances due from banking institutions		
- Local	2,581,409	12,112
- Foreign	806,782	1,396,587
	3,388,191	1,408,699
c) Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	1,271,819	821,711
- Credit cards	61,209	61,070
- Term loans	21,030,443	13,901,793
- Mortgages	3,164,406	3,549,878
	25,527,877	18,334,452
Loans to corporate entities:		
- Overdrafts	2,134,701	2,073,800
- Credit cards	3,300	3,624
- Term loans	1,260,541	1,118,381
	3,398,542	3,195,805
Total loans and advances	28,926,419	21,530,257
d) Other assets		
Interbank clearing items	743,579	417,176
Total on balance sheet items	59,035,603	52,965,192

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

The bank does not perceive any significant credit risk on the following financial assets:

- ◆ Investments in Government securities and Central Bank of Kenya.
- ◆ Off balance sheet items

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the bank has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks with high credit ratings.

Classification of loans and advances

The table below represents the maximum credit risk exposure to the bank at 31 December, after taking into account credit enhancements attached.

2011

Loans and advances to customers	Gross amounts Sh '000	Impairment allowances Sh '000	Net amounts Sh '000	%
Neither past due nor impaired	27,646,711	-	27,646,711	98
Past due but not impaired	125,033	(3,745)	121,288	1
Impaired	1,154,675	(854,456)	300,219	1
	<u>28,926,419</u>	<u>(858,201)</u>	<u>28,068,218</u>	<u>100</u>

2010

Neither past due nor impaired	20,488,972	-	20,488,972	98
Past due but not impaired	134,651	(4,040)	130,611	1
Impaired	906,634	(681,581)	225,053	1
	<u>21,530,257</u>	<u>(685,621)</u>	<u>20,844,636</u>	<u>100</u>

Each business unit is required to implement bank credit policies and procedures, with credit approval authorities delegated from the Bank Credit, Legal & Remedial Committee. Each business unit has a Credit Risk officer who reports on all credit related matters to the Credit Division and then escalated to the Bank Credit, Legal & Remedial Committee. Each business unit 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 central approval.

Regular audits of business units and bank credit processes are undertaken by the Internal Audit department.

Impaired loans

Impaired loans and advances are those for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the bank's internal credit risk grading system as required by the regulator.

According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non performing.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the bank. Loans under this category are no more than 90 days overdue.

Loans and advances that are neither past due nor impaired

The bank classifies loans and advances under this category for those exposures that are upto date & in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a provision at 1% is made and appropriated under statutory reserves.

Allowances for impairment

The bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The bank writes off a loan / security balance (and any related allowances for impairment losses) when the Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral held

The bank holds collateral against loans and advances to customers in the form of cash, mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2011 or 2010.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Collateral held (continued)

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

Loans and advances to customers

	2011 Sh '000	2010 Sh '000
Against individually impaired		
Property	659,838	1,654,298
Against collectively impaired		
Property	764,219	701,739
Other	23,560	-
Against past due but not impaired		
Property	168,970	152,600
Other	-	-
Against neither past due nor impaired		
Property	11,845,400	10,082,315
Other	265,000	506,504
Total	13,726,987	13,097,456

Concentrations of risk

The bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

(a) Advances to customers- gross

	2011 Sh '000	%	2010 Sh '000	%
Agriculture	859,508	3.0	848,805	3.9
Manufacturing	905,108	3.1	857,244	4.0
Wholesale and retail trade	4,730,468	16.3	2,327,425	10.8
Transport and communications	565,577	2.0	604,917	2.8
Mining and quarrying	68,344	0.2	64,806	0.3
Building and construction	1,233,040	4.3	1,184,246	5.5
Foreign trade	45,610	0.2	41,478	0.2
Business services	3,761,242	13.0	2,010,939	9.3
Real estate	3,405,541	11.8	3,428,966	15.9
Social Community and personal Services	5,412,804	18.7	2,887,376	13.4
Others	7,939,177	27.6	7,274,055	33.9
	28,926,419	100.0	21,530,257	100.0

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

i) Credit risk (continued)

Concentrations of risk (continued)

	2011		2010	
	Sh '000	%	Sh '000	%
(b) Off balance sheet items (letters of credit and guarantees)				
Social community and personal services	62,483	1.5	13,949	0.3
Business services	367,441	8.7	383,113	9.2
Wholesale and retail	746,232	17.7	868,982	20.8
Transport and communication	604,520	14.4	790,274	18.9
Manufacturing	1,575,330	37.4	1,349,416	32.3
Other	855,880	20.3	769,905	18.4
	<u>4,211,886</u>	<u>100.0</u>	<u>4,175,639</u>	<u>100.0</u>

Settlement risk

The bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the bank mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the bank's risk function.

ii) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities-

Management of liquidity risk

The bank'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 bank's reputation.

Treasury department 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 bank as a whole.

Exposure to liquidity risk

The key measure used by the bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. 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.

Details of the reported bank ratio of net liquid assets to deposits and balances due to banking institutions and customer deposits at the reporting date and during the reporting period were as follows:

	2011	2010
At 31 December	34%	41%
Average for the period	37%	46%
Maximum for the period	45%	55%
Minimum for the period	27%	37%
Statutory minimum requirement	20%	20%

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

ii) Liquidity risk (continued)

The table below presents the cash flows payable by the bank under non-derivative financial liabilities by the remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cashflows, whereas the bank manages the inherent liquidity risk based on expected undiscounted inflows.

2011	Carrying amount Sh '000	Up to 1 month Sh '000	1-3 months Sh '000	3-12 months Sh '000	1-5 years Sh '000	Over 5 years Sh '000	Total Sh '000
FINANCIAL LIABILITIES							
Customer deposits	56,728,163	41,219,993	14,700,790	1,810,446	-	-	57,731,229
Deposits and balances due to banking institutions	155,613	606	155,588	-	-	-	156,194
Due to a subsidiary company	21,976	-	-	-	21,976	-	21,976
	56,905,752	41,219,993	14,856,378	1,810,446	-	606	57,909,400
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	5,564,998	5,564,998	-	-	-	-	5,564,998
Deposits and balances due from banking institutions	3,388,192	2,583,883	-	816,060	-	-	3,399,943
Government securities held for trading	822,287	-	24,129	68,954	-	1,194,619	1,287,702
Government securities held to maturity	25,855,812	37,625	110,250	2,785,601	5,805,000	24,626,663	33,365,139
Loans and advances to customers (net)	28,068,218	1,349,149	147	5,468,317	20,498,002	10,288,733	37,604,348
Other assets-Inter bank clearing items	743,579	743,579	-	-	-	-	743,579
Total financial assets	63,700,250	9,536,397	134,526	9,138,932	26,303,002	36,110,015	81,222,873
NET LIQUIDITY GAP	6,794,498	(31,683,596)	(14,721,852)	7,328,486	26,303,002	36,109,409	23,313,473
2010							
Total financial liabilities	48,606,786	34,358,106	12,305,521	2,049,422	-	21,976	48,735,025
Total financial assets	57,125,433	7,909,820	12,262,136	6,424,277	21,040,210	28,768,067	76,402,510
NET LIQUIDITY GAP	8,518,647	(26,450,286)	(43,385)	4,374,855	21,040,210	28,746,091	27,667,485

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

ii) Liquidity risk (continued)

The previous table shows the undiscounted cash flows on the bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

iii) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) 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 within acceptable parameters, while optimising the return on risk.

Management of market risks

Overall responsibility for management of market risk rests with a management committee of the bank, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

a) Interest rate risk

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the bank's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the bank's base lending rate. The base rate is adjusted from time to time to reflect the cost of funds.

ALCO closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risks (continued)

a) Interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

(All figures in thousand shillings)

2011	Less than 1 month	1 month less than 3 months	3 months less than 6 years	6 months less than 1 years	1 year less than 3 years	3 years less than 5 years	Over 5 years	Non-interest bearing	Total
FINANCIAL ASSETS									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	5,564,998	5,564,998
Deposits and balances due from banking institutions	2,300,000	281,409	-	88,701	-	-	-	718,082	3,388,192
Government securities held for trading	-	8,997	1,973	-	-	-	811,317	-	822,287
Government securities held to maturity	32,870	74,601	1,019,308	-	5,000,000	-	19,729,033	-	25,855,812
Loans and advances to customers (net)	1,333,041	142	873	4,774,950	5,778,821	7,194,598	8,985,793	-	28,068,218
Total financial assets	3,665,911	365,149	1,022,154	4,863,651	10,778,821	7,194,598	29,526,143	6,283,080	63,699,507
FINANCIAL LIABILITIES									
Customer deposits	21,757,514	13,813,985	1,064,527	591,798	-	-	-	19,500,339	56,728,163
Deposits and balances due to banking institutions	-	155,007	-	-	-	-	-	606	155,613
Due to a subsidiary company	-	-	-	-	-	-	-	21,976	21,976
Total financial liabilities	21,757,514	13,968,992	1,064,527	591,798	-	-	-	19,522,921	56,905,752
INTEREST RATE SENSITIVITY GAP	(18,091,603)	(13,603,843)	(42,373)	4,271,853	10,778,821	7,194,598	29,526,143	(13,239,841)	6,793,755
2010									
Total financial assets	1,919,543	683,809	2,631,760	3,225,996	10,726,351	4,236,961	27,133,269	6,152,521	56,710,210
Total financial liabilities	12,728,091	13,493,467	1,662,323	358,309	-	-	-	20,364,596	48,606,786
INTEREST RATE SENSITIVITY GAP	(10,808,548)	(12,809,658)	969,437	2,867,687	10,726,351	4,236,961	27,133,269	(14,212,075)	8,103,424

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risks (continued)

a) Interest rate risk (continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank.

Interest rate risks – Increase/decrease of 5 % in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

- ◆ Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments
- ◆ Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- ◆ The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modeling is applied to net interest margins.
- ◆ The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- ◆ The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 5% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2011.

	Amount at 31-Dec-11 Sh '000	Scenario 1 5% increase in net interest margin Sh '000	Scenario 2 5% decrease in net interest margin Sh '000
2011			
Profit Before Tax	2,443,850	2,606,496	2,281,204
Adjusted Core Capital	9,576,447	9,690,299	9,462,595
Adjusted Total Capital	10,003,804	10,117,656	9,889,952
Risk Weighted Assets (RWA)	34,286,441	34,286,441	34,286,441
Adjusted Core Capital to RWA	27.93%	28.26%	27.60%
Adjusted total Capital to RWA	29.18%	29.51%	28.85%
2010			
Profit Before Tax	2,697,823	2,805,333	2,590,313
Adjusted Core Capital	9,081,611	9,156,868	9,006,354
Adjusted Total Capital	9,447,286	9,522,543	9,372,029
Risk Weighted Assets (RWA)	25,590,922	25,590,922	25,590,922
Adjusted Core Capital to RWA	35.5%	35.8%	35.2%
Adjusted total Capital to RWA	36.9%	37.2%	36.6%

Assuming no management actions, a series of such rises would increase/decrease net interest income for 2011 by Sh.162,646,000. Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.34% and 0.34% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.33% and 0.33% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risks (continued)

(b) Foreign exchange risk

The bank operates wholly within Kenya and its assets and liabilities are carried in local currency. The bank maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The bank is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The exchange rates used for translating the major foreign currency balances at the year end were as follows:

	2011 Sh '000	2010 Sh '000
US Dollar	85.13	80.75
GB Pound	131.24	124.77
EURO	110.13	107.63

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risks (continued)

b) Foreign exchange risk (continued)

The table below summarises the bank's exposure to foreign currency exchange rate risk as at the end of the reporting period.

2011	KSHS Sh '000	USD Sh '000	GBP Sh '000	EUR Sh '000	OTHER Sh '000	TOTAL Sh '000
ASSETS						
Cash and balances with Central Bank of Kenya	5,229,860	234,121	46,634	40,499	13,884	5,564,998
Deposits and balances due from banking institutions	2,343,058	698,742	209,452	24,099	112,840	3,388,191
Government securities held for trading	822,287	-	-	-	-	822,287
Government securities held to maturity	25,855,812	-	-	-	-	25,855,812
Loans and advances to customers (net)	27,969,863	98,313	6	36	-	28,068,218
Other investments	5,337	57,535	-	-	-	62,872
Other assets-Inter bank clearing items	743,579	-	-	-	-	743,579
Total financial assets	62,969,796	1,088,711	256,092	64,634	126,724	64,505,957
FINANCIAL LIABILITIES						
Customer deposits	55,059,936	1,660,374	3,275	4,569	9	56,728,163
Deposits and balances due to banking institutions	2,388	153,225	-	-	-	155,613
Due to a subsidiary company	21,976	-	-	-	-	21,976
Total financial liabilities	55,084,300	1,813,599	3,275	4,569	9	56,905,752
NET BALANCE SHEET POSITION	7,885,496	(724,888)	252,817	60,065	126,715	7,600,205
NET OFF BALANCE SHEET POSITION	5,293,122	(1,935,914)	26,595	(33,503)	32,991	3,383,291
As at 31 December 2010						
Total financial assets	55,014,267	1,390,667	73,586	500,245	185,605	57,164,370
Total financial Liabilities	47,497,119	1,051,829	6,359	51,467	12	48,606,786
NET BALANCE SHEET POSITION	7,517,148	338,838	67,227	448,778	185,593	8,557,584
NET OFF BALANCE SHEET POSITION	4,847,957	(963,725)	67,227	354,137	172,621	4,478,211

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

(iii) Market risks (continued)

b) Foreign exchange risk (continued)

Foreign exchange risk – Appreciation/depreciation of Sh against other currencies by 10%

The Foreign exchange risks sensitivity analysis is based on the following assumptions:

- ◆ Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- ◆ The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- ◆ The base currency in which the bank's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2011.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount at 31-Dec-11 Sh '000	Scenario 1 10% appreciation interest margin Sh '000	Scenario 2 10% depreciation interest margin Sh '000
2011			
Profit Before Tax	2,443,850	2,410,641	2,477,059
Adjusted Core Capital	9,576,447	9,553,201	9,599,693
Adjusted Total Capital	10,003,804	9,980,558	10,027,050
Risk Weighted Assets (RWA)	34,286,441	34,286,441	34,286,441
Adjusted Core Capital to RWA	27.93%	28.00%	27.86%
Adjusted total Capital to RWA	29.18%	29.24%	29.11%
2010			
Profit Before Tax	2,697,823	2,668,412	2,727,234
Adjusted Core Capital	9,081,611	9,061,023	9,102,199
Adjusted Total Capital	9,447,286	9,426,698	9,467,874
Risk Weighted Assets (RWA)	25,590,922	25,562,993	25,618,852
Adjusted Core Capital to RWA	35.49%	35.45%	35.53%
Adjusted total Capital to RWA	36.92%	36.88%	36.96%

Assuming no management actions, a series of such appreciation /depreciation would decrease/ increase operating income for 2011 by Sh. 33,209,000. Also a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.06% and 0.06% respectively, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.07% and 0.07% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

31 FINANCIAL RISK MANAGEMENT (continued)

(iv) Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- ◆ Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- ◆ Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- ◆ Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2011

	Level 1 Sh '000	Level 2 Sh '000	Level 3 Sh '000	Total Sh '000
Financial Assets				
Government securities held for trading	828,868	-	-	828,868
Equity investments	53,756	-	-	53,756
	<u>882,624</u>	<u>-</u>	<u>-</u>	<u>882,624</u>
At 31 December 2010				
Financial Assets				
Government securities held for trading	10,788,668	-	-	10,788,668
Equity investments	38,937	-	-	38,937
	<u>10,827,605</u>	<u>-</u>	<u>-</u>	<u>10,827,605</u>

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

32 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

In common with other banks, the bank conducts business involving acceptances, guarantees, performances and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2011 Sh '000	2010 Sh '000
Letters of credit	1,608,020	1,371,689
Letters of guarantee	2,603,867	2,803,950
Pending lawsuits	64,800	55,200
	4,276,687	4,230,839

Letters of credit commit the bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Letters of guarantee are issued by the bank to guarantee performance by the customers to third parties. The bank will only be required to meet these obligations in the event of customer default.

The pending lawsuits relate to claims by customers and former employees against the bank in the normal course of business. The amounts claimed have not been provided in the financial statements since the directors, based on advice received from the bank's legal advisors, are of the opinion that no significant claims will crystallise.

Concentrations of letters of credit and guarantees are covered under note 32.

b) Capital commitments

Commitments at the year end for which no provision has been made in these financial statements:

	2011 Sh '000	2010 Sh '000
Authorised and contracted for	436,182	146,284
Authorised but not contracted for	9,426	-

The authorized and contracted capital commitments largely relate to procurement of software and hardware needed in the implementation of a new core banking system and the refurbishment costs for the premises for the new and existing branches.

c) Operating lease arrangements

The bank as a lessor

Rental income earned during the year was Sh. 43,727,387 (2010 – Sh. 35,474,000). At the end of the reporting period, the bank had contracted with tenants for the following future lease receivables:

	2011 Sh '000	2010 Sh '000
Within one year	48,446	34,881
In the second to fifth year inclusive	148,118	137,622
After five years	14,520	26,353
	211,084	198,856

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

32 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (continued)

c) Operating lease arrangements (continued)

Leases are negotiated for an average term of 5 years and rentals are reviewed annually. The leases are cancellable with a penalty. Tenants are required to pay full rent for the quarter in which termination of lease notice is given.

The bank as a lessee

At the end of the reporting period, the bank had outstanding commitments under operating leases which fall due as follows:

	2011 Sh '000	2010 Sh '000
Within one year	92,157	57,011
In second to fifth year inclusive	339,958	232,740
After five years	53,341	43,833
	485,456	333,584

Operating lease payments represent rentals payable by the bank for some of its branch premises. Leases are negotiated for an average term of 6 years.

33 RETIREMENT BENEFIT OBLIGATIONS

The bank makes contributions to a defined contribution pension scheme and a defined contribution provident fund in respect of eligible non unionisable and unionisable employees respectively. It also contributes to the statutory defined pension scheme, the National Social Security Fund. Contributions to the company plans are determined by the rules of the plan and totalled Sh. 274,872,500 (2010 – Sh. 244,466,000) in the year. Contributions to the statutory scheme are determined by local statute and are currently set at Sh 200 per employee per month. For the year ended 31 December 2011, the company contributed Sh. 3,943,717 (2010 – Sh. 3,819,000) to the statutory scheme.

Previously, the bank had been operating a defined benefit scheme. This was converted to a defined contribution scheme on 1 July 2004. As at the conversion date, six members declined to convert and elected to remain in the Defined Benefit Scheme. However, in 2006, five out of the six members who had initially declined conversion accepted to convert, leaving only one member in the defined benefit scheme. As at 31 December, the accrued benefits in respect of the Defined Benefit Scheme were Sh. 10,397,262 (2010 – Sh. 8,903,574). The amounts recognized in profit or loss in respect of this defined benefit plan is Sh. 1,493,688 (2010 – Sh. 1,370,000).

Except for the one member under the defined benefit scheme mentioned above, the bank's liability in the pension scheme is limited to the extent of its unpaid contributions to the scheme.

The scheme's funds are jointly managed by Genesis Kenya Investment Management Limited and AIG Global Investment Company (EA) Limited.

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

34 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placings are made in the bank by directors and companies associated to directors. Advances to customers at 31 December 2011 include advances and loans to companies associated to directors.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

Details of related party balances are as follows:

	2011 Sh '000	2010 Sh '000
(a) Advances to customers:		
Directors (note 34(d))	11,233	10,459
Employees	2,888,391	2,328,057
	2,899,624	2,338,516
(b) Customer deposits:		
Directors (note 34(d))	25,828	45,060
Natbank Trustee & Investment services Limited	21,976	21,976
	47,804	67,036
(c) Contributions to the statutory defined contribution pension scheme, the National Social Security Fund	3,944	3,819

(d) The volumes of related party transactions with directors during the year and the outstanding amounts at the year end are as follows:

	Directors	
	2011 Sh '000	2010 Sh '000
Loans and advances:		
At 1 January	10,459	4,418
Advanced during the year	9,506	17,689
Interest charged	562	444
Repayments during the year	(9,294)	(12,092)
At 31 December	11,233	10,459
Deposits:		
At 1 January	45,060	32,308
Received during the year	50,586	59,927
Withdrawn during the year	(69,818)	(47,175)
At 31 December	25,858	45,060

Notes to the Financial Statements (continued)

For the year ended 31 December 2011

34 RELATED PARTY TRANSACTIONS (continued)

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	2011 Sh '000	2010 Sh '000
Salaries and other short-term employment benefits	116,196	91,769
Pension and gratuity	17,448	15,194
	<u>133,644</u>	<u>106,963</u>
Directors' remuneration		
Fees for services as a director	16,644	10,595
Other emoluments (included in key management compensation above)	58,794	48,174
	<u>75,438</u>	<u>58,769</u>

35 FIDUCIARY ACTIVITIES

The bank holds asset security documents on behalf of customers with a value of Sh. 2,308,420,349 (2010 – Sh. 2,031,968,182).

Most of these securities are held by the custody services department. The assets held comprise deposits with financial institutions, government securities, and quoted and unquoted securities.

36 SEGMENTAL REPORTING

The bank adopted IFRS 8 Operating Segments which became effective for the periods beginning 1 January 2010. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the corporation that are regularly reviewed by the Chief Operating decision Maker (CODM) in order to allocate resources to the segments and to assess performance. Thus, under IFRS 8, the major reporting segment is banking with other income comprising less than 10% of total income. This is the information which has been reported in these financial statements. Therefore, no further segmental information has been provided.

37 ASSETS PLEDGED AS SECURITY

Deposits due from foreign banks amounting to Sh. 88,700,250 (2010 - Sh. 89,821,800) were under lien as collateral for the letters of credit and guarantees issued to the bank's customers.

38 INCORPORATION

The bank is incorporated and domiciled in Kenya under the Companies Act.

39 CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh '000).

Top Twenty Shareholders

as at 31 December 2011

No.	Name of Shareholder	No. of Shares	Percentage %
1	NSSF Board of Trustees	134,547,725	48.05
2	The Permanent Secretary to the Treasury	63,000,000	22.50
3	NIC Custodial Services A/C 077	1,161,360	0.41
4	Equity Nominee Ltd A/c 00084	1,038,300	0.37
5	Paul Wanderi Ndungu	971,820	0.34
6	Standard Chartered Nominees A/c 9098AJ	945,000	0.33
7	Eng. Ephraim Mwangi Maina	913,227	0.32
8	The Jubilee Insurance Company of Kenya Ltd	823,593	0.29
9	Craysell Investments Ltd	668,420	0.23
10	APA Insurance Ltd	513,940	0.18
11	John Peter Mbue Mwangi	420,000	0.15
12	Kenindia Assurance Company Ltd - General fund	420,000	0.15
13	NIC Custodial Services A/C 012	394,800	0.14
14	Pravinkant Lakhamshi Shah	372,985	0.13
15	David Mwangi Ndegwa	365,000	0.13
16	Insurance Co. of East Africa Ltd- Pooled	348,040	0.12
17	Joel Kamau Kibe	338,400	0.12
18	Patrick Njogu Kariuki	327,600	0.11
19	CFC Stanbic Nominees Ltd A/c NR 1030621	286,440	0.10
20	Standard Chartered nominees A/c 9675	280,000	0.10
21	Others	71,863,350	25.66
	Total	280,000,000	100

National Bank of Kenya Products & Services

DEPOSITS ACCOUNTS

VISION ACCOUNT is an account for children under the age of 18 years that encourages a saving culture from a tender age. It also enables parents to save for their children's education and future.

The minimum account opening balance is Sh. 500. Some of the benefits are; no monthly ledger fees, attractive interest paid on all account balances, free debit/ATM card and free Banker's cheques for school fees payments.

STUDENT ACCOUNT encourages savings by young people in the age group of 18-25 years. It also provides an account where parents may deposit cash for children studying in learning institutions worldwide.

The minimum opening balance is Sh. 500, no monthly ledger fees, attractive interest paid on all account balances. This account gives access to HELB loans and SIM-ple banking (Mobile banking service).

TAIFA ACCOUNT offers an affordable, secure and convenient avenue for accumulating savings as well as processing remittances eg. salaries, pension, agricultural proceeds.

This is easy to open account with a minimum of Sh. 500, no monthly ledger fee and access to SIM-ple banking.

WAGES ACCOUNT offers an affordable, secure convenient account for salary processing for employees of large companies eg. security firms, flower farms, factories.

The minimum opening balance is Sh. 500, low salary processing fees and it has no monthly ledger fees.

NATIONAL ACCOUNT has been designed to encourage customers to enhance their savings.

Minimum opening balance is Sh. 500. The account offers attractive interest and accident insurance covers for balances upto one million.

CURRENT ACCOUNTS offers fast and convenient access to cash at any time. It is suitable for individuals as well as companies.

The minimum opening balance is Sh. 5,000. It is easy and convenient to open, no minimum account balance. The account is available to both personal and business customers.

UCHUZI SME CURRENT ACCOUNT offers fast and convenient access to cash at any time. It is designed to suit the needs of SMEs. Affordable opening balance of Sh. 1000, no minimum operating balance, free quarterly statements, access to overdraft facility and SME loan.

PINNACLE ACCOUNT is the ultimate account designed to offer customers special attention and the exclusivity they deserve.

The minimum opening balance is Sh. 60,000, targets both personal and business customers. Account benefits include; free accident insurance cover up to a maximum of Sh. 1,000,000 (as per account balance), free debit/ATM card and free purchase of Banker's cheques.

FIXED DEPOSITS offers an avenue to earn interest on long term and short term deposits. It is a convenient and flexible way to save funds.

The minimum opening amount is Sh. 50,000, available for flexible periods of 1, 3, 6, 12 months. The account offers attractive interest rates.

AL-MU'MIN ACCOUNT is a Shariah compliant account guided by Islamic law.

The account opening balance is Sh. 500. In compliance with the Shariah law, no interest paid and no charges are levied.

AL-MU'MIN CURRENT ACCOUNT is a Shariah compliant account guided by Islamic law.

The opening balance is Sh. 5,000, no minimum account balance. In compliance with the Shariah law, no interest paid or charged. Service fees are waived for any account with balances above Sh. 500,000.

SUPER CHAMA ACCOUNT targets Chamas that require an avenue to save and manage their funds.

The minimum opening balance is Sh. 1,500, no monthly charges, free monthly statements, free standing orders to the Super Chama account. Customers are eligible to loans secured up to 100% of their deposits, loans of up to minimum Sh. 50,000 and maximum Sh. 10,000,000.

WELFARE ACCOUNT targets registered groups that require an account to manage their funds. Examples of such groups include; Welfare Associations, Churches, Non-Profit Organization Groups, Women Groups, Youth Groups and Self Help Groups.

The minimum opening amount for a current account is Sh. 10,000 and for savings account is Sh. 1,000.

USHURU ACCOUNT facilitates fast and convenient payment of KRA taxes.

Minimum opening amount is Sh. 10,000, free cheque book facility available, access to credit facilities. All payments to KRA from the Ushuru account are free of charge. The account offers a fixed monthly ledger fee regardless of the number of transactions effected.

LENDING PRODUCTS.

ASSET FINANCING empowers customers in the acquisition of assets eg motor vehicles, tractors and machinery.

It offers financing of up to 80% of the asset value, available to salaried, self employed individuals and corporate companies, flexible repayment period of up to 48 months.

MORTGAGE FACILITIES available for the purchase of residential and commercial properties.

The Bank can finance up to 90% of market value of property, if property is residential and up to 80% of market value of the property, if property is commercial. Financing is available to companies, Real Estate developers, salaried and self employed individuals. We offer flexible repayment periods and affordable interest rates.

NBK EQUITY RELEASE is aimed at assisting property owners to obtain cash from the value of their residential or commercial property.

The Bank can finance up to 90% of market value of property, if property is residential and up to 80% of market value of the property, if property is commercial. The maximum repayment period for residential properties is between 5–20 years while the maximum repayment period for commercial properties is 10 years.

OVERDRAFT FACILITIES help customers to meet working capital funding needs. Interest is only charged on the utilized debit balance.

SCHOOL OVERDRAFT assists schools handle their overhead costs especially towards the end of the term.

Amounts advanced are minimum Sh. 10,000 maximum Sh. 1,000,000, competitive interest rates, repayment period three (3) monthly installments (beginning of school term).

NBK STUDY LOAN is aimed at providing financial solutions for those investing in education at all levels of learning.

Maximum loan is Sh. 500,000, repayment period is maximum 60 months depending on the duration of the degree.

SALARY ADVANCE FACILITIES is available for individuals whose salaries are channeled through their accounts with NBK.

Amount of the advance is up to a maximum of 50% of net salary (minimum Sh. 2,000–maximum Sh. 100,000), repayment period is up to one month and we offer competitive interest rates.

SME LOAN PRODUCTS

INUA BIASHARA SME LOAN is a facility to assist business people to develop their business.

The facility offers flexible collateral requirements. Customers can get loans of up to Sh. 60,000,000 and can also access overdraft facility. We offer competitive interest rates and a repayment period of up to 4 years.

LPO FINANCING is a facility to assist business people to service their LPOs.

It avails financing of up to 80% of the amount specified on the LPO, competitive interest rates, repayment period of maximum 3 months.

LOAN TO TEA FARMERS is a loan facility for tea farmers who deliver their tea produce to both KTDA and private factories and who are receiving their tea proceeds in their accounts with NBK.

Customers can borrow a minimum Sh. 10,000 and a maximum of Sh. 500,000, repayment period between 12–24 months.

LOAN TO SUGAR CANE FARMERS is a loan facility for the Sugarcane farmers who are receiving their Sugarcane proceeds in their account with National Bank.

Customers can borrow a minimum Sh. 10,000 and a maximum of Sh. 500,000, repayment period between 1–6 months on a one-off payment.

SUPER CHAMA LOAN is a loan facility to enable welfare groups achieve their investment plan.

Customers are eligible to loans secured up to 100% of their deposits, free standing orders to the Chama account. Customers can apply for loans of up to minimum Sh. 50,000 and maximum Sh. 10,000,000.

STIMA LOAN is a facility to assist individuals and businesses install power form KPLC in their commercial or residential premises.

Maximum repayment period is 12 months, and eligible loans range from Sh. 35,000–Sh. 100,000. We offer competitive interest rates.

National Bank of Kenya Products & Services (continued)

PREMIUM BANKING BUSINESS CLUB is a club mainly for business people and operating various NBK accounts. The membership fee is Sh. 2,500 and a monthly subscription of Sh. 1,000. Members enjoy the following benefits; Business tours both locally and international to expand on business opportunities and gain insights on diverse business practices and operations, seminars to enable businessmen/women to build business networks and develop new business ideas, and access to concessionary loans & overdrafts.

E-BANKING SERVICES

INTERNET BANKING allows customers to conduct financial transactions on a secure website operated by the Bank. This service is available for our personal and business customers. We offer a wide range of Online Services. These include; online viewing of recent transactions, funds transfers between a customer's own accounts, funds transfer to third parties, paying bills.

SIMPLE BANKING is a service that allows customers to perform the following via mobile phone: account information enquiry, balance enquiry, mini-statement enquiry, transfer of funds between accounts, transfer of funds from NBK account to M Pesa and vice versa, funds transfer to third party accounts within NBK, airtime purchase.

MONEY GRAM is an international money transfer where a customer is able to transfer money fast and conveniently to friends and family and add a personal message for every transaction made.

M-PESA is a mobile-phone based money transfer service. Through M Pesa a customer can receive/send money from mobile phone from/to other mobile users, withdraw or deposit cash from/to the mobile phone, transfer money from bank account to M pesa account, transfer money from M Pesa account to bank account, purchase e-float from the bank if offering M Pesa agency services.

WESTERN UNION is a money transfer service that enables customers to send and receive money locally and internationally, pay bills online in person or by phone.

OTHER SERVICES

TRADE FINANCE

- Letters of Credit
- Bills Discounting
- Collections
- Performance Bids
- Guarantees and Bonds
- Swift transfers
- Demand drafts

CREDIT CARDS

- Local VISA
- International VISA

PAYMENT SERVICES

- Remittance services (Inwards/ Outwards) through SWIFT
- Interbank funds transfers through RTGS
- Payroll processing & distribution
- Payment collection & reconciliation
- Tax collections/ transmission

CUSTODIAL SERVICES

- CDS account opening
- Purchase of shares and stocks
- Escrow custody
- Immobilization & deposit of securities
- Asset trading & settlements
- Safety deposit of valuables
- Follow up on corporate actions (e.g. dividends, bonuses, splits, mergers)
- Core custody (custodial services to retirement benefit schemes)
- Proxy voting

BANCASSURANCE

- Placing insurance covers on behalf of our clients
- Processing claims on behalf of our clients in case of an occurrence
- Facilitating of Insurance Premium Finance for our clients
- Educating our clients on various Insurance products.

TREASURY SERVICES

- Purchase and sale of foreign currency bank notes
- Buying and selling of foreign currency SWIFT transfers
- Foreign currency fixed deposits
- Investment in Government securities (Treasury bills and Bonds)

National Bank of Kenya Branch Network

HEAD OFFICE:

National Bank Building
Harambee Avenue
P.O. Box 72866 -00200 Nairobi
Tel: 020-2828000
Fax: 020-311444/222304
E-mail: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

CARD CENTRE.

P.O. Box 72866 -00200 Nairobi
Tel: 020-334690/2226471
Fax: 020-213987
E-mail: cardcentre@nationalbank.co.ke

NAIROBI BRANCHES:

- Harambee Avenue Branch**
P.O. Box 41862- 00100 Nairobi
Tel: 020-2828000
Fax: 020-2248487
Mobile: 0711038000
E-mail: harambee@nationalbank.co.ke
- Times Tower Branch**
P.O. Box 56330- 00200 Nairobi
Tel: 020-2213087
Fax: 020-2213084
Mobile: 0711038000
E-mail: timestower@nationalbank.co.ke
- Inland Container Depot Agency**
P.O. Box 41862-00100 Nairobi
Tel: 020-3588240
Fax: 020-2248487
Mobile: 0719445156
E-mail: icdagency@nationalbank.co.ke
- Hill Plaza Branch**
P.O. Box 45219-00100 Nairobi
Tel: 020-2720151/2/2722211/2722332
Fax: 020-2725512
Mobile: 0722201370/0722201380
E-mail: hill@nationalbank.co.ke
- Hospital Branch**
P.O. Box 30763 -00100 Nairobi
Tel: 020-2724608/2724815/2719123/4
Fax: 020-2716248
Mobile: 0726610097
E-mail: hospital@nationalbank.co.ke
- Kenyatta Avenue Branch**
P.O. Box 30645- 00100 Nairobi
Tel: 020-340880/8/340887
Fax: 020-2230294
Mobile: 0722205253/0733618663/4
E-mail: kenyatta@nationalbank.co.ke
- Eastleigh Branch**
P.O. Box 16131-00610 Nairobi
Tel: 020-6768133/6768134/6768130
Fax: 020-6768132
Mobile: 0727123247
E-mail: eastleigh@nationalbank.co.ke

- Wilson Airport Branch**
P.O. Box 30763-00100 Nairobi
Tel: 020-6007383/4, 020-2130128/9
Fax: 020-6001065
Mobile: 020 210 128/9
E-mail: wilson@nationalbank.co.ke

- J.K.I.A Branch**
P.O. Box 30763-00100 Nairobi
Tel: 020-827286, 0710 223623
Fax: 020-827254
Mobile: 0710223623
E-mail: jkia@nationalbank.co.ke

- Westlands Branch**
P.O. Box 1613-00606 Nairobi
Tel: 020-2077373
Fax: 020-2077368
Mobile: 0704832675
E-mail: westlands@nationalbank.co.ke

- Upper Hill (TSC Building) Branch**
P.O. Box 59396-00200 Nairobi
Tel: 020-2077356
Fax: 020-2077362
Mobile: 0703960175
E-mail: upperhill@nationalbank.co.ke

- African Cargo Handling Limited (ACHL)- Agency - JKIA**
P.O. Box 30763-00100 Nairobi
Tel: 020-827216
Mobile: 0734 575590/0713790791
Fax: 020-827216

OTHER BRANCHES:

- Awendo Branch**
P.O. Box 200 Sare-Awendo
Tel: 020-8029205
Fax: 020-2336319
Mobile: 0725118548/073649499
E-mail: awendo@nationalbank.co.ke

- Bungoma Branch**
P.O. Box 25 Bungoma
Tel: 055-30621/5
Fax: 055-30498
Mobile: 0733559512
E-mail: bungoma@nationalbank.co.ke

- Busia Branch**
P.O. Box 264 Busia
Tel: 055-22030/22111/22173
Fax: 055-22368
Mobile: 0738227177/0712098660
E-mail: busia@nationalbank.co.ke

- Eldoret Branch**
P.O. Box 3111-30100 Eldoret
Tel: 053-2062545/6/7
Fax: 053-2032387
Mobile: 0734575590/0713790791
E-mail: eldoret@nationalbank.co.ke

- Changamwe Branch**
P.O. Box 92958-80102, Changamwe
Tel: 020-2585561
Fax: 020-2585562
E-mail: changamwe@nationalbank.co.ke

- Eldoret International Airport Branch**
P.O. Box 3111-30100, Eldoret
Tel: 020-2418947, 2418949
Fax: 020-2418959
E-mail: eldoretairport@nationalbank.co.ke

- Embu Branch**
P.O. Box 2290-60100, Embu
Tel: 020-2444146, 2444147
Fax: 020-2444149
Mobile: 0722293831
E-mail: embu@nationalbank.co.ke

- Garissa Branch**
P.O. Box 1648-70100 Garissa
Tel: 020-2585563
Fax: 020-2585564
E-mail: garissa@nationalbank.co.ke

- Kakamega Branch**
P.O. Box 1773-5010 Kakamega
Tel: 057-2504004/5
Fax: 057-2504006
Mobile: 0721271821
E-mail: kakamega@nationalbank.co.ke

- Kapsabet Branch**
P.O. Box 34 Kapsabet
Tel: 053-52125/52159/020- 2336672
Fax: 053-52284
Mobile: 0721212917/073740045
E-mail: kapsabet@nationalbank.co.ke

- Karatina Branch**
P.O. Box 1490 -10101 Karatina
Tel: 061-72792, 72888
Fax: 061-72886
Mobile: 0727828364/0734691763
E-mail: karatina@nationalbank.co.ke

- Kenyatta University Branch**
P.O. Box 93-002300 Ruiru
Tel: 020-8710632 Nairobi
Fax: 020-8710632
E-mail: kenyattauniversity@nationalbank.co.ke

- Kiambu Branch**
P.O. Box 2090-00900 Kiambu
Tel: 020-2471333/ 020-2471322
Fax: 058-30302
Mobile: 0715181600/0737444798
E-mail: kiambu@nationalbank.co.ke

- Kianjai Branch**
P.O. Box 1774-60200 Meru
Tel: 020-2445563, 020-3588249
Fax: 020-2514137
Mobile: 0726481111
E-mail: kianjai@nationalbank.co.ke

- Kisii Branch**
P.O. BOX 2435 Kisii
Tel: 058-31920/30
Fax: 058-30302
Mobile: 0715-181600/0737-444798
E-mail: kisii@nationalbank.co.ke

National Bank of Kenya Branch Network (continued)

28. **Kitale Branch**
P.O. BOX 1192 Kitale
Tel: 054-30827/8/9
Fax: 054-30832
Mobile: 0722275854
E-mail: kitale@nationalbank.co.ke
29. **Kitengela Branch**
P.O. Box 55 Kitengela
Fax 250 020 210231
Tel 254 020 210222
E-mail: kitengela@nationalbank.co.ke
30. **Kitui Branch**
P.O. Box 166-90200 Kitui
Tel: 044-22043/22443/22035
Fax: 044-22916
Mobile: 0714600447
E-mail: kitui@nationalbank.co.ke
31. **Kisumu branch**
P.O. Box 1152-40100 Kisumu
Tel: 057-2024389/90/91
Fax: 057-2025031
Mobile: 0733338150
E-mail: kisumu@nationalbank.co.ke
32. **Limuru Branch**
P.O. Box 240-00217 Limuru
Tel: 020-2054472
Fax: 020-2458886
Mobile: 0715101424
E-mail: limuru@nationalbank.co.ke
33. **Machakos Branch**
P.O. Box 274 Machakos,
Tel: 020 2077388
Fax 020 2077389
Email: machakos@nationalbank.co.ke
34. **Maua Branch**
P.O. Box 559-60600 Maua
Tel: 064-21521/22
Fax: 064-21523
Mobile: 0704080416
E-mail: maua@nationalbank.co.ke
35. **Malindi Branch**
P.O. Box 2016-80200 Malindi
Tel: 020-2643816
Fax: 020 2643815
Mobile: 0202643816
E-mail: malindi@nationalbank.co.ke
36. **Meru Branch**
P.O. Box 1174-60200 Meru
Tel: 064-32031/32624/32202
Fax: 064-30541
Mobile: 020-3588249
E-mail: meru@nationalbank.co.ke
37. **Molo Branch**
P.O. Box 68 -2016 Molo
Tel: 051-721292/721081
Fax: 051-721234
Mobile: 0726610095/0734272271
E-mail: molo@nationalbank.co.ke
38. **Migori Branch**
P.O. Box 1071-40400, Suna
Tel: 020-2077376
Fax: 020-2077365
Mobile: 0705297043
E-mail: migori@nationalbank.co.ke
39. **Mutomo Branch**
P.O. Box 177-90201 Mutomo
Tel: 020-2445560/8009688
Fax: 020-2445565
Mobile: 020 800 96 88
E-mail: mutomo@nationalbank.co.ke
40. **Moi's Bridge Branch**
P.O. Box 1192-30200 Kitale
Tel: 020-2445564
Fax: 020-2445566
Mobile: 0725170162/0735244519
E-mail: moi'sbrideg@nationalbank.co.ke
41. **Moi University Branch**
P.O. Box 3111-30100 Eldoret
Tel: 053-43082
Fax: 053-43016
E-mail: moiuniversity@nationalbank.co.ke
42. **Moi International Airport Branch**
P.O. Box 87770-80100 Mombasa
Tel: 020-2335742
Fax: 020-2354402
E-mail: moiinternationalairport@nationalbank.co.ke
43. **Mtwapa Branch**
P.O. Box 1059-80109 Mtwapa
Tel 020 2320575, 020 26670557
Fax 020 2150177
Email: mtwapa@nationalbank.co.ke
44. **Nakuru Branch**
P.O. Box 1013-20100 Nakuru
Tel: 051-211795
Fax: 051-2211478
Mobile: 0722034822/0712962559
E-mail: nakuru@nationalbank.co.ke
45. **Narok Branch**
P.O. Box 348 Narok
Tel: 050-22440/22438/9/22540
Fax: 050-22442
Mobile: 0721205621
E-mail: narok@nationalbank.co.ke
46. **Nyeri Branch**
P.O. Box 1629-10100 Nyeri
Tel: 061-2030734 / 2030738
Fax: 061-2034391
E-mail: nyeri@nationalbank.co.ke
47. **Nkrumah Road Branch**
P.O. Box 90363-80100 Mombasa
Tel: 041-2225383/2311150/2315107
Fax: 041-2313828
Mobile: 0716777317/0736777317
E-mail: nkrumah@nationalbank.co.ke
48. **Nandi Hills Branch**
P.O. Box 264-30301 Nandi Hills
Tel: 020-2077381
Fax: 020-2077363
E-mail: nandihills@nationalbank.co.ke
49. **Ongata Rongai Branch**
P.O. Box 590-00511 Ongata Rongai
Tel: 020-2528359/60
Fax: 020-2528361
E-mail: ongatarongai@nationalbank.co.ke
50. **Portway House Branch**
P.O. Box 87770-80100 Mombasa
Tel: 041-2229708/9/020-2335745
Fax: 041-2229806
Mobile: 0722205351/2/0733600933/4
E-mail: portway@nationalbank.co.ke
51. **Port Agency (Kilindini)**
P.O. Box 87770 Mombasa
Tel: 041-222099
Fax: 041-2354402
E-mail: portagency@nationalbank.co.ke
52. **Ruiru Branch**
P.O. Box 93-002300 Ruiru
Tel: 067-5854226/5855010
Fax: 067-5855105
Mobile: 0726610096
E-mail: ruiru@nationalbank.co.ke
53. **St. Paul's University Branch**
P.O. Box 240-00217 Limuru
Tel: 020-8044494
Fax: 020-8091102
E-mail: stpaulsuniversity@nationalbank.co.ke
54. **Thika Branch**
Tel: 020-2585565
Fax: 020-2585566
P.O. Box 2757-01000
E-mail: thika@nationalbank.co.ke
55. **Ukunda Branch**
P.O. Box 457-80400 Ukunda
Tel: 020-2111703
Fax: 020-2643814
E-mail: ukunda@nationalbank.co.ke

National Bank

THE BANK WHERE YOU BELONG

National Bank Building, Harambee Avenue
P.O. Box 72866 00200 | Tel: 2828000/0711038000, NAIROBI
Fax: 020 311444/2223044 | Email: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

PROXY FORM

Shareholder's Member No. /CDSC No. _____

The Company Secretary
National Bank of Kenya Limited
Harambee Avenue
SLP 72866-00200
NAIROBI

PROXY

I/We _____

of (address) _____

being a member/members of National Bank of Kenya Limited, hereby appoint:-

of (address) _____

and failing him, the Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 43rd Annual General Meeting of the Bank to be held on **Friday, 8 June 2012 at 10.00 a.m.** or at any adjournment thereof.

As witness my/our hand/hands is/are set this _____ Day of _____ (month) 2012.

Signed _____

- NOTE:**
1. A proxy need not be a member.
 2. In the case of a corporate body the proxy must be under its Common Seal.
 3. This proxy must be delivered to the Bank's registered office not later than 10.00 a.m. on Wednesday, 6th June 2012.

Shareholder Admission Letter

Please complete this form and note that it must be produced at the Annual General Meeting by you or your proxy for admission.

Name _____ Signature _____

Shareholder's Member No. /CDSC No. _____

43rd Annual General Meeting of National Bank of Kenya Limited to be held at KICC Tsavo Ballroom, Nairobi on Friday, 8th June 2012 at 10.00 a.m.

FOMU YA UWAKILISHI

Nambari ya mwanachama /CDSC No. _____

Katibu wa Kampuni
National Bank of Kenya Limited
Harambee Avenue
SLP 72866-00200
NAIROBI

WAKALA

Mimi/ Sisi _____

wa (anwani) _____

Kama mwanachama/ wanachama wa National Bank of Kenya Limited namteua/ twamteua _____

_____ wa (anwani) _____

na endapo atakosa, mwenyekiti wa mkutano kuwa wakala wangu/ wetu ili kupiga kura kwa niaba yangu/ yetu Wakati wa mkutano wa arobaini na tatu wa pamoja wa mwaka wa Benki **utakaofanyika Ijumaa Juni 8 2012 kuanzia saa nne asubuhi** au kuahirishwa kwake.

Kama ushahidi ninatia/ tunatia sahihi hii/hizi siku ya _____ mwezi wa _____ 2012

Sahihi _____

MUHIMU:

Si lazima kwa wakala kuwa mwanachama

Endapo wakala atakuwa shirika ni lazima fomu ya uwakilishi iwe imepigwa muhuri wake

Fomu ya uwakilishi iwasilishwe katika ofizi za benki zilizosajiliwa kabla ya saa nne asubuhi Jumatano Juni 6 2012

Barua ya kumuidhinisha mwanahisa

Tafadhali jaza fomu hii na ufahamu kwamba ni lazima itolewe wakati wa mkutano wa pamoja wa mwaka na wewe au wakala wako ili kuruhusiwa kuingia.

Jina _____ sahihi _____

Nambari ya uanahisa/ CDSC _____

Mkutano wa 43 wa National Bank of Kenya Limited utakaofanyika katika KICC Tsavo Ballroom Nairobi, Ijumaa Juni 8 2012 kuanzia saa nne asubuhi.