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CHAIRMAN'S REPORT

Ranjan Dhawan

Dear Shareholders,

I have the pleasure in presenting the Bank's Annual Audited Report and Financial Statements for the year ended 31st December 2012. The Bank continued to maintain its growth with great determination and resilience, a no mean feat in a year of turbulence in the macro economy.

KENYAN ECONOMY

Year 2012 has been a year of challenges, with a tough economic environment. This was coupled with extreme volatility of Interest Rates and Exchange Rates. The easing of Monetary Policy by Central Bank of Kenya and control of inflation stabilized both the Interest and Exchange Rates towards the end of the year, giving rise to optimism for a greater future. New Prudential Guidelines were introduced by Central Bank of Kenya, with effect from 1st January 2013, to strengthen and support the Banking Sector. Our bank, Bank of Baroda (K) Ltd is fully committed to comply with these guidelines and draw strength from the strong structural frame work.

BANKING SECTOR

The Kenyan Banking Sector, is comprising of -43- Commercial Banks, and one Mortgage Finance Company (MFCs), 8 Deposit Taking Microfinance Institutions (DTMs) 2 Credit Reference Bureaus (CRBs) and 112 Forex Bureaus as at the end of 31st December 2012.

In spite of the turbulence in the macro-economic environment, the Kenyan Banking Sector recorded improved performance in the year 2012.

Total Net Assets of the sector registered an increase of 15.3% and reached a level of Ksh.2.33 trillion in December 2012.

Gross Loans and Advances of the Banking Sector registered an increase of 11.7% and stood at Kshs.1.33 trillion in December 2012.

Customer Deposits, which are the main source of Bank's funding, increased by 14.8% to reach Ksh.1.71 trillion in December 2012.

But the year also witnessed an increase of 16.8% in Non-Performing Assets impacted by the high interest regime in 2012. Total Non Performing Assets of the Banking Industry (NPLs) was Ksh. 61.9billion as on 31st December 2012.

The Sector's profitability (PBT) rose by 20.6%, and reached Ksh.107.9billion in December 2012.

PERFORMANCE OF THE BANK

Even at this back drop, our Bank recorded an impressive growth, confirming our value in long term relationships, built with efficiency, transparency, and Customer centricity.

Bank's Total Business stood at Ksh.60.7billion, showing a year on year growth rate of 21.47%. Net Loans and Advances at Kshs.22.35billion in December 2012, showed a growth rate of 13%, despite the economic gridlocks in the country. Customer Deposits increased to 38.38billion with a growth rate of 27%, on Year on year(Y-O-Y) basis. Profits After Tax (PAT) was at Ksh. 1.68 billion, despite the reducing Net Interest Margin and Net Investment Income witnessed during 2012.

Despite high interest regime, Assets quality is maintained by bank in 2012, Gross NPA and Net NPAs at 2.69% and 0.68%.

CHAIRMAN'S REPORT (continued)

AWARDS & ACCOLADES

All these enabled us to walk away with two prestigious awards, "The Most Efficient Bank" (3rd position) and "The Best Bank – (Tier III)" in the Banking Awards 2013, for the year 2012.

WAY FORWARD

As part of the Bank's efforts to maximize customer service delivery and performance, we plan to open two new branches this year at strategic locations.
We have invested in technology, with interconnected Branch networks, we propose to introduce a variety of products and services leveraging on the robust technology platform. The products and services specially designed to broaden our Retail segments and deep drive into Mid Corporate and SME sector, which would enable us to increase our Market Share.
With transparent and personalized services to customers, we continue building long term relationship and grow together.

ACKNOWLEDGEMENT

I take this opportunity to extend my appreciation to our esteemed customers and business partners, for their continued support and the confidence demonstrated.
I also wish to thank our dedicated staff members for their efforts which have enabled the Bank to achieve a good performance. The general enthusiasm and high spirit of our staff is a source of great strength to the organization.
I also express gratitude to Board of Directors for their active involvement in guiding the Bank towards its progress.

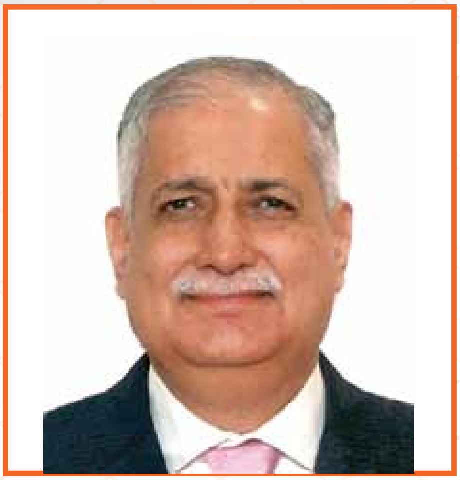
My special thanks to you, our shareholders, for your continued encouragement & cooperation. We are committed to look forward and deliver.

I also take this opportunity to thank the Government of Kenya and the Central Bank of Kenya for the New Constitution, Prudential Guidelines, Credit Information System and policies which have been an indispensable input in the Bank's decision making process and their support in our endeavor to expand business.

(Ranjan Dhawan)
Chairman - Bank of Baroda (Kenya) Ltd.

COMPANY INFORMATION

BOARD OF DIRECTORS



Name	Ranjan Dhawan
Age	58 Years
Nationality	Indian
Position	Chairman and Non-Executive Director
Date of Appointment	24-May-2013
Other Directorships	Bank of Baroda (India) , Bank of Baroda (Tanzania) Ltd. & Bank of Baroda Capital Markets Ltd (India)
Qualifications	B.Com, MBA (Finance), ACMA (U.K.), CIA (USA)
Percentage of Shareholding in the bank	None

Name	Vindhya Ramesh
Age	56 Years
Nationality	Indian
Position	Managing Director
Date of Appointment	1-Sep-2012
Other Directorships	Nil
Qualifications	M.Com, CAIIB, PGCHRM
Percentage of Shareholding in the bank	One Share

Name	Sunil K. Srivastava
Age	51 Years
Nationality	Indian
Position	Executive Director
Date of Appointment	8-Jan-2010
Other Directorships	Nil
Qualifications	B.Sc. , CAIIB
Percentage of Shareholding in the bank	None

COMPANY INFORMATION (continued)

BOARD OF DIRECTORS (continued)

Name	V. H. Thatte
Age	58 Years
Nationality	Indian
Position	Non-Executive Director
Date of Appointment	2-Nov-2012
Other Directorships	Bank of Baroda (Tanzania) Ltd., Bank of Baroda (Ghana) Ltd., IndiaFirst Life Insurance Company Ltd (India) & The Clearing Corporation of India Ltd.
Qualifications	M. Com, ACA
Percentage of Shareholding in the bank	None

Name	J. K. Muiruri
Age	67 Years
Nationality	Kenyan
Position	Non-Executive Director
Date of Appointment	14-Sep-2007
Other Directorships	Sunset Boulevard Limited, Kenya Holdings Ltd, Lion of Kenya Ins. Company Limited, Farmchem Limited, Knight Frank Kenya Limited & African Banking Corporation (ABC) Bank
Qualifications	ACCA, CPA(K)
Percentage of Shareholding in the bank	None

Name	Vikram C. Kanji
Age	46 Years
Nationality	Kenyan
Position	Non-Executive Director
Date of Appointment	22-Jan-2010
Other Directorships	Leadway Investments Ltd -(Executive), Suvila Ltd-(Executive), Mombasa Cements Ltd (Non-Executive) , Safari Sumset Ltd.
Qualifications	Solicitor (enrolled with Law Society of UK), Advocate of High Court of Kenya, Certified Public Secretary of Kenya)
Percentage of Shareholding in the bank	None

COMPANY INFORMATION (continued)

PRINCIPAL SHAREHOLDERS

Bank of Baroda – India	86.70%

PRINCIPAL OFFICERS

Mrs. Vindhya Ramesh	Managing Director
Mr. Sunil K. Srivastava	Director - Executive
Mr. Kumar Ajay Singh	Head - Operations
Mr. Rajesh Kumar	Head - Risk Management / Compliance
Ms. Elizabeth Nyambutu	Head - Credit
Mr. Winston Sore	Head - Internal Audit
Mr. Sanjay Kumar Ray	Head - Treasury (Front Office)
Mr. David Kinuthia	Head - Treasury (Back Office)
Mr. Patrick Sila	Head - Finance
Mr. Manoj K. Sachar	Branch Head - Digo Rd Branch, Mombasa
Mr. Arya P. Das	Branch Head - Thika Branch
Mr. Madan L. Dahiya	Branch Head - Kisumu Branch
Mr. Diwakar P. Singh	Branch Head - Sarit Centre Branch
Mr. Raman Kumar	Branch Head - Eldoret Branch
Mr. S. K. Palanivelu	Branch Head - Nakuru Branch
Mr. Paul Kairu	Branch Head - Kakamega Branch
Mr. Aditya Narayan Singh	Branch Head - Nairobi Branch
Ms. Neela Raj	Branch Head - Nyali Branch, Mombasa

REGISTERED OFFICE

Baroda House
P.O. Box 30033, 00100
NAIROBI - KENYA
Telephone: (020) 2248402, 2248412, 2226416
Fax: (020) 316070/310439
E-mail: kenya@bankofbaroda.com; ho.kenya@bankofbaroda.com

INDEPENDENT AUDITOR

PKF Kenya
Certified Public Accountants
Kalamu House, Grevillea Grove, Westlands
P.O. Box 14077, 00800
Telephone: +254(20)4446616/9, 4270000
NAIROBI - KENYA

COMPANY SECRETARY

Africa Registrars
Kenya - Re Towers
Upperhill
P.O. Box 1243, 00100
NAIROBI - KENYA

LEGAL ADVISORS

Hamilton, Harrison & Mathews
A. B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates

PRINCIPAL VALUERS

Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited

PRINCIPAL CORRESPONDENTS

Bank of Baroda - Mumbai, India
Bank of Baroda - New York, U.S.A.
Bank of Baroda - London, U.K.
Bank of Baroda - Brussels, Belgium
Bank of Baroda - Durban, South Africa
Bank of India - Tokyo, Japan
Bank of Montreal - Toronto, Canada
Union Bank of Switzerland - Zurich, Switzerland

COMPANY INFORMATION (continued)

BOARD COMMITTEES

The Board committees as at the date of this report comprise:

Board Audit Committee	Credit Committee	Asset and Liability Committee	Risk Management Committee	Executive Committee
Composition				
Three Non-Executive Directors	Two Executive and Two Non-Executive Directors.	Two Executive Directors, Head Credit Head Operations Head Treasury (Front Office) Head Treasury (Back Office) Head Risk / Compliance Head Finance	One Executive Director Head Credit Head Operations Head IT Head Treasury (Front Office) Head Risk Management & Compliance Head Finance	One Executive Director Head Credit Head Operations Head IT Head Treasury (Front Office) Head HR & Administration Head Finance
Main function				
Strengthening the control environment, financial reporting and auditing function.	Appraisal and approval of credit applications and reviewing credit portfolio.	Monitoring and Management of the statement of financial position including liquidity risk, interest rate risk, foreign currency risk and compliance with all statutory requirements.	Ensuring quality, integrity and reliability of the Bank' s Risk Management function.	To act as link between the Board and Management in implementing operational plans, annual budgets and periodic review of operations, strategic plans and identification of opportunities.
Frequency of meetings per Annum (minimum)				
Quarterly	Quarterly	Monthly	Quarterly	Three times a year
Chairperson				
Mr. J. K. Muiruri	Mr. J. K. Muiruri	Mrs. Vindhya Ramesh	Mr. Sunil K. Srivastava	Mr. Sunil K. Srivastava
Members				
Mr. Vikram C. Kanji Mr. V. H. Thatte	Mrs. Vindhya Ramesh Mr. Vikram C. Kanji Mr. Sunil K. Srivastava	Mr. Sunil K. Srivastava Ms. Elizabeth Nyambutu Mr. Kumar Ajay Singh Mr. Sanjay Kumar Ray Mr. David Kinuthia Mr. Rajesh Kumar Mr. Patrick Sila	Ms. Elizabeth Nyambutu Mr. Kumar Ajay Singh Mr. Patrick Kombe Mr. Sanjay Kumar Ray Mr. Rajesh Kumar Mr. Patrick Sila	Ms. Elizabeth Nyambutu Mr. Kumar Ajay Singh Mr. Patrick Kombe Mr. Sanjay Kumar Ray Mr. Kennedy Machoka Mr. Patrick Sila

CORPORATE GOVERNANCE

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximising returns with minimal use of resources in its pursuit of excellence in corporate life.

Respective Responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.
The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

Board of Directors

The composition of the Board is set out on page 4-5. The Board is chaired by a Non-Executive Chairman and comprises of the Managing Director (Executive Director), one other Executive Director and three other Non-Executive Directors. All Non-Executive Directors are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 12. The Directors are responsible for the development of internal financial controls which provide safeguard against material mis-statements and fraud and also for the fair presentation of the financial statements.

The Board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, four Board meetings were held on the following dates:

2 March 2012
14 June 2012
14 August 2012
29 October 2012

The attendance of individual Directors is as follows:

Name of director	Period	Meetings held During their tenure	Meetings Attended
Mr. Rajiv Kumar Bakshi*	01 January 2012 to 31 October 2012	4	4
Mr. Arun Shrivastava**	01 January 2012 to 31 August 2012	3	3
Mrs. Vindhya Ramesh	01 September 2012 to 31 December 2012	1	1
Mr. Sunil K. Srivastava	01 January 2012 to 31 December 2012	4	4
Mr. J. K. Muiruri	01 January 2012 to 31 December 2012	4	4
Mr. Vikram C. Kanji	01 January 2012 to 31 December 2012	4	4
Mr. Kupple Dev Lamba***	01 January 2012 to 20 November 2012	4	4
Mr. V. H. Thatte	02 November 2012 to 31 December 2012	-	-

* Since resigned on 31/10/2012
** Since resigned on 31/08/2012
*** Since resigned on 20/11/2012

The Board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committees reporting to the Board. The composition of the sub-committees is set out on page 7.

CORPORATE GOVERNANCE (continued)

Board Evaluation

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good corporate governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2012. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge.
The Board Performance evaluation covered the following:

(a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director was required to give the ratings on the performance of each member of the Board.

(c) The Board Chairman's Evaluation

The Board Members assessed the Chairman's performance and noted that the Board managed to achieve its Business targets for year 2012 under his Chairmanship. The Chairman was effective during the year.

BOARD COMMITTEES

Board Audit Committee

The committee comprises three Non-Executive Directors. The committee meets on a quarterly basis and its functions include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and Central Bank of Kenya Prudential Regulations and other pronouncements.

Credit Committee

The committee is chaired by a Non-Executive Director and comprises of the two Executive Directors, the other Non-Executive Director and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Financial Reporting Standards.

MANAGEMENT COMMITTEES

Asset and Liability Committee

The committee, chaired by the Managing Director, comprising one Director (Executive) and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks.

CORPORATE GOVERNANCE (continued)

Risk Management Committee

The committee, chaired by the Director Executive and comprising various departmental heads, meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

Executive Committee

The committee, chaired by the Director-Executive and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Directors' Remuneration

The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

The remuneration paid to the Directors and key management staff is disclosed in note 32 to the financial statements.

Relationship with Shareholders

The Bank is a private limited liability company with the details of the main shareholder set out on page 6. Shareholders have full access through the Managing Director to all information they require in respect of the Bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the Kenyan newspapers.

Corporate Social Responsibility

We continue to play an active role in "giving back to the society" through augmenting the principle of Corporate Social Responsibility. The Bank has extended financial assistance to Kenya Womens Society donating 20 wheel chairs.

(Mrs. Vindhya Ramesh)
Managing Director

28th February 2013

REPORT OF THE DIRECTORS

The Directors submit their report and the audited financial statements for the year ended 31 December 2012, in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act, which disclose the state of affairs of the Bank.

PRINCIPAL ACTIVITIES

The Bank is licensed under the Banking Act and provides banking, financial and related services.

RESULTS	2012 Shs '000	2011 Shs '000
Profit before tax	1,666,700	1,676,383
Tax	(290,600)	(312,502)
Profit for the year	1,376,100	1,363,881

DIVIDEND

The Directors propose a final dividend of Shs. 3.40 per share (2011: Shs. 3.40 per share) amounting to Shs. 168.25 million (2011: Shs. 168.25 million).

DIRECTORS

The Directors who held office during the year and to the date of this report are shown on page 4-5. In accordance with the Bank's Articles of Association, no Director is due for retirement by rotation.

INDEPENDENT AUDITOR

The company's auditor, PKF Kenya, has indicated willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486), subject to approval of the Central Bank of Kenya in accordance with Section 24(1) of the banking Act (Cap. 488).

BY ORDER OF THE BOARD

For and on behalf of:-
AFRICA REGISTRARS SECRETARIES

COMPANY SECRETARY
NAIROBI

28th February 2013

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Companies Act (Cap. 486) requires the Directors to prepare financial statements 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 results for that year. It also requires the Directors to ensure that the Bank maintains proper accounting records which disclose with reasonable accuracy the financial position of the Bank. The Directors are also responsible for safeguarding the assets of the Bank.

The Directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). 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 as at 31 December 2012 and of its operating results for the year then ended. The Directors further confirm the accuracy and completeness of the accounting records maintained by the Bank which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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.

Approved by the Board of Directors on 28th February 2013 and signed on its behalf by:

DIRECTOR

MANAGING DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF BANK OF BARODA (KENYA) LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bank of Baroda (Kenya) Limited set out on pages 14 to 52, which comprise the statement of financial position as at 31 December 2012 and the statement of profit or loss, statement of other 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 information.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486), and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S 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 about 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 the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 financial position of Bank of Baroda (Kenya) Limited as at 31 December 2012 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486).

REPORT ON OTHER LEGAL REQUIREMENTS

As required by the Companies Act (Cap. 486) 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, statement of profit or loss and statement of other comprehensive income are in agreement with the books of account.

PKF Kenya

Certified Public Accountants
PIN NO. P051130467R

NAIROBI: **27th March 2013**

STATEMENT OF PROFIT OR LOSS

	Notes	2012 Shs '000	2011 Shs '000
Interest income	1	5,901,167	3,925,869
Interest expense	2	(3,753,388)	(1,639,739)
NET INTEREST INCOME		**2,147,779**	**2,286,130**
Fees and commission income		174,703	164,693
Foreign exchange trading income		64,119	46,528
Other income/(losses)	3	80,535	(41,860)
OPERATING INCOME		**2,467,136**	**2,455,491**
Increase in impairment losses on loans and advances	4	(8,278)	(199,349)
Other operating expenses	5	(792,158)	(579,759)
PROFIT BEFORE TAX		**1,666,700**	**1,676,383**
Tax	6	(290,600)	(312,502)
PROFIT FOR THE YEAR		**1,376,100**	**1,363,881**
EARNINGS PER SHARE			
Basic and diluted (Shs. per share)	7	27.81	27.56
DIVIDEND			
Proposed final dividend for the year	8	168,252	168,252
DIVIDEND PER SHARE (Shs. per share)	**8**	**3.40**	**3.40**

The significant accounting policies on pages 20 to 29 and the notes on pages 30 to 52 form an integral part of these financial statements.

Report of the independent auditor - Page 13.

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	2012 Shs '000	2011 Shs '000
Profit for the year		1,376,100	1,363,881
Fair value gains and (losses) on available-for-sale financial assets			
- government securities		(380,935)	(986,942)
- corporate bonds	15	(4,581)	(16,105)
- quoted shares	15	211	(699)
Total comprehensive income for the year		990,795	360,135

The significant accounting policies on pages 20 to 29 and the notes on pages 30 to 52 form an integral part of these financial statements.

Report of the independent auditor - Page 13.

STATEMENT OF FINANCIAL POSITION

	Notes	2012 Shs'000	2011 Shs'000
ASSETS			
Cash in hand		223,276	189,731
Balances with Central Bank of Kenya	9	1,852,943	1,602,245
Government securities	10	20,872,148	14,074,720
Placements with and loans and advances to other banking institutions	11	195,991	644,975
Other assets	12	389,149	325,568
Loans and advances to customers	13	21,922,597	19,144,038
Investment properties	14	24,760	24,145
Investment securities	15	308,173	348,824
Intangible assets	16	5,192	4,898
Property and equipment	17	159,672	131,177
Deferred tax	18	65,767	47,542
Tax recoverable		118,109	162,934
TOTAL ASSETS		**46,137,777**	**36,700,797**
LIABILITIES			
Customer deposits	19	38,382,464	30,263,949
Deposits due to and borrowings from other banking institutions	20	1,634,835	1,144,515
Other liabilities	21	362,100	356,498
TOTAL LIABILITIES		**40,379,399**	**31,764,962**
SHAREHOLDERS' EQUITY			
Share capital	22	989,717	989,717
Retained earnings		4,646,795	3,474,447
Fair value reserve		(285,179)	100,126
Loan Loss Reserve		238,793	203,293
Proposed dividend	8	168,252	168,252
TOTAL SHAREHOLDERS' EQUITY		**5,758,378**	**4,935,835**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**46,137,777**	**36,700,797**

The financial statements on pages 14 to 52 were authorised for issue by the Board of Directors on 28th February 2013 and were signed on its behalf by:

Managing Director

Director

For and on behalf of:-
AFRICA REGISTRARS SECRETARIES
COMPANY SECRETARY
NAIROBI

Director

The significant accounting policies on pages 20 to 29 and the notes on pages 30 to 52 form an integral part of these financial statements.

Report of the independent auditor - Pages 13.

STATEMENTS OF CHANGES IN EQUITY

STATEMENTS OF CHANGES IN EQUITY

					Available-for-sale fair value reserves				
	Notes	Share capital Shs'000	Retained earnings Shs'000	Loan loss reserve Shs'000	Government securities Shs'000	Corporate bonds Shs'000	Quoted shares Shs'000	Proposed dividend Shs'000	Total Shs'000
Year ended 31 December 2012									
At start of year		989,717	3,474,447	203,293	96,933	3,246	(53)	168,252	4,935,835
Transfer to loan loss reserve		-	(35,500)	35,500	-	-	-	-	-
Total comprehensive income/(loss) for the year		-	1,376,100	-	(380,935)	(4,581)	211	-	990,795
Dividends:									
- Final for 2011 (paid)	8	-	-	-	-	-	-	(168,252)	(168,252)
- Final for 2012 (proposed)	8	-	(168,252)	-	-	-	-	168,252	-
At end of year		989,717	4,646,795	238,793	(284,002)	(1,335)	158	168,252	5,758,378

The significant accounting policies on pages 20 to 29 and the notes on pages 30 to 52 form an integral part of these financial statements.

Report of the independent auditor - Page 13.

STATEMENTS OF CHANGES IN EQUITY

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2012	Notes	Share capital Shs'000	Retained earnings Shs'000	Loan loss reserve Shs'000	Available-for-sale fair value reserves: Government securities Shs'000	Available-for-sale fair value reserves: Corporate bonds Shs'000	Available-for-sale fair value reserves: Quoted shares Shs'000	Proposed dividend Shs'000	Total Shs'000
At start of year		989,717	2,329,086	153,025	1,083,875	19,351	646	168,252	4,743,952
Transfer to loan loss reserve		-	(50,268)	50,268	-	-	-	-	-
Total comprehensive income/(loss) for the year		-	1,363,881	-	(986,942)	(16,105)	(699)	-	360,135
Dividends:									
- Final for 2010 (paid)	8	-	-	-	-	-	-	(168,252)	(168,252)
- Final for 2011 (proposed)	8	-	(168,252)	-	-	-	-	168,252	-
At end of year		989,717	3,474,447	203,293	96,933	3,246	(53)	168,252	4,935,835

The significant accounting policies on pages 20 to 29 and the notes on pages 30 to 52 form an integral part of these financial statements.

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STATEMENT OF CASH FLOWS

	Notes	2012 Shs '000	2011 Shs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		5,864,005	4,015,414
Interest payments		(3,350,090)	(1,556,991)
Fees and commission receipts		261,115	261,248
Payments to employees and suppliers		(688,897)	(735,402)
Tax paid		(264,000)	(689,593)
Cash flows from operating activities before changes in operating assets and liabilities		**1,822,133**	**1,294,676**
Changes in operating assets and liabilities:			
- cash reserve ratio		(260,712)	(426,861)
- loans and advances		(2,758,318)	(5,683,348)
- other assets		(49,068)	(117,227)
- customer deposits		7,715,217	4,580,922
- other liabilities		(41,923)	42,323
NET CASH FROM/(USED IN) OPERATING ACTIVITIES		**6,427,329**	**(309,515)**
Cash flows from investing activities			
Purchase of intangible assets	16	(1,947)	(6,123)
Purchase of property and equipment	17	(91,788)	(40,643)
Purchase of investment securities	15	-	(227,435)
Purchase of government securities		(15,639,388)	(6,897,225)
Dividends received		423	805
Proceeds from disposal of government securities		9,270,335	7,900,788
Proceeds from maturity of government securities		-	175,000
Proceeds from maturity of investment securities		35,587	-
Proceeds from disposal of investment securities		-	113,993
Proceeds from disposal of property and equipment		666	1,429
NET CASH (USED IN)/FROM INVESTING ACTIVITIES		**(6,426,112)**	**1,020,589**
Cash flows from financing activities			
Dividend paid		(168,252)	(168,252)
NET CASH (USED IN) FINANCING ACTIVITIES		**(168,252)**	**(168,252)**
Net (decrease)/increase in cash and cash equivalents		(167,035)	542,822
CASH AND CASH EQUIVALENTS AT START OF THE YEAR	**23**	**(264,243)**	**(807,065)**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**23**	**(431,278)**	**(264,243)**

The significant accounting policies on pages 20 to 29 and the notes on pages 30 to 52 form an integral part of these financial statements.

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NOTES

SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL INFORMATION

Bank of Baroda (Kenya) Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS).

These financial statements comply with the requirements of the Kenyan Companies Act. The Income Statement and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

(i) New and amended standards adopted by the Bank

The Bank has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed the 'statement of profit or loss and other comprehensive income' and the 'income statement is renamed the statement of profit or loss'. The effective date is for annual periods beginning on or after 1 July 2012.

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2012 and not adopted in advance of the effective date.

International Financial Reporting Standard 13 (IFRS 13) on 'Fair Value Measurement' - The standard aims to improve consistency and reduce complexity by providing a more precise definition and a single source of measurement and disclosure requirements. Adoption is mandatory from 1 January 2013 although early adoption is permissible.

The group has not assessed the potential impact of IFRS 13 on its financial statements.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities.

IFRS 9 requires financial assets to be classified into two principal measurement categories: those measured as at fair value and those measured at amortised cost. The group is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on or after 1 January 2015.

Amendments to IFRS 7 and IAS 32: The amendments to IAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of 'currently has a legally enforeceable right of set-off and simultaneous realization and settlement.

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements for financial instruments under an enforeceable master netting agreement or similar arrangement.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of preparation (continued)

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013. with retrospective disclosures for all comparative periods. However, the amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

The bank has not assessed the potential impact of IFRS 7 and IAS 32 on its financial statements.

(b) Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by its accounting policies and the assumptions, estimates and judgements made by management.

These assumptions, 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 prevailing circumstances.

- Key sources of estimation uncertainty

Management has made the following estimate that has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- Impairment of loans and advances:

Critical estimates have been made by the management in arriving at the discounted values of securities in order to arrive at the impairment charges for non-performing loans and advances. The values of securities are discounted using both the International Financial Reporting Standards and the Prudential Guidelines issued by the Central Bank of Kenya. The Prudential Guidelines provide a specific basis of discounting securities whilst discounting according to International Accounting Standard 39 (IAS 39) on Financial Instruments: Recognition and Measurement' is based on historical experience and other relevant factors, discounted to net present values.

- Significant judgements made by management in applying the Bank's accounting policies

Management has made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

- Impairment losses on loans and advances:

The Bank reviews its loan portfolio to assess the likelihood of impairment at least on a quarterly basis. In determining whether a loan or advance is impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected from that loan or advance.

Management use judgement based on historical experience for such assets with credit risk characteristics and as to whether there are any conditions that would indicate potential impairment. 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.

- Non financial assets

The Bank reviews its non financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management make judgements as to whether there are any conditions that indicate potential impairment of such assets.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Critical accounting estimates and judgements (continued)

- Impairment of financial assets classified as 'available for sale'

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair values below its original cost. This determination of what is significant or prolonged requires significant judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price and market prices for government securities. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Depreciation of plant and equipment - The company has estimated the depreciation rates of plant and equipment as set on in accounting policy 'd'. The depreciation rates are based on the directors' judgement of the residual values and useful lives of plant and equipment.

(c) Foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates. 'At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

(d) Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Bank. The Bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Bank and when the specific criteria have been met for each of the Bank's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The Bank bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

- Interest income is recognised on an accruals basis in the profit or loss for the year using the effective yield on the asset. Interest income includes income from loans and advances, income from placements with loans and advances to other banking institutions and income from government securities. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount.
- Fees and commissions income are recognised at the time of effecting the transaction.
- Foreign exchange trading income is recognised at the time of effecting the transaction. It includes income from spot and forward deals and translated foreign currency assets and liabilities.
- Dividend income is recognised when declared.
- Rental income is accounted for in the period in which it is earned.

(e) Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost can be reliably measured. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial year in which they are incurred.

Buildings and leasehold improvements are depreciated on a straight line basis over the remaining period of the lease.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Property and equipment (continued)

Depreciation on all other assets is calculated on a reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Computers and electronic equipment	30.00
Motor vehicles	25.00
Furniture and fittings	12.50

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

(f) Investment properties

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently stated at historical cost less accumulated depreciation.

Subsequent expenditure on investment properties where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

Depreciation is calculated on the straight line basis to write down the cost of the property to its residual value over its estimated useful life of 50 years.

The properties residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The properties carrying amounts are written down immediately to their recoverable amount if the carrying amount is greater than their estimated recoverable amount.

Gains or losses on disposal of investment property are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

(g) Financial instruments

- Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Bank's financial assets fall into the following categories:

- **Held-to-maturity:** financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the profit or loss.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

- Available-for-sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are classified as non-current assets except where the management intends to dispose the assets within 12 months of the date of this report. Subsequent to initial recognition, they are carried at fair value with gains and losses recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in
equity is recognised is transferred to retained earnings. However, interest calculated using the effective interest method and gains and losses on disposal of assets classified as available-for-sale' are recognised in the profit or loss. Dividends on 'available-for-sale' equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

- Loans and receivables: financial assets with fixed or determinable payments that are not quoted in an active market other than:

- those that the entity intends to sell immediately or in the short term, which are classified as 'held for trading', and those that the entity upon initial recognition designated it as 'fair value through profit or loss';

- those that the entity upon initial recognition designates as 'available-for-sale'; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are classified as current assets where maturities are within 12 months of the date of this report. All assets with maturities greater than 12 months after the date of this report are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in the profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Gains and losses on disposal of investments whose changes in fair value were initially recognised in the profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of investments whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

The Bank does not have any financial assets classified as either held for trading or fair value through profit or loss.

Management classifies financial assets as follows:

Cash in hand, balances with Central Bank of Kenya, placements with and loans and advances from other banking institutions, other assets, tax recoverable and loans and advances to customers are classified as loans and receivables and are carried at amortised cost.

The portfolio of government securities has been split by bond into the held-to-maturity and available-for-sale classes of financial assets. The fair values of government securities classified as available for sale are based on the market prices as at the date of the statement of financial position. Government securities classified as held-to-maturity are carried at amortised cost.

Investment securities are classified as "Available-For-Sale" (AFS) financial instruments. The fair values of quoted

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

investments and corporate bonds are based on current bid prices at the date of this report. Where fair values cannot be reliably measured (unquoted investments), the Bank carries these investments at cost less provision for impairment.

Where financial assets are carried at fair value in the statement of financial position, management classify the fair values of financial assets based on the qualitative characteristics of the fair valuation as at the financial year end. The three hierarchy levels used by management are:

- **Level 1:** where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.

- **Level 2:** where fair values are based on adjusted quoted prices and observable prices of similar financial assets.

- **Level 3:** where fair values are not based on observable market data.

- *Financial liabilities*

The Bank's financial liabilities which include customer deposits, deposits due to other banking institutions, current tax and other liabilities fall into the following category:

- **Financial liabilities measured at amortised cost:** These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the profit or loss under finance costs.

All financial liabilities are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the date of this report.

Financial liabilities are derecognised when, and only when, the Bank's obligations are discharged, cancelled or expired.

Offsetting financial instruments

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 offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(h) Impairment of financial assets

- Assets carried at amortised cost

The Bank assesses at the date of the report whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that a certain event has an impact on the estimated future cash flows of the financial asset.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:
- Default in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower or issuer (for example, declining financial ratios)
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings;

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of financial assets (continued)

- Deterioration of the borrower's or issuer's competitive position;
- Deterioration in the value of collateral; and
- The disappearance of an active market for that financial asset because of financial difficulties

- Impairment of loans and advances

Loans and advances are recognised when cash is advanced to borrowers. Loans and advances are initially recognised at fair value and are subsequently carried at amortised cost less provision for impairment losses.

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. In arriving at such provisions, present value of future expected cash flows, including amounts recoverable from securities, discounted at effective interest rates of loans are taken into account.

A general credit risk provision for loan impairment is also provided. This ranges from between 1% to 3% of the gross advances classified as Normal and Watch.

Where provisions computed in accordance with the Prudential Guidelines exceed those under International Accounting Standard 39 (IAS 39) on Financial Instruments: Recognition and Measurement, the excess is credited to reserves under the loan loss reserve.

The Prudential Guidelines and IAS 39 are used by the Bank to determine when a loan becomes impaired. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is/or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective interest rate and the discounted value of the collateral. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

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

For the purposes of a collective evaluation of impairment, financial assets are Banked on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows 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.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of financial assets (continued)

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed in the profit or loss.

- Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are considered to be past due. They will continue to be treated as past due unless all past due interest is paid in cash at the time of renegotiation and a sustained record of performance has been maintained.

- Assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists, the cumulative loss (the difference between the acquisition cost and the current fair value, less any impairment losses previously recognised in profit or loss) is eliminated from equity and recognised in the profit or loss.

(i) Impairment of non-financial assets

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(j) Retirement benefit obligations

The Bank operates a defined contribution pension scheme for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. The pension plan is funded by contributions from the employees and the Bank. The Bank's contributions are charged to the profit or loss in the year to which they relate. The Bank has no further payment obligations once the contributions have been paid.

The Bank and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Bank's contributions to the defined contribution scheme are charged to the profit or loss in the year to which they relate.

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the date of the reporting period.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Employee entitlements

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

(l) Intangible asset - Computer software

Computer software programmes are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

(m) Leases

Operating leases as a lessee:

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the lease period.

The company as a lessor

Assets leased to third parties under operating leases are included in investment properties in the statement of financial position.

(n) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss for the year.

Current tax

Current tax is provided on the basis of the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax 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 at the date of the statement of financial position are used to determined deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(o) Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the Bank's shareholders.

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, balances due to and from other banking institutions, balances with Central Bank of Kenya (excluding cash reserve ratio) and government securities maturing within 91 days from the date of the statement of financial position.

NOTES (continued)

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(q) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the Directors. Any expected loss is charged to the statement of profit or loss.

(r) Foreign exchange forward contracts

Foreign exchange forward contracts are marked to market and are carried at their fair value and shown as commitments. Gains and losses on foreign exchange forward contracts are dealt with on a net basis in profit or loss in the year in which they arise.

(s) Share capital

Ordinary shares are classified as equity.

(t) Comparatives

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

NOTES (continued)

	2012 Shs'000	2011 Shs'000
1. INTEREST INCOME		
Loans and advances to customers	4,118,995	2,421,609
Government securities	1,653,687	1,422,947
Corporate bonds	38,773	34,765
Deposits and balances due from banking institutions	87,588	32,007
Other income	2,124	14,541
	5,901,167	3,925,869
2. INTEREST EXPENSE		
Time deposits	3,657,146	1,517,531
Customer deposits	63,771	75,354
Deposits and balances due to banking institutions	32,471	46,854
	3,753,388	1,639,739
3. OTHER INCOME/(LOSSES)		
Profit/(loss) on disposal of government securities	44,142	(104,141)
Profit/(loss) on disposal of property and equipment	350	(785)
Rental income	19,838	49,831
Dividend income	423	805
Miscellaneous income	2,455	196
Recoveries of advances previously provided for	13,327	12,234
	80,535	(41,860)
4. IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
Loans and advances to customers:		
- Additional Provisions	8,278	199,349
Increase in provision for impairment	**8,278**	**199,349**
5. (a) OTHER OPERATING EXPENSES		
Staff costs (Note 5 (b))	384,196	284,284
Directors' emoluments:		
- fees	580	615
- other	13,562	10,219
Depreciation of investment properties (Note 14)	(615)	619
Amortisation of intangible assets (Note 16)	1,653	1,225
Depreciation on property and equipment (Note 17)	55,601	27,112
Impairment of property and equipment	7,375	-
Auditors' remuneration:		
- current year	3,318	3,016
- under provision for prior year	143	130
Contribution to Deposit Protection Fund	42,894	33,967
Operating lease rentals	72,717	57,154
Other operating expenses		
- administration	149,777	122,986
- establishment	60,957	38,432
	792,158	579,759

NOTES (continued)

5. (b) STAFF COSTS

	2012 Shs '000	2011 Shs '000
The following items are included under staff costs:		
Staff leave	2,667	35
Pension costs:		
- staff gratuity	54,215	14,715
- defined contribution scheme	13,360	13,471
- National Social Security Fund (NSSF)	382	352

6. TAX

	2012 Shs '000	2011 Shs '000
Current tax	308,825	317,066
Deferred tax (credit)/charge (Note 17)	(18,225)	(4,564)
	290,600	312,502
The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
Profit before tax	1,666,700	1,676,383
Tax calculated at a rate of 30% (2011: 30%)	500,010	502,915
- expenses not deductible for tax purposes	15,930	4,834
- income not subject to tax	(225,340)	(195,247)
Tax charge	**290,600**	**312,502**

7. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of the bonus shares issued if any.

	2012	2011
Net profit for the year attributable to shareholders (Shs. '000)	1,376,100	1,363,881
Adjusted weighted average number of ordinary shares in issue (' 000)	49,486	49,486
Earnings per share - basic and diluted (Shs.)	27.81	27.56

There were no potentially dilutive shares outstanding as at 31 December 2012 and 2011.

8. DIVIDEND

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. At the forthcoming annual general meeting a final dividend in respect of the year ended 31 December 2012 of Shs. 3.40 per share (2011: Shs. 3.40) amounting to Shs. 168.25 million (2011: Shs. 168.25 million) is to be proposed.

Where applicable, payment of dividends is subject to deduction of withholding tax at a rate 5% for residents and 10% for non-residents.

NOTES (continued)

9. BALANCES WITH CENTRAL BANK OF KENYA

	2012 Shs'000	2011 Shs'000
Balances with Central Bank of Kenya		
- cash reserve ratio	1,817,391	1,556,679
- other (Note 23)	35,552	45,566
	1,852,943	1,602,245

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2012 the cash reserve ratio requirement was 5.25% (2011: 5.25%) of all customer deposits.

10. GOVERNMENT SECURITIES

	2012 Shs'000	2011 Shs'000
Treasury Bills - 'available-for-sale (AFS)'	1,073,922	-
Treasury bonds - 'available-for-sale (AFS)'	10,964,128	5,307,081
Treasury bonds - 'Held to Maturity (HTM)'	8,834,098	8,767,639
	20,872,148	14,074,720
Comprising		
Maturing within 91 days	748,738	-
Maturing after 91 days but within one year	1,820,050	-
Maturing within one to three years	1,775,685	626,455
Maturing after three years	16,527,675	13,448,265
	20,872,148	14,074,720

The fair values of the government securities classified as 'Available-for-sale' financial assets are categorised under Level 1 based on the information set out in accounting policy (g).

11. PLACEMENT WITH AND LOANS AND ADVANCES TO OTHER BANKING INSTITUTIONS

	2012 Shs'000	2011 Shs'000
Balances with banking institutions in Kenya	311	582,602
Balances with banking institutions abroad	191,045	1,466
Balances with parent bank	4,635	60,907
	195,991	644,975

12. OTHER ASSETS

	2012 Shs'000	2011 Shs'000
Items in transit	300,378	179,474
Other receivables and prepayments	88,771	146,094
	389,149	325,568

13. LOANS AND ADVANCES TO CUSTOMERS

	2012 Shs'000	2011 Shs'000
a) Loans and advances to customers		
Loans and overdrafts	22,269,259	19,615,853
Bills discounted and foreign bills purchases	84,039	122,389
Gross loans and advances to customers (Note 13 (c))	**22,353,298**	**19,738,242**
Suspended interest	(71,520)	(64,606)
Provision for impaired loans and advances (Note 13 (b))	(359,181)	(529,598)
Loans and advances to customers net of provision for impairment (Note 13(d))	**21,922,597**	**19,144,038**

NOTES (continued)

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)	2012 Shs '000	2011 Shs '000
b) Provision for impaired loans and advances - Specific provision		
At start of year	529,598	341,976
New provisions		
- Additional provisions	8,278	199,349
- Write Offs	(165,368)	507
- Recoveries / Excess Provisions reversed	(13,327)	(12,234)
Net decrease/(increase) in provision for impairment	(170,417)	187,622
At end of year	359,181	529,598

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to Shs. 583.766 million (2011: Shs. 648.852 million). These are included in the statement of financial position net of provisions at Shs. 153.065 million (2011: Shs. 54.648 million). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to Shs. 71.520 million (2011: Shs. 64.606 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the Bank.

From past experience, the management is of the opinion that 1% provision for normal accounts and 3% provision for watch accounts is adequate to cover any accounts which might become delinquent in the future.

c) Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2012		2011	
	Shs '000	%	Shs '000	%
Agriculture	695,096	3.11%	655,611	3.32%
Manufacturing	6,216,298	27.81%	6,018,031	30.49%
Building & Construction	1,968,007	8.80%	1,354,484	6.86%
Mining & Quarrying	259,600	1.16%	153,040	0.78%
Energy & Water	93,211	0.42%	98,723	0.50%
Trade	6,357,832	28.44%	5,015,060	25.41%
Tourism, Restaurant & Hotels	1,169,330	5.23%	1,407,446	7.13%
Transport & Communication	1,722,016	7.70%	1,072,936	5.44%
Real Estate	3,237,560	14.48%	3,338,007	16.91%
Financial Services	61,887	0.28%	65,379	0.33%
Social, Community & Personal Households	572,460	2.92%	559,525	2.92%
	22,353,297	100%	19,738,242	100%

NOTES (continued)

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

d) Loans and advances neither past due nor impaired, past due but not impaired and individually impaired	2012 Shs '000	2011 Shs '000
Neither past due nor impaired	20,840,129	18,471,160
Past due but not impaired	929,402	618,230
Individually impaired	583,767	648,852
Gross loans and advances to customers	22,353,298	19,738,242
Less: Provision for impaired loans and advances and suspended interest	(430,701)	(594,204)
Net loans and advances to customers (Note 13(a))	21,922,597	19,144,038

Loans and advances that are aged past 90 days are considered past due. Loans and advances that are aged past 180 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the Bank. The loans and advances past due but not impaired can be analysed as follows:

	2012 Shs '000	2011 Shs '000
Watch	929,402	618,230

The loans and advances past due but not impaired are aged between 30 to 90 days.
The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired

The fair value of the collateral for loans and advances individually impaired is Shs. 182.504 Million.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Repossessed collateral

As at 31 December 2012 and 2011 the Bank did not repossess any collateral held as security.

14. INVESTMENT PROPERTIES

	2012 Shs '000	2011 Shs '000
Cost		
At start and end of year	30,950	30,950
Depreciation		
At start of year	6,805	6,186
Charge for the year	(615)	619
At end of year	6,190	6,805
Net book value	**24,760**	**24,145**

NOTES (continued)

15. INVESTMENT SECURITIES - 'AVAILABLE-FOR-SALE'

	2012 Shs '000	2011 Shs '000
Quoted equity investments:		
At start of year	2,232	2,931
Fair value gain/(loss)	211	(699)
At end of the year	2,443	2,232
Unquoted equity investments:		
At start and end of year	19,391	19,391
Corporate bonds		
At start of year	327,201	232,901
Additions	-	227,435
Maturity/disposals	(35,587)	(113,993)
Interest income for the year	38,773	34,765
Interest income received	(39,467)	(37,802)
Fair value (loss)	(4,581)	(16,105)
At end of the year	286,339	327,201
	308,173	348,824

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in accounting policy (g).

The fair values of the unquoted equity investments are categorised under Level 3 based on the information set out in accounting policy (g).

16. Intangible assets - software

	2012 Shs '000	2011 Shs '000
Cost		
At start of year	6,123	-
Additions	1,947	6,123
At end of year	8,070	6,123
Amortisation		
At start of year	1,225	-
Charge for the year	1,653	1,225
At end of year	2,878	1,225
Net book value	5,192	4,898

NOTES (continued)

17. PROPERTY AND EQUIPMENT

Year ended 31 December 2012

	Buildings Shs'000	Leasehold Improvements Shs'000	Computers and electronic equipment Shs'000	Motor vehicles Shs'000	Furniture and fittings Shs'000	Total Shs'000
Cost						
At start of year	11,123	66,860	70,798	21,090	133,654	303,525
Interclass transfers	-	(11,465)	45,174	-	(33,709)	-
Additions	-	48,852	17,823	2,336	22,777	91,788
Impairment	-	-	(9,117)	-	(18,274)	(27,391)
Disposals	-	-	(268)	-	(838)	(1,106)
At end of year	11,123	104,247	124,410	23,426	103,610	366,816
Depreciation						
At start of year	2,452	40,511	56,026	13,299	60,060	172,348
Charge for the year	2,000	12,610	39,552	2,490	(1,051)	55,601
Reversal on impairment	-	-	(8,278)	-	(11,738)	(20,016)
Disposals	-	-	(252)	-	(537)	(789)
At end of year	4,452	53,121	87,048	15,789	46,734	207,144
Net book value	6,671	51,126	37,362	7,637	56,876	159,672

In the opinion of the directors, there is no impairment in the value of property and equipment.

All additions to property and equipment during the year were made on a cash basis.

Year ended 31 December 2011

	Buildings Shs'000	Leasehold Improvements Shs'000	Computers and electronic equipment Shs'000	Motor vehicles Shs'000	Furniture and fittings Shs'000	Total Shs'000
Cost						
At start of year	11,123	61,083	61,058	20,580	114,238	268,082
Additions	-	5,777	10,666	1,200	23,000	40,643
Disposals	-	-	(926)	(690)	(3,584)	(5,200)
At end of year	11,123	66,860	70,798	21,090	133,654	303,525
Depreciation						
At start of year	2,230	32,958	50,323	11,290	51,421	148,222
Charge for the year	222	7,553	6,388	2,481	10,468	27,112
Disposals	-	-	(685)	(472)	(1,829)	(2,986)
At end of year	2,452	40,511	56,026	13,299	60,060	172,348
Net book value	8,671	26,349	14,772	7,791	73,594	131,177

NOTES (continued)

18. DEFERRED TAX

Deferred tax is calculated on all temporary timing differences under the liability method using a principal tax rate of 30% (2011: 30%). The movement on the deferred tax account is as follows:

	2012 Shs'000	2011 Shs'000
As start of year	(47,542)	(42,978)
Profit or loss (credit)/charge (Note 6)	(18,225)	(4,564)
At end of year	(65,767)	(47,542)

Deferred tax assets and deferred tax charge/(credit) in the profit or loss are attributable to the following:

	At start of year Shs '000	Charge/ (credit) to profit or loss Shs '000	At end of year Shs '000
Property and equipment	(1,272)	(3,967)	(5,239)
Provision for staff accruals	(44,400)	(14,258)	(58,658)
General provision	(1,870)	-	(1,870)
	(47,542)	(18,225)	(65,767)

19. CUSTOMER DEPOSITS

	2012 Shs '000	2011 Shs '000
Current and demand accounts	7,678,613	7,410,958
Term deposits	30,703,851	22,852,991
	38,382,464	30,263,949
Analysis of customer deposits by maturity:		
Payable within 90 days	26,211,153	20,385,923
Payable after 90 days and within one year	10,029,935	7,242,829
Payable after one year	2,141,376	2,635,197
	38,382,464	30,263,949

Concentration:
The economic sector concentrations within the customer deposits portfolio were as follows:

	2012		2011	
	Shs'000	%	Shs'000	%
Non profit institutions and individuals	30,125,182	78.49%	23,357,734	77.18%
Private companies	7,408,365	19.30%	6,250,453	20.65%
Insurance companies	848,917	2.21%	655,762	2.17%
	38,382,464	100%	30,263,949	100%

Included in customer accounts were deposits of Shs. 1,443.123 Million (2011: Shs. 1,026.160 Million) held as collateral for loans and advances. The fair value of those deposits approximates the carrying amount.

NOTES (continued)

20. DEPOSITS DUE TO OTHER BANKING INSTITUTIONS

	2012 Shs '000	2011 Shs '000
Parent Bank	26,176	457,870
Foreign Banks	1,608,659	686,645
	1,634,835	1,144,515

21. OTHER LIABILITIES

	2012 Shs '000	2011 Shs '000
Staff leave and gratuity accrual	195,525	148,000
Bills payable	12,594	38,200
Other accounts payable	153,981	170,298
	362,100	356,498

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of financial position.

22. SHARE CAPITAL

	No. of ordinary shares		Issued and paid up capital	
	2012 '000	2011 '000	2012 Shs '000	2011 Shs '000
At start and end of year	49,486	49,486	989,717	989,717

The authorised share capital of the company is Shs. 2 billion (2011: Shs. 2 billion) representing 100 million (2011: 100 million) ordinary shares of Shs. 20 each.

23. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:	2012 Shs'000	2011 Shs'000	Changes during the year Shs'000
Cash in hand	223,276	189,731	33,545
Government securities maturing within 91 days	748,738	-	748,738
Balances with Central Bank of Kenya (Note 9)	35,552	45,566	(10,014)
Placements with and loans and advances from other banking institutions (Note 11)	195,991	644,975	(448,984)
Deposits due to other banking institutions (Note 20)	(1,634,835)	(1,144,515)	(490,320)
	(431,278)	(264,243)	(167,035)

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

In common with banking business, the Bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantees. The majority of these facilities are offset by corresponding obligations from third parties.

Contingent liabilities	2012 Shs'000	2011 Shs'000
Forward contracts	-	460,229
Spots	144,660	-
Letters of credit	1,178,785	1,978,891
Letters of guarantees	5,421,096	3,464,304
Bills sent for collection	704,477	827,612
	7,449,018	6,731,036

NOTES (continued)

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

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

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

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

Commitments	2012 Shs	2011 Shs
Undrawn formal stand-by facilities and credit lines	2,257,191	1,671,705

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for a fixed period. The Bank may withdraw from its contractual obligation for the undrawn portion of agreed facilities by giving reasonable notice to the customer.

Capital commitments

There were no capital expenditure contracted as at the reporting date.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:	2012 Shs'000	2011 Shs'000
- not later than 1 year	77,308	61,839
- later than 1 year and not later than 5 years	129,657	123,074
- later than 5 years	1,522	1,085
	208,487	185,998

The Directors are of the view that future net revenues, funding and cash flows will be sufficient to cover these commitments.

25. FINANCIAL RISK MANAGEMENT

The Bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial 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 minimise potential adverse effects on the Bank's financial performance.

The Bank's Risk Management Policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

NOTES (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Management function is carried out by the Bank's Risk Management Department under policies approved by the Board of Directors. The Bank's Risk Management Department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The Bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the Bank.

- Measurement of credit risk

• Loans and advances

In measuring credit risk of loans and advances to customers, the Bank reflects various components. These include:
- the probability of default by the borrower/client on their contractual obligations;
- current exposures on the borrower/client and the likely future development, from which the Bank derives the exposure at default; and
- the likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39 and the banking Act which are based on losses that have been incurred at the date of the statement of financial position rather than expected losses.

The Bank assesses the probability of default of individual borrower/client using internal rating internally methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgment and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management.
The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

• Investments

For investments, external ratings in addition to the requirements of the banking Act are used by the Bank for better credit quality and maintain a readily available source to meet the funding requirement at the same time.

NOTES (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

- Risk limit control and mitigation policies

The Bank measures,monitors and controls concentrations of credit risk wherever they are identified.
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group's of borrowers, and to industry segments. Such risks are monitored on a continous basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry/sector are approved as and when required by the Risk Management Committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

- **Collateral**

  The Bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:
  • Mortgages over properties;
  • Charges over business assets such as land and buildings, inventory and receivables;
  • Charges over financial instruments such as investments.
  • Deposits placed under lien

- **Credit-related commitments**

  The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Letters of credit (which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct advance or loan.

  Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

- Impairment and provisioning policies

The Bank's internal and external systems focus more on credit-quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment.

The impairment provision shown in the statement of finacial position at the year-end is derived after taking various factors into consideration as described in accounting policy (k). The Bank's management uses basis under IAS 39 and the Prudential Guidelines to determine the amount of impairment.

NOTES (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

- Exposure to credit risk

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from loans and advances to customers which form 47.71% (2011: 52.39%) of total financial assets; 45.42% (2011: 38.52%) represents investments in government securities.
- 97.39% (2011: 96.71%) of the loans and advances portfolio is categorised in the top two grades (Normal and Watch).
- 4.16% (2011: 3.13%) of the loans and advances portfolio are considered to be past due but not impaired (note 11).
- Most of its loans and advances to customers are performing as per the covenants and the non-performing ones have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Government securities are considered stable investments as the risk is considered negligible.
- Management considers the historical information available to assess the credit risk on investment securities.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(b) Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rates, interest rates and bid prices, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objectives of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management of market risk rests with the Assets and Liability Committee (ALCO).

The treasury department is responsible for the development of detailed risk management policies, subject to review and approval by ALCO, and for the day to day implementation of these policies.

Market risks arise mainly from trading and non-trading activities.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as a principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity’s retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank’s available-for-sale investments.

The major measurement techniques used to measure and control market risk are outlined below :

NOTES (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

- ALCO review

ALCO meets on a monthly basis to review the following:

- A summary of the Bank's aggregate exposure on market risk
- A summary of the Bank's maturity/repricing gaps
- A report indicating that the Bank is in compliance with the Board's set exposure limits
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings

- Review by the treasury department

The Risk Management Department monitors foreign exchange risk in close co-ordination with the Finance Department. Regular reports are prepared by the Finance Department of the Bank.

Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exceptional reports for example limits or line excesses

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from the Bank's operations and is faced by all other business entities.

The Bank endeavours to manage the operational risk by creating a balance between avoidance of cost or financial losses and damage to the Bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development policies and programs to implement the Bank's operational risk management is with the senior Management of the Bank.

The above is achieved by development of overall standards for the Bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance to regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plans
- Giving training to staff to improve their professional competency
- Ethical standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

NOTES (continued)

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively monitored by Management to ensure compliance with the Bank's risk limits. The Bank's risk limits are assessed regularly to ensure their appropriateness, given its objectives and strategies and current market conditions. A variety of techniques are used by the Bank in measuring the risks inherent in its trading and non-trading positions.

26. CURRENCY RISK

The Bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with Correspondent Banks and takes deposits and lends in other currencies also. The Bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. This position is monitored on a daily basis by the Management.

The significant currency positions are detailed below:

AT 31 DECEMBER 2012

	US $ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Assets					
Cash and Bank balances	4,023	848	86	-	4,957
Balances with CBK	26,237	5,730	3,585	-	35,552
Deposits due from other banking institutions	-	179,949	8,922	6,809	195,680
Loans and advances to customers	2,404,376	27,735	95,669	-	2,527,780
Total assets	2,434,636	214,262	108,262	6,809	2, 763,969
Liabilities					
Customer deposits	965,927	215,778	39,398	-	1,221,103
Deposits due to other banking institutions	1,546,038	-	62,456	26,341	1,634,835
Total liabilities	2,511,965	215,778	101,854	26,341	2,855,938
Net balance sheet position	(77,329)	(1,516)	6,408	(19,532)	(91,969)
Off balance sheet net notional position	124,173	121,940	-	45,579	291,692

AT 31 DECEMBER 2011

	US $ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Total assets	2,424,546	40,187	143,992	2,049	2,610,774
Total liabilities	(2,569,611)	(163,478)	(142,416)	(40,620)	(2,916,125)
Net balance sheet position	(145,065)	(123,291)	1,576	(38,571)	(305,351)

NOTES (continued)

26. CURRENCY RISK (CONTINUED)

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya shilling strengthened against each currency, the effect would have been the opposite.

Year 2012

	US $ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Effect on profit - increase/(decrease)	(5,413)	(106)	449	(1,367)	(6,437)

Year 2011

	US $ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Effect on profit - increase/(decrease)	(10,155)	(8,630)	110	(2,700)	(21,375)

27. INTEREST RATE RISK

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the reporting date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not have any derivative financial instruments. The Bank does not bear any interest rate risk on off balance sheet items.

AT 31 DECEMBER 2012	Upto 3 months Shs'000	3 - 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	Over 3 years Shs'000	Non interest bearing Shs'000	Total Shs'000
ASSETS							
Cash in hand	-	-	-	-	-	223,276	223,276
Balances with Central Bank of Kenya	-	-	35,552	-	-	1,817,391	1,852,943
Government securities	709,644	904,930	1,246,334	1,688,931	15,302,561	1,019,748	20,872,148
Placements with and loans and advances to other banking institutions	139,330	-	-	-	-	56,661	195,991
Other assets	-	-	-	-	-	389,149	389,149
Loans and advances to customers	11,040,619	320,265	1,021,250	2,768,412	6,188,284	583,767	21,922,597
Investment properties	-	-	-	-	-	24,760	24,760
Other investments	-	-	-	-	274,112	34,061	308,173
Intangible assets	-	-	-	-	-	5,192	5,192
Property and equipment	-	-	-	-	-	159,672	159,672
Deferred tax	-	-	-	-	-	65,767	65,767
Tax recoverable	-	-	-	-	-	118,109	118,109
Total assets	11,889,593	1,225,195	2,303,136	4,457,343	21,764,957	4,497,553	46,137,777
LIABILITIES AND SHAREHOLDERS' EQUITY							
Customer deposits	23,058,302	5,917,308	4,112,627	1,009,200	1,132,176	3,152,851	38,382,464
Deposits due to other banking institutions	1,524,942	-	-	-	-	109,893	1,634,835
Other liabilities	-	-	-	-	-	362,100	362,100
Shareholders' equity	-	-	-	-	-	5,758,378	5,758,378
Total liabilities and shareholders' equity	24,583,244	5,917,308	4,112,627	1,009,200	1,132,176	9,383,222	46,137,777
On balance sheet interest sensitivity gap	(12,693,651)	(4,692,113)	(1,809,491)	3,448,143	20,632,781	(4,885,669)	-
AT 31 DECEMBER 2011							
Total assets	9,091,188	241,121	515,316	3,308,883	18,891,579	4,652,710	36,700,797
Total liabilities and shareholders' equity	18,596,962	3,421,343	3,821,486	2,521,862	113,335	8,225,808	36,700,797
On balance sheet interest sensitivity gap	(9,505,774)	(3,180,222)	(3,306,170)	787,020	18,778,244	(3,573,098)	-

NOTES (continued)

27. INTEREST RATE RISK (CONTINUED)

The table below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

	2012				2011			
	Shs. %	US $ %	GB£ %	Euro %	Shs. %	US $ %	GB£ %	Euro %
Government securities	10.34	-	-	-	8.90	-	-	-
Placements with other banking institutions	10.74	-	-	-	11.34	-	-	-
Loans and advances to customers	22.40	7.46	7.32	6.07	16.66	6.61	7.96	7.03
Customer Deposits	11.14	-	-	-	5.72	-	-	-
Borrowings from other banking institutions	2.13	-	-	-	2.38	-	-	-

Interest rate risk sensitivity

At 31 December 2012, if the weighted average interest rates had been 10 percent higher with all other variables held constant, post-tax profit for the year would have been as follows:

	2012 Shs	2011 Shs
Effect on interest income - increase/(decrease)	284,310	263,876
Effect on interest expense - (increase)/decrease	(228,634)	(229,548)
Net effect on profit after tax - increase/(decrease)	55,676	34,328

28. PRICE RISK SENSITIVITY

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as ‘Available-for-sale’.

The table below summarises the impact on increase in the market price on the Bank’s equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Banks equity instruments moved according to the historical correlation with the price:

	Impact on equity	
	2012	2011
Effect of increase	562,646	281,826

29. LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with high level of certainty. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interBank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sufficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits. The Bank fully complies with the Central Bank of Kenya’s minimum cash reserve ratio (5.25 %) and liquidity ratio (20 %) requirements, with the average liquidity maintained at 56.6% (2011: 49.2%) during the year.

NOTES (continued)

29. LIQUIDITY RISK (continued)

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

AT 31 DECEMBER 2012	Upto 3 month Shs'000	3 - 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	Over 3 years Shs'000	Total Shs'000
ASSETS						
Cash in hand	223,276	-	-	-	-	223,276
Balances with Central Bank of Kenya	1,320,088	287,896	35,552	47,802	161,605	1,852,943
Government securities	746,096	951,413	1,310,354	1,775,685	16,088,600	20,872,148
Placements with and loans and advances to other banking institutions	195,991	-	-	-	-	195,991
Other assets	389,149	-	-	-	-	389,149
Loans and advances to customers	11,040,619	320,265	1,021,250	2,768,412	6,772,051	21,922,597
Investment properties	-	-	-	-	24,760	24,760
Other investments	-	-	-	-	308,173	308,173
Intangible assets	-	-	-	-	5,192	5,192
Property and equipment	-	-	-	-	159,672	159,672
Deferred tax	-	-	-	-	65,767	65,767
Tax recoverable	-	-	-	-	118,109	118,109
Total assets	13,915,219	1,559,574	2,367,156	4,591,899	23,703,929	46,137,777
LIABILITIES AND SHAREHOLDERS' EQUITY						
Customer deposits	26,211,153	5,917,308	4,112,627	1,009,200	1,132,176	38,382,464
Deposits due to other banking institutions	1,634,835	-	-	-	-	1,634,835
Other liabilities	362,100	-	-	-	-	362,100
Shareholders' equity	-	168,252	(285,179)	-	5,875,305	5,758,378
Total liabilities and shareholders' equity	28,208,088	6,085,560	3,827,448	1,009,200	7,007,481	46,137,777
Net liquidity gap	(14,292,869)	(4,525,986)	(1,460,292)	3,582,699	16,696,448	-
AT 31 DECEMBER 2011						
Total assets	10,364,041	241,121	712,953	3,302,923	22,079,759	36,700,797
Total liabilities and shareholders' equity	21,715,780	3,589,595	3,931,590	2,539,362	4,924,470	36,700,797
Net liquidity gap	(11,351,739)	(3,348,474)	(3,218,637)	763,561	17,155,289	-

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

NOTES (continued)

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In the opinion of the Directors, the fair values of financial assets and financial liabilities are not materially different from their carrying values.

31. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

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

The Bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya.These ratios measure capital adequacy by comparing the Bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied. e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit etc., are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes general provisions and non-dealing investments.

	Balance sheet - nominal values		Risk weighted amount	
	2012 Shs'000	2011 Shs'000	2012 Shs'000	2011 Shs'000
Cash in hand	223,276	189,731	-	-
Balances with Central Bank of Kenya	1,852,943	1,602,245	-	-
Government securities	20,872,148	14,074,720	-	-
Placements with and loans and advances from other banking institutions	195,991	644,975	39,198	128,995
Other assets	389,149	325,568	389,149	325,568
Loans and advances to customers	21,922,597	19,144,038	20,118,239	17,672,572
Investment properties	24,760	24,145	24,760	24,145
Other investments	308,173	348,824	308,173	348,824
Intangible assets	5,192	4,898	5,192	4,898
Property and equipment	159,672	131,177	159,672	131,177
Deferred tax	65,767	47,542	65,767	47,542
Tax recoverable	118,109	162,934	118,109	162,934
Total assets	46,137,777	36,700,797	21,228,259	18,846,655
Off balance sheet positions	7,449,018	6,731,036	3,723,212	2,965,797
Total risk weighed assets	53,586,795	43,431,833	24,951,471	21,812,452

NOTES (continued)

31. CAPITAL MANAGEMENT (CONTINUED)

Capital adequacy requirement calculation	Capital 2012 Shs'000	2011 Shs '000
Tier 1 capital	5,636,512	4,464,164
Tier 2 capital	238,793	203,293
Total Capital	5,875,305	4,667,457
Total deposit liabilities	38,382,464	30,263,949

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual ratios		Minimum requirement	
	2012 %	2011 %	2012 %	2011 %
Core capital to total risk weighted assets	22.6%	20.5%	8	8
Total capital to total risk weighted assets	23.5%	21.4%	12	12
Core capital to deposit liabilities	14.7%	14.8%	8	8

32. RELATED PARTY TRANSACTIONS

Included in loans and advances and customer deposits are amounts advanced to/received from certain Directors and companies in which Directors are involved either as shareholders or Directors (related companies). In addition, contingent liabilities (Note 24) include guarantees and letters of credit which have been issued to related companies.

The following transactions were carried out with related parties:

	2012 Shs'000	2011 Shs'000
a) Interest received from loans and advances to:		
Directors	-	-
Related companies	4,937	1,998
Senior management employees	36	37
other employees	7,644	7,134
	12,616	9,169
b) Interest paid on deposits from:		
Directors	832	822
Related companies	23,544	9,808
Senior management employees	262	34
Other employees	188	276
	24,825	10,941
c) Management fees paid		
Related companies	39,413	41,560

NOTES (continued)

32. RELATED PARTY TRANSACTIONS (CONTINUED)

d) Outstanding loans and advances	Directors 2012 Shs'000	Directors 2011 Shs'000	Related companies 2012 Shs'000	Related companies 2011 Shs'000	Senior management employees 2012 Shs'000	Senior management employees 2011 Shs'000	Other employees 2012 Shs'000	Other employees 2011 Shs'000
At start of year	-	-	6,881	17,505	1,007	3,960	98,190	79,754
Advances during the year	-	-	35,402	6,152	1,840	1,160	43,526	39,394
Interest charged	-	-	4,937	1,998	36	37	7,644	7,097
Repayments during the year	-	-	(15,540)	(18,774)	(1,022)	(4,150)	(23,721)	(28,054)
At end of year	-	-	31,681	6,881	1,861	1,007	125,638	98,190
Contingent liabilities	-	-	-	-	-	-	-	-

The loans and advances to related parties are performing .

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

e) Deposits	Directors 2012 Shs'000	Directors 2011 Shs'000	Related companies 2012 Shs'000	Related companies 2011 Shs'000	Senior management employees 2012 Shs'000	Senior management employees 2011 Shs'000	Other employees 2012 Shs'000	Other employees 2011 Shs'000
At start of year	9,687	10,610	368,854	41,431	2,454	6,215	25,220	27,471
Deposits received during the year	63,511	59,562	1,342,806	3,189,349	18,488	18,941	384,195	256
Interest paid during the year	832	822	23,544	9,808	262	34	188	276
Withdrawals during the year	(62,763)	(61,306)	(1,567,807)	(2,871,734)	(19,234)	(22,736)	(387,000)	(2,783)
At end of year	11,268	9,687	167,398	368,854	1,969	2,454	22,602	25,220

NOTES (continued)

32. RELATED PARTY TRANSACTIONS (CONTINUED)

f) Undrawn formal stand by facilities, credit lines and other commitments to lend:

	2012 Shs'000	2011 Shs'000
Related companies	15,372	10,119

g) Directors emoluments

	2012 Shs'000	2011 Shs'000
-fees	580	615
-others	13,562	10,219
	14,142	10,834

h) Key management personnel compensation

Key management includes the directors and other members of key management.

	2012 Shs'000	2011 Shs'000
Short-term employee benefits	39,409	28,296
Post-employment benefits	1,916	1,699
	41,325	29,995

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

33. PRESENTATION CURRENCY

The financial statements are presented in to the nearest thousand Kenya Shillings (Shs'000).

ANNEXURE I - SCHEDULE OF OTHER OPERATING EXPENDITURE

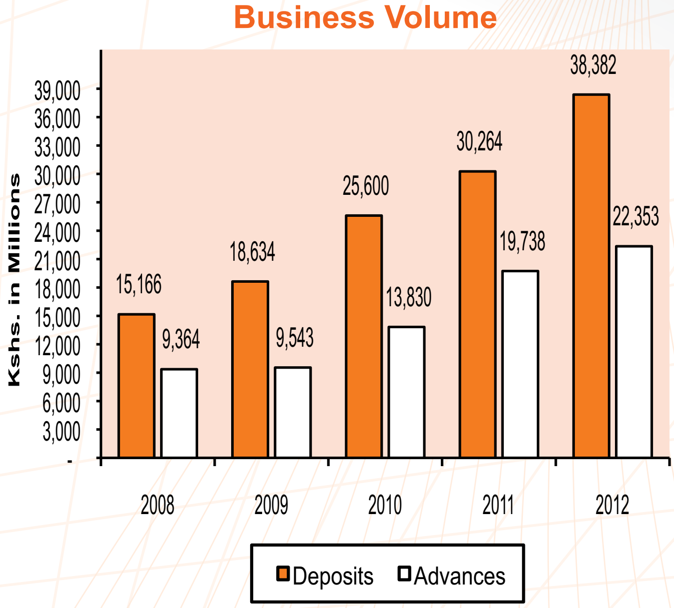
		2012 Shs'000	2011 Shs'000
1.	**STAFF COSTS**		
	Leave benefits	6,602	2,900
	Pension fund contributions	15,782	13,823
	Salaries and wages	264,167	227,890
	Fringe benefit tax	878	43
	Staff and other expenses	67,811	22,042
	Staff housing	14,798	5,698
	Staff medical	13,360	10,862
	Staff training	798	1,026
	Total staff costs	**384,196**	**284,284**
2.	**ADMINISTRATIVE EXPENSES**		
	Advertising	16,615	12,643
	Broker commissions	7,109	4,267
	Computer expenses	12,338	3,711
	Donations and fines	988	2,362
	Subscriptions and periodicals	4,513	3,040
	Entertainment	3,032	2,221
	Legal and professional fees	46,551	44,863
	Miscellaneous	21,083	19,413
	Postages, telephones, telex and fax	6,716	4,497
	Printing and stationery	7,804	5,064
	Secretarial fees	150	146
	Insurance	10,816	10,302
	Travelling and motor vehicle	12,062	10,457
	Total administrative expenses	**149,777**	**122,986**
3	**OPERATING EXPENSES**		
	Electricity and water	10,615	9,999
	Insurance	585	291
	Licences	2,198	2,385
	Office cleaning	3,579	1,748
	Repairs and maintenance	43,980	24,009
	Total operating expenses	**60,957**	**38,432**

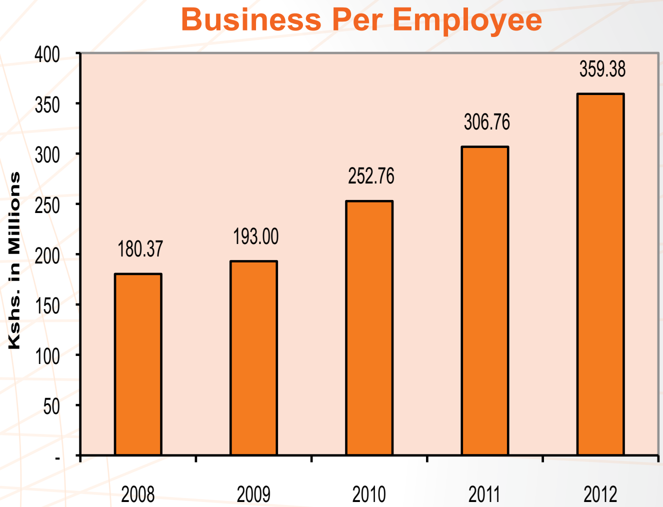
ANNEXURE II - OTHER DISCLOSURES

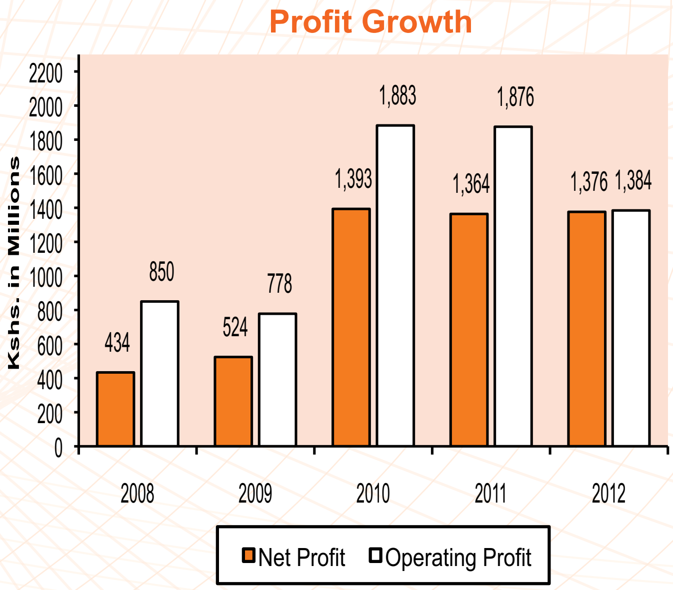
NON-PERFORMING LOANS AND ADVANCES

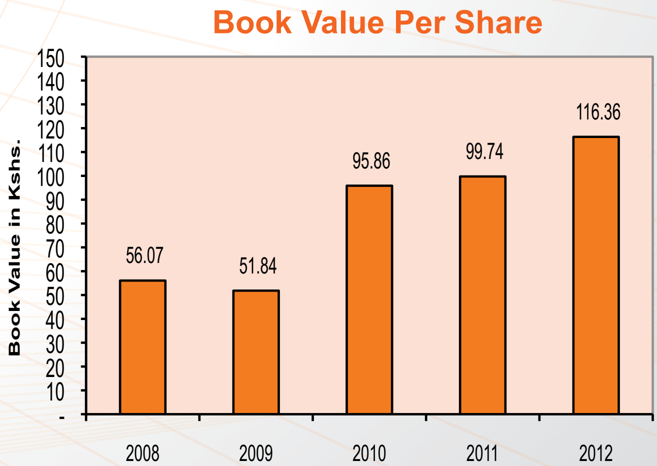
		2012 Shs'000	2011 Shs'000
1	**NON-PERFORMING LOANS AND ADVANCES**		
a)	Gross Non-performing loans and advances	583,766	648,851
b)	Less Interest in Suspense	71,520	64,606
c)	Total Non-Performing Loans and Advances (a-b)	512,246	584,245
d)	Less Loan Loss Provision	359,181	529,597
e)	Net Non-Performing Loans and Advances(c-d)	153,065	54,648
f)	Discounted Value of Securities	153,065	54,648
g)	Net NPLs Exposure (e-f)	-	-
2	**INSIDER LOANS AND ADVANCES**		
h)	Directors, Shareholders and Associates	31,680	6,881
i)	Employees	127,499	99,198
j)	Total Insider Loans and Advances and other facilities	159,179	106,079
3	**OFF-BALANCE SHEET ITEMS**		
a)	Letters of credit,guarantees, acceptances	6,599,881	5,443,195
b)	Other contingent liabilities	849,136	1,287,841
c)	Total Contingent Liabilities	7,449,017	6,731,036
4	**CAPITAL STRENGTH**		
a)	Core capital	5,636,512	4,464,164
b)	Minimum Statutory Capital	1,000,000	700,000
c)	Excess (a-b)	4,636,512	3,764,164
d)	Supplementary Capital	238,793	203,293
e)	Total Capital (a+d)	5,875,305	4,667,457
f)	Total risk weighted assets	24,951,471	21,812,452
g)	Core Capital/Total deposits Liabilities	14.7%	14.8%
h)	Minimum statutory Ratio	8.0%	8.0%
i)	Excess	6.7%	6.8%
j)	Core Capital / total risk weighted assets	22.6%	20.5%
k)	Minimum Statutory Ratio	8.0%	8.0%
l)	Excess (j-k)	14.6%	12.5%
m)	Total Capital/total risk weighted assets	23.5%	21.4%
n)	Minimum statutory Ratio	12.0%	12.0%
o)	Excess (m-n)	11.5%	9.4%
5	**LIQUIDITY**		
a)	Liquidity Ratio	55.8%	49.2%
b)	Minimum Statutory Ratio	20.0%	20.0%
c)	Excess (a-b)	35.8%	29.2%

ANNEXURE III - FINANCIAL HIGHLIGHTS









Highlights of 2012

Customers Meet

Philanthropist Dr. Manu Chandaria with Ms. Vindhya Ramesh, MD and Mr. Arun Shrivastava the then MD in a customers' meet in Nairobi.

Managing Director - Ms. Vindhya Ramesh meeting with customers at Mombasa, while, Mr. Vikram C. Kanji, Director looks on.

Sarit Centre Branch

Inauguration of 'refurbished' Sarit Centre Branch by Mr. Arun Shrivastava, the then MD.

State of Art - Sarit Centre Branch, Nairobi.

Highlights of 2012 (continued)

Chairman's Visit

Mr. Ranjan Dhawan, chairman - meeting the Head Office staff.

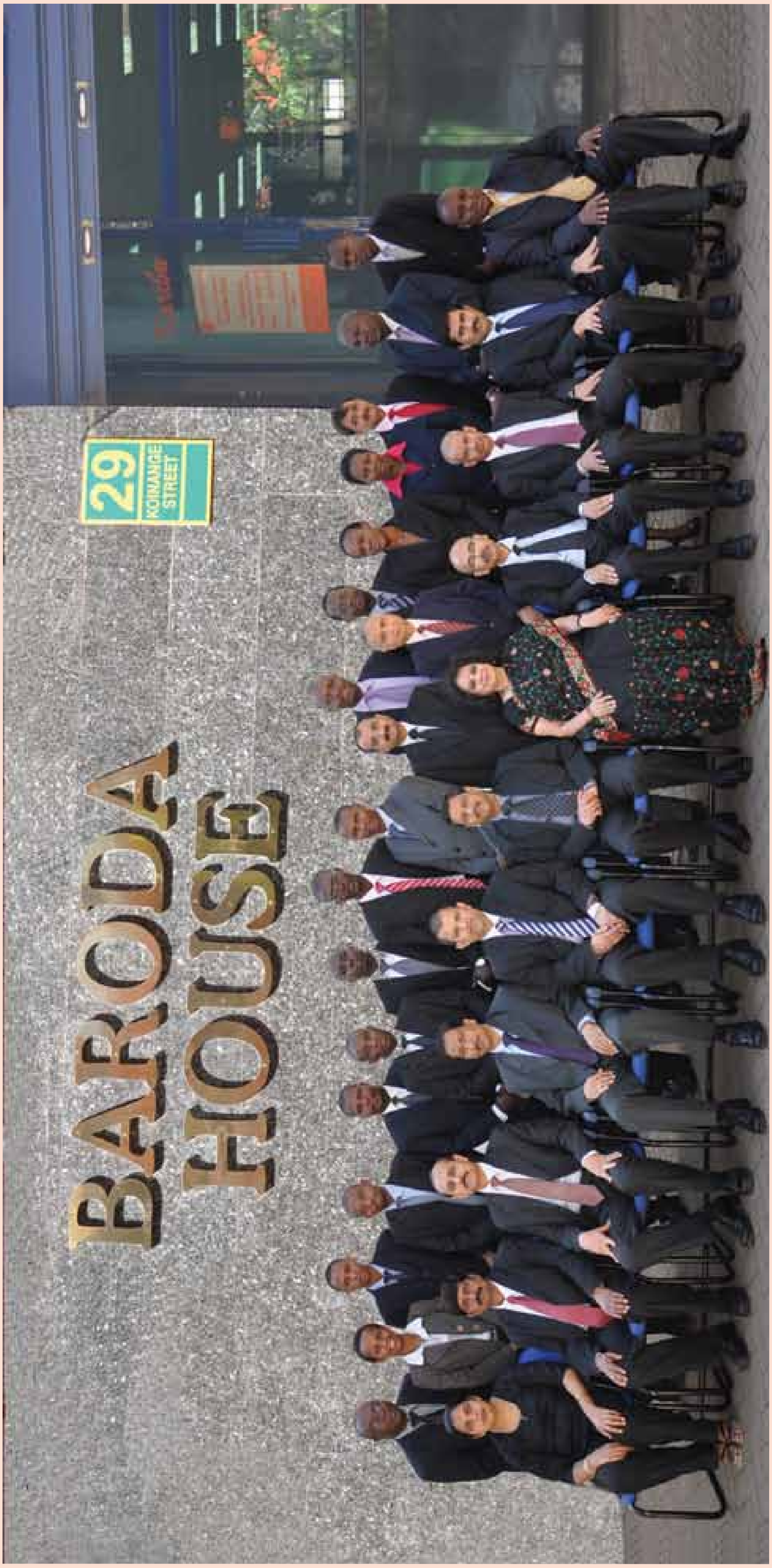
Board Members

Our Board members with CBK team.

Proud Moments

Ms. Vindhya Ramesh, Managing Director, receiving the Banking Awards - 2013.

Award winning "Team Baroda".



"Team Baroda" Together we can... Together we will...

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