

**TRANS-NATIONAL BANK LIMITED**

**BANK FINANCIAL STATEMENTS**

**31 DECEMBER 2007**

TRANS-NATIONAL BANK LIMITED

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2007

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TRANS-NATIONAL BANK LIMITED  
CORPORATE INFORMATION

DIRECTORS

M Cherwon-(Chairman)  
P Kemei  
J K Kenduiwo  
A DeSimone\*  
H Tororey

\* American

CHIEF EXECUTIVE

D K Rana

AUDIT COMMITTEE

P Kemei Chairman  
J K Kenduiwo  
H Tororey

CREDIT COMMITTEE

M Cherwon Chairman  
D K Rana  
A DeSimone  
H Tororey  
S Tanui

STRATEGY COMMITTEE

J Kenduiwo Chairman  
M Cherwon  
D K Rana  
P Kemei  
F Sheikh

RISK COMMITTEE

A DeSimone Chairman  
D K Rana  
P Kemei  
F Sheikh

ASSETS AND LIABILITY MANAGEMENT  
COMMITTEE

D Rana Chairman  
F Sheikh  
S Tanui  
P Gitau  
D Too

HUMAN RESOURCES COMMITTEE

H Tororey Chairman  
D K Rana  
A DeSimone  
D Namwendwa

SECRETARY

P Kemei  
P O Box 72133  
00200 - Nairobi

REGISTERED OFFICE

Trans-National Plaza  
City Hall Way  
P O Box 75840  
00200 - Nairobi

AUDITORS

Deloitte & Touche  
Ring Road, Westlands  
P O Box 40092  
00100 - Nairobi

ADVOCATES

Karimbux Effendy & Company  
P O Box 43356  
00100 - Nairobi  
  
Mukite Musangi & Co Advocates  
P O Box 149  
Nakuru  
  
Kalya & Company  
P O Box 235  
Eldoret

# TRANS-NATIONAL BANK LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### CORPORATE GOVERNANCE

The Shareholders of the bank have exercised their Governance Responsibility by appointing professional individuals with diverse backgrounds to be the Directors of the bank and to guide and control the business of the bank. The shareholders have reviewed the performance of the Chairman and the Directors of the Board. The shareholders have also directed the Board to take the bank forward in the market with a suitable business plan.

The Board of Directors has provided the Management with policy guidelines in key business areas of

- Credit Risk and Rules for Conduct of Credit Business
- Operations Risk Management
- Risk Management:
  - Exchange Risk
  - Market Risk
  - Liquidity Risk
- Information and Communication Technology
- Human Resources Management
- Disaster Preparedness and Business Continuity

During the year, the Board reviewed and provided Organisational Structure for the bank that implements the international best practices in Risk Management in Banking. The Board has made necessary budgetary allocation to cater for the organisation structure. The bank also invested in new ICT System “Omni Enterprise” and Oracle Database with a view to enhance “Know Your Customer” information database and higher capability Management Information Systems that can drive future Risk Management in the bank through the use of technology.

The Board has provided clear statements to all stakeholders committing the bank to:

- Regulatory, Legal and Anti-Money Laundering Compliance on ongoing basis
- Board Involvement and Oversight in Risk Management
- Strategy formulation and review guiding the future business of the bank

The Board Members have effectively participated in the discharge of their responsibilities as shown by the record of attendance of board meetings below;

Mr. Mwakai Sio (Resigned w.e.f. 9 Nov 2007)	9 out of 10	90%
Mr. Michael Cherwon (Appointed w.e.f. 7 <sup>th</sup> June 2007)	6 out of 6	100%
Mr. Charles Field Marsham (Resigned w.e.f. 26 Sep 2007)	7 out of 8	87.5%
Mr. Peter Kemei	10 out of 11	91%
Mr. Andre DeSimone	3 out of 3	100%
Mr. John Kenduiwo	11 out of 11	100%
Mr. Ben Chepkoit (Resigned w.e.f. 18 Oct 2007)	7 out of 9	78%
Mr. Hilary Tororey (Appointed w.e.f. 10 <sup>th</sup> Dec 2007)	1 out of 1	100%

The Board Members have also participated in Board Committee meetings.

Evaluation of the performance of each of the directors including the Chairman of the Board and the Chief Executive Officer for the year 2007 was carried out by the Board by means of Peer and self evaluations. Their Attendance, participation and contributions were assessed.

The Management has formulated operating rules, regulations, procedures and targets in accordance with the policy guidelines provided by the board. The management has also implemented the Organisational Structure determined by the Board. The Management has taken Risk Management initiatives as required under Central Bank of Kenya Prudential Guidelines and the directions of the Board. The management has determined skills gaps and determined the manpower quality required and brought on board the necessary manpower to conduct the business.

# TRANS-NATIONAL BANK LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### REPORT OF THE DIRECTORS

The directors have the pleasure to submit their report together with the audited financial statements for the year ended 31 December 2007, 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 principal activities of the bank are the provision of banking, financial and related services.

BANK RESULTS	Sh'000
Profit before taxation	234,826
Taxation charge	(44,334)
	—————
Profit for the year	190,492
	=====

During the year, the bank disposed its 69% shareholding in a subsidiary company, Autosilo (Queensway) Limited. The resulting gain on disposal of Sh 154,150,000 is included in the results for the year.

### DIVIDENDS

The directors paid an interim and final dividend of sh.175m in respect of the year.

### DIRECTORS

The current directors are listed on page 2. Messrs M K Sio, C Field-Marsham and B K Chepkoi resigned on 9 November 2007, 26 September 2007 and 18 October 2007 respectively. Mr M Cherwon, A DeSimone and H Tororey were appointed on 7 June 2007, 26 September and 10 December 2007 respectively.

### AUDITORS

The auditors, Deloitte & Touche, having indicated their willingness, continue in office in accordance with Section 159 (2) of the Companies Act and subject to Section 24(1) of the Banking Act.

### BY ORDER OF THE BOARD

### SECRETARY

Nairobi

2008

TRANS-NATIONAL BANK LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company and of its operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

.....  
Director

.....  
Director

2008

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANS-NATIONAL BANK LIMITED

We have audited the financial statements of Transnational Bank Limited set out on pages 7 to 45 which comprise the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, together with the summary of significant accounting policies and other explanatory notes, and have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purposes of our audit.

### **Respective responsibilities of directors and auditors**

The bank's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the provisions of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances. Our responsibility is to express an opinion on these financial statements based on our audit.

### **Basis of opinion**

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

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

We believe that our audit provides a reasonable basis for our opinion.

### **Opinion**

In our opinion, proper books of account have been kept by the bank and the financial statements, which are in agreement therewith, give a true and fair view of the state of affairs of the company at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act.

TRANS-NATIONAL BANK LIMITED

INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Sh'000	2006 Sh'000
INTEREST INCOME	4	310,376	235,110
INTEREST EXPENSE	5	(53,903)	(31,542)
NET INTEREST INCOME		256,473	203,568
Fees and commission income	6	81,274	79,057
Gains on foreign exchange dealings	7	39,691	41,606
Dividends from subsidiary company		16,560	-
Bad debts recovered		14,673	21,811
Other income	8	158,220	161
OPERATING INCOME		566,891	346,203
OTHER OPERATING EXPENSES	9	(286,166)	(236,843)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	18	(45,899)	(63,100)
PROFIT BEFORE TAXATION		234,826	46,260
TAXATION (CHARGE)/CREDIT	11	(44,334)	16,135
PROFIT FOR THE YEAR		190,492	62,395
EARNINGS PER SHARE		=====	=====
- Basic and diluted	12	6.53	2.14
DIVIDENDS PER SHARE		=====	=====
-Paid	13	6.00	
-Proposed	13	-	1.20
		6.00	1.20
		=====	=====



TRANS-NATIONAL BANK LIMITED

BALANCE SHEET  
31 DECEMBER 2007

	Note	2007 Sh'000	2006 Sh'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	14	280,122	166,817
Government securities held to maturity	15	1,230,536	356,629
Deposits and balances due from banking institutions	16	294,022	444,090
Loans and advances to customers	17	1,208,138	1,304,234
Other assets	19	89,641	121,055
Taxation recoverable	11(c)	116	116
Intangible assets	20	19,617	227
Equipment	21	43,381	53,962
Deferred tax asset	22	55,088	38,363
Investment in subsidiary companies	23	-	80,733
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		3,220,661	2,566,226
		=====	=====
<b>LIABILITIES</b>			
Customer deposits	24	1,799,905	1,264,090
Deposits due to banking institutions	25	16,140	64,468
Other liabilities	26	234,968	106,432
Compensating Tax payable	11(c)	61,059	-
Financial liability-derivatives	27	5,718	-
Amount due to Group Company	28	-	8,857
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		2,117,790	1,443,847
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	29	583,722	583,722
Revenue reserve		497,961	520,639
Statutory reserve	30	21,188	18,018
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		1,102,871	1,122,379
		<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		3,220,661	2,566,226
		=====	=====

The financial statements on pages 7 to 45 were approved by the board of directors on and were signed on its behalf by:

2008

)  
) Directors  
)  
)  
) Secretary

TRANS-NATIONAL BANK LIMITED

BANK STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	Share capital Sh'000	Statutory reserve Sh'000	Revenue reserve Sh'000	Total Sh'000
1 January 2006		583,722	17,022	459,240	1,059,984
Transfer to statutory reserve		-	996	(996)	-
Profit for the year		-	-	62,395	62,395
Balance at 31 December 2006		<u>583,722</u>	<u>18,018</u>	<u>520,639</u>	<u>1,122,379</u>
Balance at 1 January 2007		583,722	18,018	520,639	1,122,379
Transfer to statutory reserve	30	-	3,170	(3,170)	-
Profit for the year		-	-	190,492	190,492
Final dividend paid - 2006	13	-	-	(35,000)	(35,000)
Interim and final dividend paid - 2007	13	-	-	(175,000)	(175,000)
Balance at 31 December 2007		<u>583,722</u>	<u>21,188</u>	<u>497,961</u>	<u>1,102,871</u>

TRANS-NATIONAL BANK LIMITED

BANK CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007

	Note	2007 Sh'000	2006 Sh'000
<b>Cash generated from operating activities</b>	31(a)	455,518	320,119
<b>Cash flow from investing activities</b>			
Additions to equipment		(7,593)	(33,266)
Additions to intangible assets		(22,019)	(130)
Proceeds from disposal of equipment		576	17
Proceeds from sale of investment in subsidiary company		234,883	-
Dividends received		16,560	-
<b>Cash generated from/(used) in investing activities</b>		222,407	(33,379)
<b>Cash flow from financing activities</b>			
Dividends paid		(210,000)	-
Cash used in financing activities		(210,000)	-
<b>Increase in cash and cash equivalents</b>		467,925	286,740
<b>Cash and cash equivalents at 1 January</b>		586,479	299,739
<b>Cash and cash equivalents at 31 December</b>	31(b)	1,054,404	586,479

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 1 ACCOUNTING POLICIES

#### **Statement of Compliance with International Financial Reporting Standards**

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The principal accounting policies remain unchanged from the previous year except for the adoption of IFRS 7 on financial instrument disclosures and IAS 1 Amendment on capital disclosures as below:

#### **Adoption of new and revised international financial reporting standards**

During the current year, the following Standards and Interpretations had become effective for the first time and have been adopted by the bank where relevant to its operations. The comparative figures have been restated as required in accordance with the relevant requirements.

- IFRS 7 on Financial Instruments Disclosures; this standard introduces new qualitative and quantitative disclosure requirements about exposure to risks arising from financial instruments. Minimum disclosure on credit, market and liquidity risk has been defined.
- IAS 1 Amendment – Capital Disclosures – defines minimum disclosure requirements about the level of Bank Capital and management thereof.

The following amendments to an existing standard and new standards and interpretations will become effective on or after 1 January 2008.

- IFRS 8 on Operating Segments
- IFRIC 9 Reassessment of Embedded Derivatives
- IFRIC 10 Interim Financial Reporting and Impairment
- IFRIC 12 Service Concession Arrangements
- IFRIC 13 Customer Loyalty Programs
- IFRIC 14 IAS 19 the limit on a defined benefit asset , minimum funding requirement and their interaction

The adoption of these standards and interpretations, when effective, will have no material impact on the financial statements of the bank.

#### **Basis of preparation**

The company prepares its financial statements under the historical cost convention modified to include the revaluation of certain assets.

#### **Interest income and expense**

Interest income and expense for all interest bearing financial instruments are recognised within the income statement on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in the income statement.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2007

### 1 ACCOUNTING POLICIES(Continued)

#### **Interest income and expense (continued)**

Once a financial asset or a bank of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

#### **Fees and commission income**

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

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

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

#### **Equipment**

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses where applicable.

#### **Depreciation**

Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of the equipment over their expected useful lives. The rates generally in use are:

Leasehold improvements	20%
Motor vehicles	25%
Computer hardware and software	30%
Equipment, furniture, fixtures and fittings	12½%

#### **Intangible assets**

Computer software costs are stated at cost less amortisation and impairment losses where applicable. The costs are amortised over their expected useful lives on a straight line basis. Currently, software costs are amortised over three years.

#### **Impairment**

At each balance sheet date, the bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the asset's recoverable amount is estimated and an impairment loss is recognized in the income statement whenever the carrying amount of the asset exceeds its recoverable amount.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Offsetting**

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

#### **Taxation**

Income tax expense represents the sum of the current tax payable and the deferred taxation.

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

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

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

#### **Investment in subsidiaries**

Investment in subsidiaries is stated at cost less impairment losses. The holding company accounts for dividends from subsidiary companies only when they are received. During the year, the bank disposed all its shareholding in one of the subsidiaries, Autosilo (Queensway) Limited as disclosed in note 23.

#### **Foreign currencies**

Assets and liabilities in foreign currencies are expressed in Kenya Shillings at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies during the year are translated at the rates ruling at the dates of the transactions. The resulting gains or losses are dealt within the income statement.

#### **Retirement benefits**

The bank operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the bank.

The bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are limited to Sh 200 per month per employee.

The bank's contributions in respect of retirement benefit costs are charged to the income statement in the year to which they relate.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Financial instruments**

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

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

#### *Financial assets at fair value through profit or loss*

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

#### *Loans, advances and receivables*

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

#### *Held to maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

#### *Available-for-sale financial assets*

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the income statement. Dividends on available-for-sale equity instruments are recognised in the income statement when the bank’s right to receive payment is established.

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

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Financial instruments (Continued)**

##### *Impairment and uncollectability of financial assets*

At each balance sheet date, all financial assets are subject to review for impairment.

If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in income statement for the period.

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

##### *Financial Liabilities*

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

#### **Statutory reserve**

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

#### **Leasing**

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

##### *The bank as lessee*

Assets held under finance leases are recognised as assets of the bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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



# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Contingent liabilities**

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

#### **Critical accounting estimates and judgements in applying the entity's accounting policies**

In the process of applying the entity's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

##### *Impairment losses on loans and advances*

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

##### *Equipment and intangible assets*

Critical estimates are made by the directors in determining depreciation/amortisation rates for equipment and intangible assets.

##### *Held -to-maturity investments*

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

#### **Comparatives**

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular the comparative figures have been restated to recognise the effect of adoption of IFRS 7 on financial instruments disclosures.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 FINANCIAL RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk
- operational risk

#### *Risk management framework*

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Board has set up an independent Compliance Function reporting to the Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

#### **a) Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

#### **i) Management of credit risk**

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Managers. Larger facilities require approval by, Head Office Credit Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit Risk function assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of loans and advances to counterparties, geographies and business sectors and by issuer, credit rating band, market liquidity and country (for investment securities).

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Credit risk (Continued)

i) Management of credit risk (Continued)

- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by Credit Risk Management Department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The bank monitors concentration of risk by economic sector in line with set limits per the sector. An analysis of concentrations within the loan and advances to customers, customer deposits and off balance sheet items is as follows:

(a)	Loans and advances to customers				
		2007		2006	
		Sh'000	%	Sh'000	%
	Agriculture	65,654	4	78,016	4
	Manufacturing	57,968	4	61,539	4
	Wholesale and retail	81,577	6	71,502	5
	Transport and communication	100,440	7	81,544	5
	Real estate	44,951	3	53,847	4
	Social community and personal services	329,342	23	345,243	23
	Business services	234,763	16	233,596	16
	Other	530,567	37	575,268	38
		-----	---	-----	---
		1,445,262	100	1,500,555	100
		=====	===	=====	===
(b)	Customer deposits				
	Non - financial public enterprises	-	-	409	-
	Non bank financial institutions	911	-	1,818	-
	Building societies	11	-	11	-
	Co-operative societies	3,217	-	1,766	-
	Insurance companies	445	-	9,703	1
	Private enterprises	1,110,174	62	754,195	60
	Non profit institutions and individuals	681,147	38	496,188	39
		-----	---	-----	---
		1,799,905	100	1,264,090	100
		=====	===	=====	===

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Credit risk (Continued)

i) Management of credit risk (Continued)

(c) Off balance sheet items (letters of credit and guarantees)

	2007		2006	
	Sh'000	%	Sh'000	%
Agriculture	10,208	3	8,166	3
Manufacturing	3,076	1	2,461	1
Wholesale and retail	4,601	1	3,681	1
Transport and communication	83,572	25	153,226	57
Real estate	9,185	3	7,348	3
Social community and personal services	13,441	4	10,753	4
Business services	89,244	36	63,746	24
Other	125,623	37	17,735	7
	<u>338,951</u>	<u>100</u>	<u>267,116</u>	<u>100</u>
	=====	===	=====	===

(ii) Maximum exposure to credit risk before collateral held

	2007	%	2006	%
	Sh'000		Sh'000	
Credit exposures:				
On balance sheet items:				
Deposits and balances due from banking institutions	294,022	10	444,090	19
Loans and advances to customers	1,208,138	39	1,304,234	55
Government securities	1,230,536	40	356,629	15
	<u>2,732,696</u>	<u>89</u>	<u>2,104,953</u>	<u>89</u>
	=====	===	=====	===
Off balance sheet items:				
Letters of credit	3,572	-	121,742	5
Letters of guarantees and performance bonds	217,319	7	145,374	6
Foreign exchange forward contracts	118,060	4	-	-
	<u>338,951</u>	<u>11</u>	<u>267,116</u>	<u>11</u>
	=====	===	=====	===
	<u>3,071,647</u>	<u>100</u>	<u>2,372,069</u>	<u>100</u>
	=====	===	=====	===

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

a) Credit risk (Continued)

(iii) Classification of loans and advances

	2007 Sh'000	2006 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	72,776	71,448
Grade 3 & 4: Impaired (doubtful)	280,733	294,047
	-----	-----
Gross amount	353,509	365,495
Allowance for impairment	(237,124)	(196,321)
	-----	-----
Carrying amount	116,385	169,174
	=====	=====
Past due but not impaired		
Watch	513,549	268,852
	-----	-----
Carring amount	513,549	268,852
	-----	-----
Past due comprises:		
30-90 days	513,549	268,852
	-----	-----
Carrying amount	513,549	268,852
	-----	-----
Neither past due nor impaired		
Grade 1 : Normal	578,204	866,208
	-----	-----
Carrying amount	578,203	866,208
	-----	-----
Total carrying amount	1,208,138	1,304,234
	=====	=====

**Impaired loans and securities**

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect a part/whole of principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 3, 4 and 5 in the Bank's internal credit risk grading system.

**Past due but not impaired loans**

Loans and securities where contractual interest or principal payments are past due but the bank believes that impairment is not appropriate on the basis of the level of security / collateral available and or the stage of collection of amounts owed to the bank. These exposures are categorised as watch accounts in line with Central Bank of Kenya prudential guidelines.

## TRANS-NATIONAL BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### a) Credit risk (Continued)

##### (iii) Classification of loans and advances

###### **Loans and advances that are neither past due nor impaired**

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

###### **Loans with renegotiated terms**

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

##### (iv) Allowances for impairment

The Bank sets aside from its income an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to each defaulting borrower, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

##### (v) Write-off policy

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

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**a) Credit risk (Continued)**

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

<i>In thousands of Kenya Shillings</i>	<b>Loans and advances to customers</b>	
	<b>Gross</b>	<b>Net</b>
31 December 2007		
Grade 5: Individually impaired	72,776	-
Grade 3&4: Individually impaired	280,733	116,385
Total	<u>353,509</u>	<u>116,385</u>
	=====	=====
31 December 2006		
Grade 5: Individually impaired	71,448	-
Grade 3&4: Individually impaired	294,047	169,174
Total	<u>365,495</u>	<u>169,174</u>
	=====	=====

**(vi) Collateral held**

The Bank holds collateral against loans and advances to customers, non-insiders as well as insiders in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2007.

An estimate of the fair value of collateral and other security enhancements held against past due and impaired loans and advances is shown below:

	2007	2006
	Sh'000	Sh'000
Against individually impaired		
Property	92,434	153,935
Equities	24,992	23,260
Other	37,560	40,811
	<u>154,986</u>	<u>218,006</u>
	=====	=====
Against past due but not impaired		
Property	706,335	848,613
Equities	196,335	131,157
Other	294,894	230,125
	<u>1,197,564</u>	<u>1,209,895</u>
	=====	=====
Total	<u>1,352,550</u>	<u>1,427,901</u>
	=====	=====

## TRANS-NATIONAL BANK LIMITED

### NOTES TO THE FINANCIAL STATEMENTS (Continued)

#### a) Credit risk (Continued)

##### (vii) Settlement risk

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

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

#### b) Liquidity risk

The Bank is exposed to the risk that the Bank will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

##### (i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Asset and Liability Committee (ALCO), a management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties meeting financial liabilities as they fall due is encountered.

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole.

##### (ii) Source of funding

The bank has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base comprising retail and corporate customers. The bank also borrows from the interbank market through transactions with other banks and from the wholesale market through transactions with pension funds and insurance companies for short term liquidity requirements.

##### (iii) Exposure to liquidity risk

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



TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**b) Liquidity risk (Continued)**

**(iii) Exposure to liquidity risk (Continued)**

Details of the reported bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	<b>2007</b>	<b>2006</b>
At 31 December	89.40%	58.08%
Average for the period	79.23%	58.82%
Maximum for the period	92.00%	77.39%
Minimum for the period	64.17%	48.16%

**Liquidity risk based on undiscounted cash flows**

The table below represents the cash flows payable by the bank under non- derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

	Upto 1 Month	1-3 Months	3-6 Months	6-12 Months	1 - 3 Years	3 - 5 Years	Over 5 years	Total
<b>Financial liabilities</b>								
Customer deposits	1,530,371	89,774	36,275	65,767	60,282	27,181	-	1,809,650
Deposits due to banking institutions	16,140	-	-	-	-	-	-	16,140
Other liabilities	234,968	-	-	-	-	-	-	234,968
Financial liability	5,718	-	-	-	-	-	-	5,718
Compensating Tax Payable	61,059	-	-	-	-	-	-	61,059
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Contractual maturity dates	1,848,256	89,774	36,275	65,767	60,282	27,181	-	2,127,535
<b>Financial Assets</b>								
Cash and bank balances with								
Central Bank of Kenya	247,638	10,714	4,294	7,682	6,856	2,938	-	280,122
Government securities	326,459	285,774	-	176,578	455,452	-	118,284	1,362,547
Deposits and balances due from banking institutions	177,558	116,464	-	-	-	-	-	294,022
Loans and advances to customers	438,963	110,995	165,177	274,792	403,439	169,745	193,610	1,756,721
Other assets	89,641							89,641
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Expected maturity dates	1,280,259	523,947	169,471	459,052	865,747	172,683	311,894	3,783,053
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net liquidity Gap	567,997	(434,173)	(133,196)	(393,285)	(805,465)	(145,502)	(311,894)	(1,655,518)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>At 31 December 2006</b>								
Total financial liabilities	801,291	431,854	91,865	85,919	32,854	64	-	1,443,847
Total financial assets	1,201,402	103,413	130,659	307,638	374,847	250,833	24,033	2,392,825
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net liquidity Gap	(400,111)	328,441	(38,794)	(221,719)	(341,993)	(250,769)	(24,033)	(948,978)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**c) Market risks**

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

**Management of market risks**

The bank does not take trading position in Treasury Bonds, Securities, Equities and derivatives. The investment in government securities by the bank is held to maturity. The bank's open Foreign Exchange Position is the net investment in its foreign operations. The amount of Market Risk on the net foreign exchange position is estimated at 3% of the amount of net exchange position.

Overall authority for market risk is vested in ALCO. The Senior Management is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation.

**Exposure to interest rate risk – non-trading portfolios**

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The assets and liability committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the balance sheet date. The bank maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the bank's base lending rate or Treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

Interest rates on customer deposits are negotiated between the bank and the customer with the bank retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The bank also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the bank. It is unusual for a banks assets and liabilities to be completely matched due to the nature of business terms and types.

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.

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) Market risks(Continued)

**Interest rate risks**

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the balance sheet date whereby financial assets and liabilities at carrying amounts are categorized by the earlier of contractual repricing or maturity dates.

AT 31 DECEMBER 2007	Upto 1 Month	1-3 Months	3-6 Months	6-12 Months	1-3 Years	Over 3 Years	Non-interest bearing	Total
<b>FINANCIAL ASSETS</b>								
Cash and bank balances with Central Bank of Kenya	-	-	-	-	-	-	280,122	280,122
Government securities	324,402	282,194	-	163,347	374,549	86,044	-	1,230,536
Deposits and balances due from banking institutions	76,784	-	-	-	-	-	217,238	294,022
Loans and advances to customers	394,690	80,097	116,615	186,726	243,677	186,333	-	1,208,138
Other assets	-	-	-	-	-	-	89,641	89,641
<b>Total financial assets</b>	<b>795,876</b>	<b>362,291</b>	<b>116,615</b>	<b>350,073</b>	<b>618,226</b>	<b>272,377</b>	<b>587,001</b>	<b>3,102,459</b>
<b>FINANCIAL LIABILITIES</b>								
Customer deposits	839,665	89,291	35,788	64,024	57,141	24,489	689,507	1,799,905
Deposits due to banking institutions	16,140	-	-	-	-	-	-	16,140
Other liabilities	-	-	-	-	-	-	234,968	234,968
Financial liability	-	-	-	-	-	-	5,718	5,718
<b>Total financial liabilities</b>	<b>855,805</b>	<b>89,291</b>	<b>35,788</b>	<b>64,024</b>	<b>57,141</b>	<b>24,489</b>	<b>930,193</b>	<b>2,056,731</b>
<b>On balance sheet interest sensitivity gap</b>	<b>(59,929)</b>	<b>273,000</b>	<b>80,827</b>	<b>286,049</b>	<b>561,085</b>	<b>247,888</b>	<b>(343,192)</b>	<b>1,045,728</b>
<b>At 31 December 2006</b>								
Total assets	753,550	63,040	108,525	284,035	374,530	250,833	558,312	2,392,825
Total liabilities	257,634	428,926	90,773	84,973	5,280	-	-	867,586
<b>On balance sheet interest sensitivity gap</b>	<b>495,916</b>	<b>(365,886)</b>	<b>17,752</b>	<b>199,062</b>	<b>369,250</b>	<b>250,833</b>	<b>(558,312)</b>	<b>1,525,239</b>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) **Market risks (Continued)**

**Interest rate risk stress test-Increase/decrease of 8% in Net Interest Margin**

Interest rate risk sensitivity analysis is based on the following assumptions

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

The table below sets out the impact on the future net interest income of an incremental 8% parallel fall or rise in net interest margin for the twelve months from 1 January 2008.

	<b>Amount 31 December 2007 Sh'000</b>	<b>Scenario 1 8% increase in net interest margin Sh'000</b>	<b>Scenario 2 8% decrease in net interest margin Sh'000</b>
Profit before tax	234,826	249,855	219,797
Adjusted core capital	1,062,066	1,077,095	1,047,037
Adjusted total capital	1,083,254	1,098,283	1,068,225
Risk weighted assets (RWA)	1,781,550	1,796,579	1,766,521
Adjusted core capital to RWA	59.61%	59.95%	59.27%
Adjusted total capital to RWA	60.80%	61.13%	60.47%

Overall non-trading interest rate risk positions are managed by Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) Market risks (Continued)

**Currency risk**

The bank operates wholly in Kenya and its assets and liabilities are reported in the local currency. The bank's currency risk is managed within Central Bank of Kenya exposure guideline of 20% of core capital. The bank's management monitors foreign currency exposure on a daily basis.

The table below summarises the bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the bank's financial instruments at carrying amounts categorised by currency.

FINANCIAL ASSETS	KSH Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
Cash and balances with Central Bank of Kenya	231,119	17,081	6,239	20,894	4,789	280,122
Government securities	1,230,536	-	-	-	-	1,230,536
Deposits and balances due from banking institutions	76,795	211,928	2,918	1,045	1,336	294,022
Loans and advances	1,187,244	20,894	-	-	-	1,208,138
Other assets	89,641	-	-	-	-	89,641
	-----	-----	-----	-----	-----	-----
Total financial assets	2,815,335	249,903	9,157	21,939	6,125	3,102,459
	-----	-----	-----	-----	-----	-----
<b>FINANCIAL LIABILITIES</b>						
Customer deposits	1,643,005	148,695	3,872	3,963	370	1,799,905
Deposits due to banking institutions	3,000	13,140	-	-	-	16,140
Other liabilities	230,252	4,588	128	-	-	234,968
Financial liability	5,718	-	-	-	-	5,718
	-----	-----	-----	-----	-----	-----
Total financial liabilities	1,881,975	166,423	4,000	3,963	370	2,056,731
	-----	-----	-----	-----	-----	-----
Net on balance sheet position	933,360	83,480	5,157	17,976	5,754	1,045,728
	=====	=====	=====	=====	=====	=====
	-----	-----	-----	-----	-----	-----
Off balance sheet position	(132,442)	(156,568)	(195)	(46,539)	(3,206)	(338,951)
	=====	=====	=====	=====	=====	=====
<b>At 31 December 2006</b>						
Total assets	2,016,785	307,037	28,654	21,368	18,981	2,392,825
Total financial liabilities	1,190,437	209,506	21,904	12,913	230	1,434,990
	-----	-----	-----	-----	-----	-----
Net on balance sheet position	826,348	97,531	6,750	8,455	18,751	957,835
	=====	=====	=====	=====	=====	=====
Off balance sheet position	(92,809)	(23,764)	(3,469)	(34,911)	(112,162)	(267,116)
	=====	=====	=====	=====	=====	=====

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) **Market risks (Continued)**

**Foreign currency risk stress test-Appreciation/depreciation of Kenya shilling by 10%**

The foreign exchange risks sensitivity analysis is based on the following assumptions

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

The table below summarises the estimated impact of a 10 % decline/appreciation of the Kenya Shilling.

	Amount 31 December 2007	Scenario 1 10% appreciation of Kenya shilling	Scenario 2 10% depreciation of Kenya shilling
	Sh'000	Sh'000	Sh'000
Profit before tax	234,826	233,828	235,826
Adjusted core capital	1,062,066	1,061,068	1,063,066
Adjusted total capital	1,083,254	1,082,256	1,084,254
Risk weighted assets(RWA)	1,781,550	1,789,552	1,773,549
Adjusted core capital to RWA	59.61%	59.29%	59.94%
Adjusted total capital to RWA	60.80%	60.48%	61.13%

**Exposure to other market risks – non-trading portfolios**

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by treasury and equity price risk is subject to regular monitoring by ALCO but is not currently significant in relation to the overall results and financial position of the Bank.

**2 Operational risks**

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 from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

## 2 Operational risks (Continued)

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

## 3 CAPITAL MANAGEMENT

### Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates requirements for Operations Risk and Market Risk for internal monitoring purpose.

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

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 3 CAPITAL MANAGEMENT (Continued)

#### Regulatory capital (Continued)

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

In implementing current capital requirements, the Central Bank of Kenya requires each bank to maintain;

- A minimum level of regulatory capital of Shs 250m.
- A ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank has complied with all externally imposed capital requirements throughout the period.

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

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

	2007 Sh'000	2006 Sh'000
<b>Tier 1 capital</b>		
Total share capital	583,722	583,722
Retained earnings	497,961	520,639
Less intangible assets	(19,617)	(227)
	<hr/>	<hr/>
Total	1,062,066	1,104,134
	<hr/>	<hr/>
<b>Tier 2 capital</b>		
Statutory reserve	21,188	18,018
	<hr/>	<hr/>
Total regulatory capital	1,083,254	1,122,152
	<hr/> <hr/>	<hr/> <hr/>
<b>Risk-weighted assets</b>		
Retail bank, corporate bank and central treasury	1,781,550	1,687,949
	<hr/>	<hr/>
Total risk weighted assets	1,781,550	1,687,949
	<hr/> <hr/>	<hr/> <hr/>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	61%	66%
Total tier 1 capital expressed as a percentage of risk-weighted assets	60%	65%



TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007	2006
	Sh'000	Sh'000
4	<b>INTEREST INCOME</b>	
	213,674	190,854
	71,927	35,147
	24,775	9,109
	<u>310,376</u>	<u>235,110</u>
	=====	=====
5	<b>INTEREST EXPENSE</b>	
	52,572	29,979
	1,331	1,563
	<u>53,903</u>	<u>31,542</u>
	=====	=====
6	<b>FEES AND COMMISSION INCOME</b>	
	81,274	60,012
	-	19,045
	<u>81,274</u>	<u>79,057</u>
	=====	=====
7	<b>GAINS ON FOREIGN EXCHANGE DEALINGS</b>	
	Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency assets and liabilities.	
	2007	2006
	Sh'000	Sh'000
8	<b>OTHER INCOME</b>	
	154,150	-
	553	-
	3,517	161
	<u>158,220</u>	<u>161</u>
	=====	=====
9	<b>OTHER OPERATING EXPENSES</b>	
	153,789	133,359
	3,169	3,150
	5,210	4,150
	1,668	1,643
	15,489	10,958
	5,291	782
	2,143	1,887
	8,547	13,409
	14,818	12,687
	10,851	8,785
	733	3,447
	6,652	7,098
	7,414	7,042
	6,757	3,402
	11,136	3,204
	32,499	21,840
	<u>286,166</u>	<u>236,843</u>
	=====	=====

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007	2006
	Sh'000	Sh'000
10	STAFF COSTS	
	138,836	118,355
	6,452	5,988
	275	243
	-	234
	4,339	4,377
	3,887	4,162
	<u>153,789</u>	<u>133,359</u>
	=====	=====
11	TAXATION	
(a)	TAX CHARGE/(CREDIT)	
	Current taxation based on the taxable profit for the year at 30%	
	-	-
	61,059	-
	(14,168)	(16,135)
	(2,557)	-
	<u>44,334</u>	<u>(16,135)</u>
	=====	=====
(b)	RECONCILIATION OF TAX CHARGE/(CREDIT) TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT	
	242,136	46,260
	<u>72,641</u>	<u>13,878</u>
	5,274	2,478
	(46,411)	-
	(45,672)	(32,491)
	61,059	-
	(2,557)	-
	<u>44,334</u>	<u>(16,135)</u>
	=====	=====
(c)	i) TAX RECOVERABLE MOVEMENT	
	116	116
	<u>116</u>	<u>116</u>
	=====	=====
	ii) COMPENSATING TAX PAYABLE	
	61,059	-
	<u>61,059</u>	<u>-</u>
	=====	=====

Compensation tax payable represents the tax liability arising as a result of the company paying dividends to shareholders while in a tax loss position.

12 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to shareholders amounting to Sh 190,492,000 (2006-Sh 62,395,000) by the weighted average number of ordinary shares outstanding during the year which were 29,186,100(2006-29,186,100).The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares as at 31 December 2007 and 31 December 2006.

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 DIVIDENDS

During the year, the directors paid out a final dividend of Sh 1.2 per share totalling Sh 35,000,000 for the year ended 31 December 2006 and an interim and final dividend of Sh 6 per share totalling Sh 175,000,000 for the year ended 31 December 2007 bringing the total amount of dividends paid out to Sh 210,000,000.

	2007 Sh'000	2006 Sh'000
14 CASH AND BALANCES WITH CENTRAL BANK OF KENYA		
Cash on hand	114,433	83,788
Balances with Central Bank of Kenya:		
- Cash ratio requirement	119,109	75,909
- Cash held under lien	7,227	-
- Other (available for use by the bank)	39,353	7,120
	<u>280,122</u>	<u>166,817</u>
	=====	=====

The cash ratio requirement balance is non-interest earning and is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2007, the cash ratio requirement was 6% (2006 - 6%) of all customer deposits. These funds are not available to finance the bank's day to day operations.

	2007 Sh'000	2006 Sh'000
15 GOVERNMENT SECURITIES HELD TO MATURITY		
TREASURY BILLS		
Face value - maturing within 90 days	585,000	52,800
Less: unearned discount	(4,514)	(1,319)
	<u>580,486</u>	<u>51,481</u>
	-----	-----
GOVERNMENT BEARER BONDS		
At amortised cost:		
- maturing within 90 days	26,110	-
- maturing between 90 days to 1 year	163,347	130,938
- maturing between 1 - 2 years	374,549	-
- maturing after 2 years but within 5 years	-	114,327
- maturing after 5 years	86,044	9,016
	<u>650,050</u>	<u>254,281</u>
	-----	-----
GOVERNMENT CONTRACTOR BONDS		
At amortised cost:		
- maturing after 1 year	-	50,867
- maturing between 1 - 2 years	-	-
	<u>-</u>	<u>50,867</u>
	-----	-----
	<u>1,230,536</u>	<u>356,629</u>
	=====	=====
The weighted average effective interest rates as at year end were:		
Treasury bills	7.61%	8.47%
Government bonds	10.80%	11.53%
	=====	=====

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007 Sh'000	2006 Sh'000
16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS		
Deposits due within 90 days	76,785	58,019
Current accounts due on demand	217,237	386,071
	<u>294,022</u>	<u>444,090</u>
	=====	=====

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2007 was 4.4% (2006 - 4.9%) and nil for current account balances.

	2007 Sh'000	2006 Sh'000
17 LOANS AND ADVANCES TO CUSTOMERS		
(a) Loans and advances to customers	1,375,743	1,409,363
Staff loans	47,162	38,738
Finance lease receivables (note 17b)	27,246	62,607
	<u>1,450,151</u>	<u>1,510,708</u>
Less: unearned finance charges (note 17b)	(4,889)	(10,153)
	<u>1,445,262</u>	<u>1,500,555</u>
Impairment loss on loans and advances (note 18)	(237,124)	(196,321)
	<u>1,208,138</u>	<u>1,304,234</u>
	=====	=====
(b) Finance lease receivables		

	Minimum lease payments		Present value of minimum lease payments	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
Amounts receivable under finance leases:				
Within one year	10,687	37,198	8,868	30,611
In the second to fifth year inclusive	16,558	25,409	13,489	21,843
	<u>27,246</u>	<u>62,607</u>	<u>22,357</u>	<u>52,454</u>
Less: unearned finance income	(4,889)	(10,153)	-	-
Present value of minimum lease payments receivable	<u>22,357</u>	<u>52,454</u>	<u>22,357</u>	<u>52,454</u>
	=====	=====	=====	=====

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

17 LOANS AND ADVANCES TO CUSTOMERS (Continued)

The bank enters into finance leasing arrangements for certain equipment and motor vehicles. The average term of finance leases entered into is 3 years.

Unguaranteed residual values of assets leased under finance leases are estimated at nil (2006: Nil).

The interest rate inherent in the leases is variable at the contract date for all of the lease term.

The weighted average effective interest rate on loans and advances as at 31 December 2007 was 14.72 % (2006 - 14.75%).

The weighted average effective interest rate on finance lease receivables at 31 December 2007 was 15% (2006 - 15%).

NON PERFORMING LOANS AND ADVANCES TO CUSTOMERS

Included in net advances of Sh 1,208,138,000 (2006 - Sh 1,304,234,000) are loans and advances amounting to Sh 215,244,000 (2006 - Sh 267,352,000), net of specific provisions, which have been classified as non-performing.

	2007 Sh'000	2006 Sh'000
<b>MATURITY OF GROSS LOANS AND ADVANCES (NET OF FINANCE CHARGES)</b>		
Maturing:		
Up to one month	410,407	555,867
1-3 months	101,898	63,040
3-6 months	148,355	57,044
6-12 months	237,549	102,230
1-3 years	310,002	570,851
3-5 years	158,642	127,490
Over 5 years	78,409	24,033
	<hr/>	<hr/>
Loans and advances to customers (gross)	1,445,262	1,500,555
	=====	=====
<b>GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)</b>		
Overdrafts	850,973	929,704
Term loans	594,288	570,851
	<hr/>	<hr/>
Loans and advances to customers (gross)	1,445,262	1,500,555
	=====	=====

The related party transactions and balances are covered under note 33 and concentration of advances to customers is covered under note 2 on financial risk management objectives and policies.

TRANS-NATIONAL BANK LIMITED  
 NOTES TO THE FINANCIAL STATEMENTS (Continued)

18	IMPAIRMENT LOSS ON LOANS AND ADVANCES		
		2007	2006
		Sh'000	Sh'000
	At 1 January	196,321	176,430
	Provisions in the year	45,899	63,100
	Written off in the year	(5,096)	(43,209)
		<u>          </u>	<u>          </u>
	At 31 December	237,124	196,321
		<u>          </u>	<u>          </u>
19	OTHER ASSETS		
	Clearing and transit items	36,311	71,865
	Deposits and prepayments	9,815	6,477
	Other assets	43,515	42,713
		<u>          </u>	<u>          </u>
		89,641	121,055
		<u>          </u>	<u>          </u>
20	INTANGIBLE ASSETS (Computer Software)		
	COST		
	At 1 January	26,582	26,452
	Additions	22,019	130
	Reclassified from equipment	2,662	-
	Write off	(18,927)	-
		<u>          </u>	<u>          </u>
	At 31 December	32,336	26,582
		<u>          </u>	<u>          </u>
	ACCUMULATED AMORTISATION		
	At 1 January	26,355	25,573
	Charge for the year	5,291	782
	Eliminated on write off	(18,927)	-
		<u>          </u>	<u>          </u>
	At 31 December	12,719	26,355
		<u>          </u>	<u>          </u>
	NET BOOK VALUE		
	At 31 December	19,617	227
		<u>          </u>	<u>          </u>

Intangible assets with a cost of Sh 7,372,866 (2006 - Sh 26,080,000) were fully amortised as at 31 December 2007. The nominal annual amortisation charge on these assets would have been Sh 2,211,860 (2006 - Sh 7,824,000).

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21 EQUIPMENT

	Leasehold improvements Sh'000	Furniture, fittings and equipment, computer, hardware Sh'000	Motor vehicles Sh'000	Capital work in progress Sh'000	Total Sh'000
<b>COST</b>					
At 1 January 2006	31,765	80,272	10,203	2,948	125,188
Additions	8,506	13,388	1,475	9,897	33,266
Transfers	1,283	1,665	-	(2,948)	-
Disposals	-	(200)	-	-	(200)
At 31 December 2006	41,554	95,125	11,678	9,897	158,254
At 1 January 2007	41,554	95,125	11,678	9,897	158,254
Additions	162	7,351	80	-	7,593
Transfers	714	6,521	-	(7,235)	-
Reclassified to Intangible assets	-	-	-	(2,662)	(2,662)
Disposals	-	(3,791)	(1,535)	-	(5,326)
At 31 December 2007	42,430	105,206	10,223	-	157,859
<b>DEPRECIATION</b>					
At 1 January 2006	24,805	65,436	3,293	-	93,534
Charge for the year	3,160	5,431	2,367	-	10,958
Eliminated on disposals	-	(200)	-	-	(200)
At 31 December 2006	27,965	70,667	5,660	-	104,292
At 1 January 2007	27,965	70,667	5,660	-	104,292
Charge for the year	4,005	8,933	2,551	-	15,489
Eliminated on disposals	-	(3,791)	(1,512)	-	(5,303)
At 31 December 2007	31,970	75,809	6,699	-	114,478
<b>NET BOOK VALUE</b>					
At 31 December 2007	10,460	29,397	3,524	-	43,381
At 31 December 2006	13,589	24,458	6,018	9,897	53,962

Capital work in progress relates to software development costs for a new computer accounting system.

Equipment with a cost of Sh 86,354,394 (2006 - Sh 80,727,000) were fully depreciated as at 31 December 2007. The nominal annual depreciation charge on these assets would have been Sh 19,219,854 (2006 - Sh 17,233,000).

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007 Sh'000	2006 Sh'000
22 DEFERRED TAX ASSET		
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	(414)	1,377
Provisions		
-Leave pay	1,199	1,199
-Legal fee	4,957	1,200
-Gratuity and union salary increment	6,199	4,587
Tax losses	158,094	188,425
	<hr/>	<hr/>
	170,035	196,788
Tax asset not recognised	(114,947)	(158,425)
	<hr/>	<hr/>
	55,088	38,363
	=====	=====
Movement in deferred tax asset is as follows:		
At 1 January		22,228
Income statement credit:		
- Current year	14,168	16,135
- Prior year under provision	2,557	-
	<hr/>	<hr/>
Income statement credit - Note 11 (a)	16,725	16,135
	<hr/>	<hr/>
At 31 December	55,088	38,363
	=====	=====

Deferred tax on tax losses has been provided based on management's projection of profits for the next 5 years. As a result, deferred tax asset amounting to Sh 114,947,000 (2006 - Sh 158,425,000) relating to part of the tax losses has not been recognised.

As at 31 December 2007, the bank had taxable losses amounting to Sh 526,980,515 (2006 – Sh 628,083,000) available for future relief.

		2007 Sh'000	2006 Sh'000
23 INVESTMENT IN SUBSIDIARY COMPANIES			
	Shareholding %		
Autosilo (Queensway) Limited			
Shares at cost	69	-	80,733
Trans-National Finance Bank Limited			
Shares at cost (Sh 100) less impairment losses	100	-	-
		<hr/>	<hr/>
		-	80,733
		=====	=====

During the year, the bank disposed off its 69% shareholding in Autosilo (Queensway) Limited for sh.234,883,000 making a gain on sale of the investment of sh.154,150,000. The gain has been recognised as other income as shown under note 8.



TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24	CUSTOMER DEPOSITS		
		2007	2006
		Sh'000	Sh'000
	Current and demand accounts	730,790	493,109
	Savings accounts	288,711	204,802
	Fixed and call deposit accounts	780,404	566,179
		<hr/>	<hr/>
		1,799,905	1,264,090
		<u>=====</u>	<u>=====</u>

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	Repayable:		
	Within one month	1,529,172	718,606
	Within 1 - 3 months	89,291	364,458
	Within 3 - 6 months	35,788	90,773
	Within 6-12 months	64,024	84,973
	Within 1-3 years	81,630	5,280
		<hr/>	<hr/>
		1,799,905	1,264,090
		<u>=====</u>	<u>=====</u>

The weighted effective interest rate on interest bearing customer deposits at 31 December 2007 was 3.63% (2006 – 3.4%).

The related party transactions and balances are covered under note 33 and concentration of customer deposits is covered under note 2 on financial risk management objectives and policies.

		2007	2006
		Sh'000	Sh'000
25	DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
	Demand accounts	16,140	64,468
		<u>=====</u>	<u>=====</u>
26	OTHER LIABILITIES		
	Bankers cheques outstanding	139,309	35,928
	Deposits for letters of credit and letters of guarantee	9,095	9,153
	Provision for leave pay	3,996	3,996
	Other liabilities and accruals	82,568	57,355
		<hr/>	<hr/>
		234,968	106,432
		<u>=====</u>	<u>=====</u>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 FINANCIAL LIABILITY

	Exchange rate		Foreign currency		Contract value		Fair value	
	2007	2006	2007 '000	2006 '000	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
Maturing within 3 months								
Sell USD	62.66	-	1,650	-	103,395	-	(5,010)	-
Sell Euros	89.47	-	100	-	8,947	-	(708)	-
							5,718	-
							=====	=====

The bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency. The fair value is the difference between the contract value and the foreign currency at the closing rate of Sh 65.70 for US dollar and Shs 96.55 for Euros.

	2007 Sh'000	2006 Sh'000
28 AMOUNT DUE TO GROUP COMPANY		
Autosilo (Queensway) Limited	-	(8,857)
	=====	=====
29 SHARE CAPITAL		
Authorised: 31,250,000 ordinary shares of Sh 20 each	625,000	625,000
	=====	=====
Issued and fully paid: 29,186,100 (2006 - 29,186,100) ordinary shares of Sh 20 each	583,722	583,722
	=====	=====
30 STATUTORY RESERVE		
At 1 January	18,018	17,022
Transfer from revenue reserves	3,170	996
	-----	-----
At 31 December	21,188	18,018
	=====	=====

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with the Central Bank of Kenya prudential guidelines over impairment of loans and advances computed per IAS 39. The statutory reserve is not distributable.

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2007	2006
	Sh'000	Sh'000
31	NOTE TO THE CASH FLOW STATEMENT	
(a)	<b>Reconciliation of profit before taxation to cash generated from operating activities</b>	
	Profit before taxation	46,260
	234,826	46,260
	Depreciation	10,958
	15,489	10,958
	Amortisation of intangible assets	782
	5,291	782
	Profit on disposal of equipment	(17)
	(553)	(17)
	Dividends income	-
	(16,560)	-
	Gain on sale of investment	-
	(154,150)	-
	-----	-----
	Profit before working capital changes	57,983
	84,343	57,983
	Increase in balances with Central Bank of Kenya	
	- cash ratio requirement	(21,331)
	(43,200)	(21,331)
	- cash held under lien-clearing	-
	(7,227)	-
	Increase in governments securities maturing after 90 days	(59,379)
	(318,792)	(59,379)
	Decrease/(increase) in loans and advances to customers	(86,528)
	96,096	(86,528)
	Decrease/(increase) in other assets	(40,056)
	31,414	(40,056)
	Increase in customer deposits	363,502
	535,815	363,502
	(Decrease)/increase in deposits due to banking institutions	64,468
	(48,328)	64,468
	Increase in other liabilities	31,779
	128,536	31,779
	Increase in financial assets	-
	5,718	-
	Movement related company balances	9,681
	(8,857)	9,681
	-----	-----
	Cash generated from operating activities	320,119
	455,518	320,119
	=====	=====
(b)	<b>Analysis of the balances of cash and cash equivalents</b>	
	Cash on hand	83,788
	114,432	83,788
	Balances with Central Bank of Kenya - other	7,120
	39,354	7,120
	Placements and balances due from banking institutions	444,090
	294,022	444,090
	Government securities maturing within 90 days	51,481
	606,596	51,481
	-----	-----
	1,054,404	586,479
	=====	=====

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

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

## 32 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2007 Sh'000	2006 Sh'000
(a) Contingent liabilities		
Letters of credit	3,572	121,742
Letters of guarantee and performance bonds	217,319	145,374
Forward exchange contracts	118,060	-
	<u>338,951</u>	<u>267,116</u>
	=====	=====

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

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

The bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency.

The related party transactions and balances are covered under note 33 and concentration of contingent liabilities is covered under note 2 on financial risk management objectives and policies.

	2007 Sh'000	2006 Sh'000
(b) Capital commitments		
Authorised but not contracted for	19,201	12,769
Authorised and contracted for	700	-
	<u>19,901</u>	<u>12,769</u>
	=====	=====
(c) Operating lease arrangements		

*The bank as a lessee*

At the balance sheet date, the bank had outstanding commitments under operating leases which fall due as follows:

	2007 Sh'000	2006 Sh'000
Within one year	13,439	8,145
In the second to fifth year inclusive	34,579	25,120
After five years	3,268	2,092
	<u>51,286</u>	<u>35,357</u>
	=====	=====

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

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RELATED PARTY TRANSACTIONS

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

Placings are made in the bank by directors, their associates and companies associated to directors. Advances to customers at 31 December 2007 include advances and loans to companies associated to directors. Contingent liabilities at 31 December 2007 include guarantees and letters of credit for companies associated to directors.

- (a) The bank leases office and parking space from Autosilo (Queensway) Ltd, a company with common directorship and former shareholding, payments during the year amounted to Sh 6,429,720 (2006 - Sh 6,430,000).

- (b) Loans and advances:

	Directors' associated companies		Employees	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
At 1 January	294,233	383,060	38,570	47,756
Net movement during the year	76,568	(88,827)	8,592	(9,186)
At 31 December	<u>370,801</u>	<u>294,233</u>	<u>47,162</u>	<u>38,570</u>

These loans and advances are performing and are adequately secured.

Interest earned on advances to directors and associated companies amounted to Sh 39,325,000 (2006 - Sh 45,264,000) and Sh 3,750,000 (2006 - Sh 3,724,000) on staff advances.

- (c) Deposits:

	Directors' associated companies		Employees	
	2007 Sh'000	2006 Sh'000	2007 Sh'000	2006 Sh'000
At 1 January	152,989	260,149	14,368	8,364
Net movement during the year	35,301	(107,160)	(2,898)	6,004
At 31 December	<u>188,290</u>	<u>152,989</u>	<u>11,470</u>	<u>14,368</u>

Interest paid on deposits from directors and associated companies amounted to Sh 6,834,917 (2006 - 6,929,000) and Sh 416,373 (2006 - Sh 915,000) on staff deposits.

- (d) Guarantees and letters of credit to companies associated to directors
- |  | 2007<br>Sh'000 | 2006<br>Sh'000 |
|--|----------------|----------------|
|  | <u>77,334</u>  | <u>169,269</u> |

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

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

	2007 Sh'000	2006 Sh'000
Salaries and other benefits	47,667	42,756
	=====	=====
Directors' remuneration:		
Fees for services as directors	3,169	3,150
Allowances	5,210	4,150
	-----	-----
	8,379	7,300
	=====	=====

34 ASSET PLEDGED AS SECURITY

As at 31 December 2007, assets pledged as security were balances with Central Bank of Kenya under lien for the Domestic Foreign Currency clearing amounting to USD 110,000.

35 FAIR VALUE

The directors consider that there is no material difference between the fair value and carrying value of the company's financial assets and liabilities where fair value details have not been presented.

36 COUNTRY OF INCORPORATION

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

37 CURRENCY

The financial statements are presented in Kenya shillings thousands (Sh'000).

## TRANS-NATIONAL BANK LIMITED

DETAILED INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 Sh'000	2006 Sh'000
INCOME		
Interest on loans and advances	213,674	190,854
Interest on Government securities	71,927	35,147
Interest on placements	24,775	9,109
	<hr/>	<hr/>
	310,376	235,110
	=====	=====
INTEREST EXPENSE		
Interest on deposits	52,572	29,979
Interest on money markets	1,331	1,563
	<hr/>	<hr/>
	(53,903)	31,542
	=====	=====
NET INTEREST INCOME	256,473	203,568
FEES AND COMMISSIONS	81,274	79,057
OTHER OPERATING INCOME (APPENDIX II)	229,144	63,578
OPERATING EXPENSES (APPENDIX II)	(286,166)	(236,843)
IMPAIRMENT LOSS ON LOANS AND ADVANCES	(45,899)	(63,100)
	<hr/>	<hr/>
PROFIT BEFORE TAXATION	234,826	46,260
TAXATION (CHARGE)/CREDIT	(44,334)	16,135
	<hr/>	<hr/>
	190,492	62,395
	=====	=====

TRANS-NATIONAL BANK LIMITED  
 DETAILED INCOME STATEMENT (Continued)  
 FOR THE YEAR ENDED 31 DECEMBER 2007

	2007 Sh'000	2006 Sh'000
<b>OTHER OPERATING INCOME</b>		
Gain on foreign exchange dealings	39,691	41,606
Dividends from the subsidiary	16,560	-
Gain on disposal of investment	154,150	-
Gain on disposal of equipment and furniture	553	-
Bad debts recovered	14,673	21,811
Miscellaneous income	3,517	161
	<u>229,144</u>	<u>63,578</u>
	=====	=====
<b>ADMINISTRATION</b>		
Staff costs	153,789	133,359
Directors' emoluments-fees	3,170	3,150
-other emoluments	5,210	4,150
Depreciation	15,489	10,958
Amortisation of intangible assets	5,291	782
Auditors' remuneration	2,143	1,887
Telephone, telex and postage	8,547	13,409
Rent and parking fees	14,818	12,687
Security services	10,851	8,785
Travel and accommodation	733	3,447
Stationery and supplies	6,652	7,098
Insurance	7,414	7,042
Advertising and marketing	6,757	3,402
Software costs	11,136	3,204
Miscellaneous expenses	2,602	2,342
Car running expenses	3,127	2,602
Legal and professional fees	11,441	2,197
Deposit protection fund	1,668	1,643
Subscriptions and donations	1,221	2,460
Licences	1,750	1,996
Cash written off	350	4,443
Penalties	-	1,000
Maintenance costs	3,201	2,665
Electricity and water	1,839	2,135
ATM expenses	3,210	-
Refreshments & entertainment	3,757	-
	<u>286,166</u>	<u>236,843</u>
	=====	=====
<b>STAFF COSTS</b>		
Salaries and wages	138,836	118,355
Pension costs - defined contribution plan	6,452	5,988
National Social Security Fund contributions	275	243
Provision for leave pay	-	234
Medical expenses	4,339	4,377
Other staff costs	3,887	4,162
	<u>153,789</u>	<u>133,359</u>
	=====	=====