

**TRANS-NATIONAL BANK LIMITED**

**FINANCIAL STATEMENTS**

**31 DECEMBER 2008**

TRANS-NATIONAL BANK LIMITED

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

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TRANS-NATIONAL BANK LIMITED  
CORPORATE INFORMATION

DIRECTORS	M Cherwon D K Rana P Kemei J K Kenduiwo A DeSimone* H Tororey  * American	Chairman Managing Director
AUDIT COMMITTEE	H Tororey P Kemei J K Kenduiwo F Mayodi	Chairman
CREDIT COMMITTEE	P Kemei H Tororey D K Rana S Tanui	Chairman
STRATEGY COMMITTEE	J K Kenduiwo M Cherwon P Kemei D K Rana F Sheikh	Chairman
RISK COMMITTEE	A DeSimone P Kemei F Sheikh	Chairman
ASSETS AND LIABILITY MANAGEMENT COMMITTEE	D K Rana F Sheikh S Tanui P Gitau W Ruto	Chairman
HUMAN RESOURCES COMMITTEE	H Tororey J K Kenduiwo A DeSimone D Rana D Namwendwa	Chairman
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 2008

### CORPORATE GOVERNANCE

The Bank has a clearly defined governance structure in place.

The Shareholders of the bank have exercised their responsibility by providing experienced individuals with diverse business and professional backgrounds as Board members. All Board Members have been suitably vetted prior to taking up their appointments. The Directors have no adverse record in their past.

Directors have exercised responsibility of regulating the manner in which the business of the bank is conducted. The directors have provided clear objectives and elaborate policy guidelines. During the year 2008, the Board has provided revised policies in the following areas:

Risk Event Database Policy	Risk Management Policy
Credit Risk Policy	Human Resources Policy
Operations Risk Management Policy	Foreign Exchange Risk Management Policy
Liquidity Risk Management Policy	Market Risk Management Policy
Interest Rate Risk Management Policy	Compliance Policy

In addition the Board had provided IT Policy, Disaster Preparedness Policy and Anti Money Laundering Policy.

These policies have provided a framework to identify various risks, measure the risk impact in money terms and put in place appropriate limits on maximum risk that the institution will undertake. The policies have put in place adequate safeguards for risk mitigation.

The Chairman of the Board is assisted in the Board responsibilities with the Managing Director with executive duties and four non-executive directors who provide critical independent oversight.

Various Board Committees have carried out different responsibilities. Credit Committee has provided independent monitoring of Credit Business. Credit Committee has not therefore done Credit Approvals. The Risk Management Committee has put in a Risk Management Framework commensurate with the size and the nature of banking business in this bank. The Strategy Committee of the Board has ensured that objectives are clearly defined and pursued. The Human Resources committee has ensured that the business of the bank is handled by qualified and experienced manpower and subjects of remuneration, performance and bonuses are handled prudently. The Board has constantly reviewed and ensured that bank is in Compliance with legal and regulatory and policy provisions. An independent compliance function has been set up. The Early Alert Committee has provided regular follow up on credit portfolio of the bank. The Audit Committee has reviewed all Audit reports during the year and followed up on corrective actions required. All the committees have briefed the Board on their activities.

The Board Meeting attendance is critical to effectively discharge Board responsibilities. The following is the record of attendance of Board Meetings:

Mr. Michael Cherwon	10 out of 10	100%
Mr. Dharendra Rana	8 out of 10	80%
Mr. Peter Kemei	10 out of 10	100%
Mr. Andre DeSimone	8 out of 10	80%
Mr. John Kenduiwo	10 out of 10	100%
Mr. Hilary Tororey	10 out of 10	100%

The performance of the Chairman, The Chief Executive and individual Board members was evaluated by the Board in its Board Meeting on 17<sup>th</sup> December 2008. The same meeting also evaluated the performance of various Board Committees. The performance of the Board vis-à-vis peer group was also evaluated. The Board expressed determination to continue with excellent performance noted this year.

TRANS-NATIONAL BANK LIMITED

FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 31 DECEMBER 2008

CORPORATE GOVERNANCE (CONTINUED)

The management carried out business as mandated by the Board and remained within limits allowed as per policies.

The Asset and Liability Management committee (ALCO) has supervised Liquidity Levels, Foreign Exchange Risk levels, Interest Rate Risk levels, Market Risk levels and Balance Sheet Risks in general. The Management committee has met regularly to provide leadership for Operations, Service delivery, Marketing, Debt recovery etc. The Early Alert Committee has provided regular follow up on credit portfolio of the bank.

The Management has put in place systems, procedures and controls to effectively control the operations risk of the bank. 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.

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.

.....  
Director

.....  
Director

26<sup>TH</sup> MARCH 2009

# TRANS-NATIONAL BANK LIMITED

## FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 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 2008, 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	121,168
Taxation credit	11,245
	<hr/>
Profit for the year	132,413
	<hr/> <hr/>

During the year 2007, the bank disposed of its 69% shareholding in the subsidiary company, Autosilo (Queensway) Limited, thus the directors ceased preparing consolidated financial statements.

### DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 December 2008.

### DIRECTORS

The current directors are listed on page 2.

Mr. Dharendra K. Rana was appointed a director on 28<sup>th</sup> April 2008.

### 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

26<sup>TH</sup> MARCH 2009

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 bank as at the end of the financial year and of the operating results of the bank for that year. It also requires the directors to ensure that the bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the bank. They are also responsible for safeguarding the assets of the bank.

The directors are responsible for the preparation 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 bank 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 bank will not remain a going concern for at least the next twelve months from the date of this statement.

.....  
Director

.....  
Director

26<sup>TH</sup> MARCH 2009

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

### **Report on financial statements**

We have audited the accompanying financial statements of Trans-national bank Limited set out on pages 9 to 46 which comprise the balance sheet as at 31 December 2008, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### *Directors' Responsibility for the Financial Statements*

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements 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.

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

In our opinion the accompanying financial statements give a true and fair view of the state of financial affairs of the bank as at 31 December 2008 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.



## INDEPENDENT AUDITORS' REPORT (Continued)

### **Report on Other Legal Requirements**

As required by the Kenyan Companies Act we report to you, based on our audit, that:

- i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) in our opinion proper books of account have been kept by the bank, so far as appears from our examination of those books; and
- iii) the bank's balance sheet and income statement are in agreement with the books of account.

**Certified Public Accountants (Kenya)**

**26<sup>TH</sup> MARCH 2009**

**Nairobi**

TRANS-NATIONAL BANK LIMITED

INCOME STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh'000	2007 Sh'000
INTEREST INCOME	3	385,376	310,376
INTEREST EXPENSE	4	(82,231)	(53,903)
NET INTEREST INCOME		303,145	256,473
Fees and commission income	5	94,978	81,274
Gains on foreign exchange dealings	6	42,874	39,691
Dividends from subsidiary company		-	16,560
Bad debts recovered		27,604	14,673
Other income	7	773	158,220
OPERATING INCOME		469,374	566,891
OTHER OPERATING EXPENSES	8	(311,606)	(286,166)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	16	(36,600)	(45,899)
PROFIT BEFORE TAXATION		121,168	234,826
TAXATION CREDIT/(CHARGE)	10	11,245	(44,334)
PROFIT FOR THE YEAR		132,413	190,492
EARNINGS PER SHARE			
- Basic and diluted	11	4.54	6.53
DIVIDENDS PER SHARE			
-Paid		-	6.00
		-	6.00

TRANS-NATIONAL BANK LIMITED

BALANCE SHEET  
31 DECEMBER 2008

	Note	2008 Sh'000	2007 Sh'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	12	217,803	280,122
Government securities held to maturity	13	1,230,977	1,230,536
Deposits and balances due from banking institutions	14	309,397	294,022
Loans and advances to customers	15	1,440,702	1,208,138
Other assets	17	85,331	89,641
Taxation recoverable	10(c)	116	116
Intangible assets	18	12,732	19,617
Equipment	19	51,098	43,381
Deferred tax asset	20	66,333	55,088
		<hr/>	<hr/>
<b>TOTAL ASSETS</b>		<b>3,414,489</b>	<b>3,220,661</b>
		<hr/> <hr/>	<hr/> <hr/>
<b>LIABILITIES</b>			
Customer deposits	21	1,890,623	1,799,905
Deposits due to banking institutions	22	16,445	16,140
Other liabilities	23	271,925	234,968
Compensating Tax payable	10(c)	-	61,059
Financial liability-derivatives	24	212	5,718
		<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>		<b>2,179,205</b>	<b>2,117,790</b>
		<hr/>	<hr/>
<b>SHAREHOLDERS' FUNDS</b>			
Share capital	25	583,722	583,722
Retained earnings		632,028	497,961
Statutory reserve	26	19,534	21,188
		<hr/>	<hr/>
<b>TOTAL SHAREHOLDERS' FUNDS</b>		<b>1,235,284</b>	<b>1,102,871</b>
		<hr/>	<hr/>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>3,414,489</b>	<b>3,220,661</b>
		<hr/> <hr/>	<hr/> <hr/>

The financial statements on pages 9 to 46 were approved by the board of directors on 26<sup>th</sup> March 2009 and were signed on its behalf by:

)  
) Directors  
)  
)  
) Secretary

TRANS-NATIONAL BANK LIMITED

STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	Share Capital Sh'000	Statutory reserve Sh'000	Revenue reserve Sh'000	Total Sh'000
Balance at 1 January 2007		583,722	18,018	520,639	1,122,379
Transfer to statutory reserve	26	-	3,170	(3,170)	-
Profit for the year		-	-	190,492	190,492
Final dividend paid - 2007		-	-	(35,000)	(35,000)
Interim and final dividend paid - 2007		-	-	(175,000)	(175,000)
		<u>583,722</u>	<u>21,188</u>	<u>497,961</u>	<u>1,102,871</u>
Balance at 31 December 2008		583,722	21,188	497,961	1,102,871
Balance at 1 January 2008		583,722	21,188	497,961	1,102,871
Transfer from statutory reserve	26	-	(1,654)	1,654	-
Profit for the year		-	-	132,413	132,413
		<u>583,722</u>	<u>19,534</u>	<u>632,028</u>	<u>1,235,284</u>
Balance at 31 December 2008		583,722	19,534	632,028	1,235,284

TRANS-NATIONAL BANK LIMITED

CASH FLOW STATEMENT  
FOR THE YEAR ENDED 31 DECEMBER 2008

	Note	2008 Sh'000	2007 Sh'000
<b>Cash generated from operating activities</b>	27(a)	42,922	455,518
Compensating tax paid		(61,059)	-
		<hr/>	<hr/>
Cash (used in)/generated from operations		(18,137)	455,518
		<hr/>	<hr/>
<b>Cash flow from investing activities</b>			
Additions to equipment	19	(24,842)	(7,593)
Additions to intangible assets	18	(624)	(22,019)
Proceeds from disposal of equipment		1,306	576
Proceeds from sale of investment in subsidiary company		-	234,883
Dividends received		-	16,560
		<hr/>	<hr/>
<b>Cash (used in)/generated from investing activities</b>		(24,160)	222,407
		<hr/>	<hr/>
<b>Cash flow from financing activities</b>			
Dividends paid		-	(210,000)
		<hr/>	<hr/>
Cash used in financing activities		-	(210,000)
		<hr/>	<hr/>
<b>(Decrease)/increase in cash and cash equivalents</b>		(42,297)	467,925
<b>Cash and cash equivalents at 1 January</b>		1,054,404	586,479
		<hr/>	<hr/>
<b>Cash and cash equivalents at 31 December</b>	27(b)	1,012,107	1,054,404
		<hr/>	<hr/>

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 1 ACCOUNTING POLICIES

#### **Statement of compliance**

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

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

##### *Standards and interpretations effective in the current period*

The following new interpretations issued by the International Financial Reporting Interpretations Committee and revised standard are effective for the current period:

- IFRIC 12, Service Concession Arrangements (effective 1 January 2008);
- IFRIC 13, Customer Loyalty Programmes (effective 1 July 2008);
- IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective 1 January 2008);
- IFRIC 16, Hedges of a Net Investment in a Foreign Operation (effective 1 October 2008).
- IAS 39, Financial Instruments: Recognition and Measurement: Reclassification of financial assets (effective for accounting periods beginning on or after 1 November 2008)

Adoption of these interpretations and the revised standard has not led to any changes in the company's accounting policies.

##### *New and revised standards and interpretations in issue not yet adopted*

At the date of authorisation of these financial statements, the following revised standards and interpretations were in issue but not yet effective.

- IFRIC 15, Agreements for the construction of Real Estate (effective for accounting periods beginning on or after 1 January 2009)
- IFRIC 17, Distributions of Non-cash Assets to Owners (effective for accounting periods on or after 1 January 2009)
- IFRS 1, First-Time Adoption of International Financial Reporting Standards – Amendment relating to cost of an investment on first-time adoption (effective for accounting periods beginning on or after 1 January 2009)
- IFRS 3, Business Combinations – Comprehensive revision on applying the acquisition method (effective for accounting periods beginning on or after 1 July 2009)
- IFRS 8, Operating Segments (effective for accounting periods beginning on or after 1 January 2009)
- IAS 27, Consolidated and Separate Financial Statements: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 28, Investments in Associates: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009)
- IAS 31, Interests in Joint Ventures: Consequential amendments arising from amendments to IFRS 3 (effective for accounting periods beginning on or after 1 July 2009).
- IAS 32, Financial Instruments: Presentation: Amendments relating to puttable instruments and obligations arising on liquidation (effective for accounting periods beginning on or after 1 January 2009)
- IAS 39, Financial Instruments: Recognition and Measurement: Amendments for eligible hedged items (effective for accounting periods beginning on or after 1 July 2009)

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 1. ACCOUNTING POLICIES

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

*New and revised standards and interpretations in issue not yet adopted (Continued)*

- “Improvements to IFRSs” was issued in May 2008 and its requirements are effective over a range of dates, with the earliest effective date being for annual periods beginning on or after 1 January 2009. This comprises a number of amendments to IFRSs, which resulted from the IASB’s annual improvements project.

The directors anticipate that the adoption of these standards and interpretations and amendments to other IFRSs resulting from the International Accounting Standards Board (IASB)’s annual improvements project published in May 2008, when effective, will have no material impact on the financial statements of the company.

#### **Basis of accounting**

The Bank prepares its financial statements under the historical cost convention, modified to include the revaluation of certain properties and financial instruments.

#### **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.

Once a financial asset or a group 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.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2008

### 1 ACCOUNTING POLICIES(Continued)

#### **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.

#### **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.

#### **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.



# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **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.

#### **Financial instruments**

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

##### Financial assets

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

##### *Financial assets 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 are classified as available-for-sale.

##### *Recognition of financial assets*

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

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

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

Financial assets (continued)

##### *Recognition of financial assets (continued)*

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.

##### *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.

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 1 ACCOUNTING POLICIES (Continued)

#### **Leasing (continued)**

##### *The bank as lessee (continued)*

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

#### **Contingent liabilities**

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

#### **Critical accounting judgements and key sources of estimation uncertainty**

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:

##### *(i) Critical judgements in applying the bank's accounting policies*

The company makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year as discussed 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.

##### *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.

##### *(ii) Key sources of estimation uncertainty*

##### *Equipment and intangible assets*

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

#### **Comparatives**

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

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 RISK MANAGEMENT OBJECTIVES AND POLICIES

- a) The Bank has exposure to the following risks from its use of financial instruments:
- Financial risks
  - Capital risks

#### *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.

#### **1) Financial risk**

The bank's activities expose it to a variety of financial risks including credit risk, market risk and liquidity risk. The bank's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

#### **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)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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

	2008		2007	
	Sh'000	%	Sh'000	%
Agriculture	44,030	3	65,654	4
Manufacturing	66,818	4	57,968	4
Wholesale and retail	94,029	6	81,577	6
Transport and communication	115,774	7	100,440	7
Real estate	51,813	3	44,951	3
Social community and personal services	527,783	31	329,342	23
Business services	435,609	26	234,763	16
Other	345,608	20	530,567	37
	<u>1,681,464</u>	<u>100</u>	<u>1,445,262</u>	<u>100</u>

(b) Customer deposits

Non - financial public enterprises	-	-	-	-
Non bank financial institutions	-	-	911	-
Building societies	12	-	11	-
Co-operative societies	3,375	-	3,217	-
Insurance companies	4,663	-	445	-
Private enterprises	1,088,970	58	1,110,174	62
Non profit institutions and individuals	793,603	42	681,147	38
	<u>1,890,623</u>	<u>100</u>	<u>1,799,905</u>	<u>100</u>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (Continued)

a) Credit risk (Continued)

i) Management of credit risk (Continued)

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

	2008		2007	
	Sh'000	%	Sh'000	%
Agriculture	9,076	3	10,208	3
Manufacturing	9,440	3	3,076	1
Wholesale and retail	4,091	1	4,601	1
Transport and communication	74,453	25	83,572	25
Real estate	8,167	3	9,185	3
Social community and personal services	11,951	4	13,441	4
Business services	75,419	25	89,244	36
Other	108,980	36	125,623	37
	<u>301,577</u>	<u>100</u>	<u>338,951</u>	<u>100</u>

(ii) Maximum exposure to credit risk before collateral held

	2008	%	2007	%
	Sh'000		Sh'000	
Credit exposures:				
On balance sheet items:				
Deposits and balances due from banking institutions	309,397	9	294,022	10
Loans and advances to customers	1,440,702	44	1,208,138	39
Government securities	1,230,977	38	1,230,536	40
	<u>2,981,076</u>	<u>91</u>	<u>2,732,696</u>	<u>89</u>
Off balance sheet items:				
Letters of credit	73,864	2	3,572	-
Letters of guarantees and performance bonds	216,756	7	217,319	7
Foreign exchange forward contracts	10,764	-	118,060	4
	<u>301,577</u>	<u>9</u>	<u>338,951</u>	<u>11</u>
	<u>3,282,653</u>	<u>100</u>	<u>3,071,647</u>	<u>100</u>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (Continued)

a) Credit risk (Continued)

(iii) Classification of loans and advances

	2008 Sh'000	2007 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	173,879	72,776
Grade 3 & 4: Impaired (doubtful)	223,880	280,733
	<hr/>	<hr/>
Gross amount	397,759	353,509
Allowance for impairment	(240,762)	(237,124)
	<hr/>	<hr/>
Carrying amount	156,997	116,385
	<hr/>	<hr/>
Past due but not impaired		
Watch	338,749	513,549
	<hr/>	<hr/>
Past due comprises:		
30-90 days	338,749	513,549
	<hr/>	<hr/>
Neither past due nor impaired		
Grade 1 : Normal	944,956	578,204
	<hr/>	<hr/>
Carrying amount	944,956	578,204
	<hr/>	<hr/>
Total carrying amount	1,440,702	1,208,138
	<hr/> <hr/>	<hr/> <hr/>

**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)

#### 2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

##### 1) Financial risk (Continued)

##### a) Credit risk (Continued)

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

###### **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)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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 2008		
Grade 5: Individually impaired	173,879	-
Grade 3&4: Individually impaired	223,880	156,997
Total	<u>397,759</u>	<u>156,997</u>
	<u>=====</u>	<u>=====</u>
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>
	<u>=====</u>	<u>=====</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 2008.

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

	2008	2007
	Sh'000	Sh'000
Against individually impaired		
Property	117,377	92,434
Equities	20,016	24,992
Other	30,648	37,560
	<u>168,041</u>	<u>154,986</u>
	<u>-----</u>	<u>-----</u>
Against past due but not impaired		
Property	265,020	706,335
Equities	143,439	196,335
Other	224,178	294,894
	<u>632,637</u>	<u>1,197,564</u>
	<u>-----</u>	<u>-----</u>
Total	<u>800,678</u>	<u>1,352,550</u>
	<u>=====</u>	<u>=====</u>

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### 1) Financial risk (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 in meeting financial liabilities as they fall due are 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)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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:

	2008	2007
At 31 December	81.90%	89.40%
Average for the period	74.12%	79.23%
Maximum for the period	90.50%	92.00%
Minimum for the period	24.70%	64.17%

**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	1,291,568	212,605	28,973	263,904	101,206	-	-	1,898,256
Deposits due to banking institutions	16,508	-	-	-	-	-	-	16,508
Other liabilities	271,925	-	-	-	-	-	-	271,925
Financial liability	212	-	-	-	-	-	-	212
Contractual maturity dates	1,580,213	212,605	28,973	263,904	101,206	-	-	2,186,901
<b>FINANCIAL ASSETS</b>								
Cash and bank balances with Central Bank of Kenya	189,292	9,991	1,362	12,402	4,756	-	-	217,803
Government securities	-	423,361	158,213	113,682	471,235	77,655	-	1,244,146
Deposits and balances due from banking institutions	258,069	51,785	-	-	-	-	-	309,854
Loans and advances to customers	267,805	184,466	105,136	359,464	348,977	146,889	44,783	1,457,520
Other assets	85,331	-	-	-	-	-	-	85,331
Expected maturity dates	800,497	669,603	264,711	485,548	824,968	224,544	44,783	3,314,654
Net liquidity Gap	779,717	(456,998)	(235,738)	(221,644)	(723,762)	(224,544)	(44,783)	(1,127,753)
<b>At 31 December 2007</b>								
Total financial liabilities	1,848,256	89,774	36,275	65,767	60,282	27,181	-	2,127,535
Total financial assets	1,280,259	523,947	169,471	459,052	865,747	172,683	311,894	3,783,053
Net liquidity Gap	567,997	(434,173)	(133,196)	(393,285)	(805,465)	(145,502)	(311,894)	(1,655,518)

# TRANS-NATIONAL BANK LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### 1) Financial risk (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 bank's 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)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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 2008	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	-	-	-	-	-	-	217,803	217,803
Government securities	-	418,013	156,174	112,245	468,979	75,566	-	1,230,977
Deposits and balances due from banking institutions	111,786	-	-	-	-	-	197,611	309,397
Loans and advances to customers	264,715	182,338	103,923	355,316	344,950	189,460	-	1,440,702
Other assets	-	-	-	-	-	-	85,331	85,331
<b>Total financial assets</b>	<b>376,501</b>	<b>600,351</b>	<b>260,097</b>	<b>467,561</b>	<b>813,929</b>	<b>265,026</b>	<b>500,745</b>	<b>3,284,210</b>
<b>FINANCIAL LIABILITIES</b>								
Customer deposits	932,798	211,860	28,670	260,241	98,435	-	358,619	1,890,623
Deposits due to banking institutions	16,445	-	-	-	-	-	-	16,445
Other liabilities	-	-	-	-	-	-	271,925	271,925
Financial liability	-	-	-	-	-	-	212	212
<b>Total financial liabilities</b>	<b>949,243</b>	<b>211,860</b>	<b>28,670</b>	<b>260,241</b>	<b>98,435</b>	<b>-</b>	<b>630,756</b>	<b>2,179,205</b>
<b>On balance sheet interest sensitivity gap</b>	<b>(572,742)</b>	<b>388,491</b>	<b>231,427</b>	<b>207,320</b>	<b>715,494</b>	<b>265,026</b>	<b>(130,011)</b>	<b>1,105,005</b>
<b>At 31 December 2007</b>								
Total assets	795,876	362,291	116,615	350,073	618,226	272,377	587,001	3,102,459
Total liabilities	855,805	89,291	35,788	64,024	57,141	24,489	930,193	2,056,731
<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>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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 2009.

	<b>Amount 31 December 2008</b>	<b>Scenario 1 8% increase in net interest margin</b>	<b>Scenario 2 8% decrease in net interest margin</b>
	Sh'000	Sh'000	Sh'000
Profit before tax	121,168	145,420	96,916
Adjusted core capital	1,202,851	1,227,103	1,178,599
Adjusted total capital	1,224,039	1,248,291	1,224,105
Risk weighted assets (RWA)	1,853,467	1,853,467	1,853,467
Adjusted core capital to RWA	64.9%	66.2%	63.6%
Adjusted total capital to RWA	66.0%	67.3%	64.7%

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)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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	192,291	21,763	2,556	1,193	-	217,803
Government securities	1,230,977	-	-	-	-	1,230,977
Deposits and balances due from banking institutions	111,814	125,981	6,362	41,293	23,947	309,397
Loans and advances	1,419,519	20,970	100	113	-	1,440,702
Other assets	85,331	-	-	-	-	85,331
<b>Total financial assets</b>	<b>3,039,932</b>	<b>168,714</b>	<b>9,018</b>	<b>42,599</b>	<b>23,947</b>	<b>3,284,210</b>
<b>FINANCIAL LIABILITIES</b>						
Customer deposits	1,732,745	149,786	5,075	3,017	-	1,890,623
Deposits due to banking institutions	-	-	-	16,445	-	16,445
Other liabilities	271,098	717	110	-	-	271,925
Financial liability	212	-	-	-	-	212
<b>Total financial liabilities</b>	<b>2,004,055</b>	<b>150,503</b>	<b>5,185</b>	<b>19,462</b>	<b>-</b>	<b>2,179,205</b>
<b>Net on balance sheet position</b>	<b>1,035,877</b>	<b>18,211</b>	<b>3,833</b>	<b>23,137</b>	<b>23,947</b>	<b>1,105,005</b>
<b>Off balance sheet position</b>	<b>(116,156)</b>	<b>(70,648)</b>	<b>(169)</b>	<b>(41,882)</b>	<b>(72,722)</b>	<b>(301,577)</b>
<b>At 31 December 2007</b>						
Total financial assets	2,815,335	249,903	9,157	21,939	6,125	3,102,459
Total financial liabilities	1,881,975	166,423	4,000	3,963	370	2,056,731
<b>Net on balance sheet position</b>	<b>933,360</b>	<b>83,480</b>	<b>5,157</b>	<b>17,976</b>	<b>5,754</b>	<b>1,045,728</b>
<b>Off balance sheet position</b>	<b>(132,442)</b>	<b>(156,568)</b>	<b>(195)</b>	<b>(46,539)</b>	<b>(3,206)</b>	<b>(338,951)</b>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

1) Financial risk (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 2008	Scenario 1 10% appreciation of Kenya shilling	Scenario 2 10% depreciation of Kenya shilling
	Sh'000	Sh'000	Sh'000
Profit before tax	121,168	122,367	119,968
Adjusted core capital	1,202,851	1,204,050	1,201,651
Adjusted total capital	1,224,039	1,225,238	1,222,839
Risk weighted assets(RWA)	1,853,467	1,853,467	1,853,467
Adjusted core capital to RWA	64.9%	65.0%	64.8%
Adjusted total capital to RWA	66.0%	66.1%	66.0%

**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) Capital risk

**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 and translation reserve after deductions for 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.



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

2 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

2) Capital risks (Continued)

**Regulatory capital (Continued)**

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.

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 year.

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

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

	2008	2007
	Sh'000	Sh'000
<b>Tier 1 capital</b>		
Total share capital	583,722	583,722
Retained earnings	632,028	497,961
Less intangible assets	(12,732)	(19,617)
	<hr/>	<hr/>
Total	1,203,018	1,062,066
	<hr/>	<hr/>
<b>Tier 2 capital</b>		
Statutory reserve	19,534	21,188
	<hr/>	<hr/>
Total regulatory capital	1,222,552	1,083,254
	<hr/> <hr/>	<hr/> <hr/>
<b>Risk-weighted assets</b>		
Retail bank, corporate bank and central treasury	1,853,467	1,781,550
	<hr/>	<hr/>
Total risk weighted assets	1,853,467	1,781,550
	<hr/> <hr/>	<hr/> <hr/>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets	65.9%	60%
Total tier 1 capital expressed as a percentage of risk-weighted assets	64.9%	61%

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2008	2007
	Sh'000	Sh'000
3	INTEREST INCOME	
	272,189	213,674
	83,703	71,927
	29,484	24,775
	<u>385,376</u>	<u>310,376</u>
4	INTEREST EXPENSE	
	76,343	52,572
	5,888	1,331
	<u>82,231</u>	<u>53,903</u>
5	FEES AND COMMISSION INCOME	
	84,051	68,752
	10,927	12,522
	<u>94,978</u>	<u>81,274</u>
6	GAINS ON FOREIGN EXCHANGE DEALINGS	
	Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency assets and liabilities.	
	2008	2007
	Sh'000	Sh'000
7	OTHER INCOME	
	-	154,150
	385	553
	388	3,517
	<u>773</u>	<u>158,220</u>
8	OTHER OPERATING EXPENSES	
	178,040	153,789
	3,086	3,169
	5,824	5,210
	2,204	1,668
	16,204	15,489
	7,509	5,291
	2,803	2,143
	8,405	8,547
	19,668	14,818
	11,085	10,851
	-	733
	4,429	6,652
	8,753	7,414
	3,595	6,757
	8,018	11,136
	31,983	32,499
	<u>311,606</u>	<u>286,166</u>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2008	2007
	Sh'000	Sh'000
9	STAFF COSTS	
	150,657	132,334
	8,364	6,452
	278	275
	8,814	6,502
	4,461	4,339
	5,466	3,887
	<u>178,040</u>	<u>153,789</u>
10	TAXATION	
(a)	TAX CHARGE/(CREDIT)	
	Current taxation based on the taxable profit for the year at 30%	
	-	-
	-	61,059
	(5,955)	(14,168)
	(5,290)	(2,557)
	<u>(11,245)</u>	<u>44,334</u>
(b)	RECONCILIATION OF TAX CHARGE/(CREDIT) TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT	
	121,168	234,826
	36,350	70,448
	1,824	5,274
	(71)	(44,218)
	(44,058)	(45,672)
	-	61,059
	(5,290)	(2,557)
	<u>(11,245)</u>	<u>44,334</u>
(c)	i) TAX RECOVERABLE MOVEMENT	
	116	116
	<u>116</u>	<u>116</u>
	ii) COMPENSATING TAX PAYABLE	
	-	61,059
	<u>-</u>	<u>61,059</u>

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

11 EARNINGS PER SHARE

Earnings per share is calculated by dividing the net profit attributable to shareholders amounting to Sh 132,413,000 (2007 - Sh 190,492,000) by the number of ordinary shares outstanding during the year which were 29,186,100 (2007 - 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 2008 and 31 December 2007.

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2008 Sh'000	2007 Sh'000
12 CASH AND BALANCES WITH CENTRAL BANK OF KENYA		
Cash on hand	97,401	114,433
Balances with Central Bank of Kenya:		
- Cash ratio requirement	89,209	119,109
- Cash held under lien	-	7,227
- Other (available for use by the bank)	31,193	39,353
	<u>217,803</u>	<u>280,122</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 2008, the cash ratio requirement was 5% (2007 - 6%) of all customer deposits. These funds are not available to finance the bank's day to day operations.

	2008 Sh'000	2007 Sh'000
13 GOVERNMENT SECURITIES HELD TO MATURITY		
TREASURY BILLS		
<i>At amortised cost</i>		
Face value - maturing within 90 days	319,000	585,000
Less: unearned discount	(5,754)	(4,514)
	<u>313,246</u>	<u>580,486</u>
GOVERNMENT BEARER BONDS		
<i>At amortised cost:</i>		
- maturing within 90 days	260,870	26,110
- maturing between 90 days to 1 year	112,245	163,347
- maturing between 1 - 2 years	458,405	374,549
- maturing after 2 years but within 5 years	77,181	-
- maturing after 5 years	9,030	86,044
	<u>917,731</u>	<u>650,050</u>
	<u>1,230,977</u>	<u>1,230,536</u>

The weighted average effective interest rates as at year end were:

Treasury bills	7.51%	7.61%
Government bonds	10.17%	10.80%

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2008 Sh'000	2007 Sh'000
14		
DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS		
<i>Held to maturity: At amortised cost</i>		
Deposits due within 90 days	51,785	76,785
Current accounts due on demand	257,612	217,237
	<u>309,397</u>	<u>294,022</u>

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2008 was 4.8% (2007 - 4.4%) and nil for current account balances.

	2008 Sh'000	2007 Sh'000
15		
LOANS AND ADVANCES TO CUSTOMERS		
(a)		
Loans and advances to customers	1,564,783	1,375,743
Staff loans	66,478	47,162
Finance lease receivables (note 15b)	54,572	27,246
	<u>1,685,833</u>	<u>1,450,151</u>
Less: unearned finance charges (note 15b)	(4,369)	(4,889)
	<u>1,681,464</u>	<u>1,445,262</u>
Impairment loss on loans and advances (note 16)	(240,762)	(237,124)
	<u>1,440,702</u>	<u>1,208,138</u>

(b) Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
Amounts receivable under finance leases:				
Within one year	18,964	10,687	17,446	8,868
In the second to fifth year inclusive	35,408	16,558	32,557	13,489
	<u>54,572</u>	<u>27,246</u>	<u>50,003</u>	<u>22,357</u>
Less: unearned finance income	(4,369)	(4,889)	-	-
Present value of minimum lease payments receivable	<u>50,003</u>	<u>22,357</u>	<u>50,003</u>	<u>22,357</u>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

15 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 (2007: 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 2008 was 15.78% (2007 - 14.72%).

The weighted average effective interest rate on finance lease receivables at 31 December 2008 was 15% (2007 - 15%).

NON PERFORMING LOANS AND ADVANCES TO CUSTOMERS

Included in net advances of Sh 1,440,702,000 (2007 - Sh 1,208,138,000) are loans and advances amounting to Sh 252,900,338 (2007 - Sh 215,244,000), net of specific provisions, which have been classified as non-performing.

	2008 Sh'000	2007 Sh'000
<b>MATURITY OF GROSS LOANS AND ADVANCES (NET OF FINANCE CHARGES)</b>		
Maturing:		
Up to one month	505,477	410,407
1-3 months	182,338	101,898
3-6 months	103,923	148,355
6-12 months	355,316	237,549
1-3 years	344,950	310,002
3-5 years	145,194	158,642
Over 5 years	44,266	78,409
	<hr/>	<hr/>
Loans and advances to customers (gross)	1,681,464	1,445,262
	<hr/> <hr/>	<hr/> <hr/>
<b>GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)</b>		
Overdrafts	1,017,590	850,973
Term loans	663,874	594,289
	<hr/>	<hr/>
Loans and advances to customers (gross)	1,681,464	1,445,262
	<hr/> <hr/>	<hr/> <hr/>

The related party transactions and balances are covered under note 29 and concentration of advances to customers is covered under note (2) (1) on financial risk management objectives and policies.

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

16	IMPAIRMENT LOSS ON LOANS AND ADVANCES		
		2008	2007
		Sh'000	Sh'000
	At 1 January	237,124	196,321
	Provisions in the year	36,600	45,899
	Written off in the year	(32,962)	(5,096)
		<u>          </u>	<u>          </u>
	At 31 December	<u>240,762</u>	<u>237,124</u>
		<u>          </u>	<u>          </u>
17	OTHER ASSETS		
	Clearing and transit items	35,715	36,311
	Deposits and prepayments	2,911	9,815
	Other assets	46,705	43,515
		<u>          </u>	<u>          </u>
		<u>85,331</u>	<u>89,641</u>
		<u>          </u>	<u>          </u>
18	INTANGIBLE ASSETS (Computer Software)		
	COST		
	At 1 January	32,336	26,582
	Additions	624	22,019
	Reclassified from equipment	-	2,662
	Write off	-	(18,927)
		<u>          </u>	<u>          </u>
	At 31 December	<u>32,960</u>	<u>32,336</u>
		<u>          </u>	<u>          </u>
	ACCUMULATED AMORTISATION		
	At 1 January	12,719	26,355
	Charge for the year	7,509	5,291
	Eliminated on write off	-	(18,927)
		<u>          </u>	<u>          </u>
	At 31 December	<u>20,228</u>	<u>12,719</u>
		<u>          </u>	<u>          </u>
	NET BOOK VALUE		
	At 31 December	<u>12,732</u>	<u>19,617</u>
		<u>          </u>	<u>          </u>

Intangible assets with a cost of Sh 7,526,000 (2007 - Sh 7,373,000) were fully amortised as at 31 December 2008. The nominal annual amortisation charge on these assets would have been Sh 2,258,000 (2007 - Sh 2,212,000).

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 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 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
At 1 January 2008	42,430	105,206	10,223	-	157,859
Additions	14,996	9,846	-	-	24,842
Writeoff	-	(236)	-	-	(236)
Disposals	-	(217)	(2,600)	-	(2,817)
At 31 December 2008	57,426	114,599	7,623	-	179,648
<b>DEPRECIATION</b>					
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
At 1 January 2008	31,970	75,809	6,699	-	114,478
Charge for the year	4,159	10,186	1,859	-	16,204
Eliminated on writeoff	-	(236)	-	-	(236)
Eliminated on disposals	-	(217)	(1,679)	-	(1,896)
At 31 December 2008	36,129	85,542	6,879	-	128,550
<b>NET BOOK VALUE</b>					
At 31 December 2008	21,297	29,057	744	-	51,098
At 31 December 2007	10,460	29,397	3,524	-	43,381

Equipment with a cost of Sh 87,036,000 (2007 - Sh 86,354,000) were fully depreciated as at 31 December 2008. The nominal annual depreciation charge on these assets would have been Sh 19,513,000 (2007 - Sh 19,220,000).



TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	2008 Sh'000	2007 Sh'000
20 DEFERRED TAX ASSET		
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	1,610	(414)
Provisions		
-Leave pay	1,986	1,199
-Legal fee	1,163	4,957
-Gratuity and union salary increment	8,170	6,199
-Bonus and other staff costs	10,504	-
Tax losses	113,789	158,094
	<u>137,222</u>	<u>170,035</u>
Tax asset not recognised	(70,889)	(114,947)
	<u>66,333</u>	<u>55,088</u>
	=====	=====
Movement in deferred tax asset is as follows:		
At 1 January	55,088	22,228
Income statement credit:		
- Current year	5,955	14,168
- Prior year under provision	5,290	2,557
	<u>11,245</u>	<u>16,725</u>
Income statement credit - Note 10 (a)		
	<u>66,333</u>	<u>55,088</u>
	=====	=====

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 44,057,726 (2007 - Sh 45,670,937) relating to part of the tax losses has not been recognised.

As at 31 December 2008, the bank had taxable losses amounting to Sh 379,297,708 (2007 - Sh 550,187,538) available for future relief.

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

21	CUSTOMER DEPOSITS		
		2008	2007
		Sh'000	Sh'000
	Current and demand accounts	729,049	730,790
	Savings accounts	308,966	288,711
	Fixed and call deposit accounts	852,608	780,404
		<u>1,890,623</u>	<u>1,799,905</u>

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	Repayable:		
	Within one month	1,291,417	1,529,172
	Within 1 - 3 months	211,860	89,291
	Within 3 - 6 months	28,670	35,788
	Within 6-12 months	260,241	64,024
	Within 1-3 years	98,435	81,630
		<u>1,890,623</u>	<u>1,799,905</u>

The weighted effective interest rate on interest bearing customer deposits at 31 December 2008 was 4.14% (2007 – 3.63%).

The related party transactions and balances are covered under note 29 and concentration of customer deposits is covered under note (2) (1) on financial risk management objectives and policies.

		2008	2007
		Sh'000	Sh'000
22	DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS		
	Demand accounts	16,445	16,140
		<u>16,445</u>	<u>16,140</u>
23	OTHER LIABILITIES		
	Bankers cheques outstanding	148,229	139,309
	Deposits for letters of credit and letters of guarantee	23,605	9,095
	Provision for leave pay	6,619	3,996
	Other liabilities and accruals	93,472	82,568
		<u>271,925</u>	<u>234,968</u>

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 FINANCIAL LIABILITY

	Contract exchange rate		Foreign currency		Contract value		Fair value asset/(liability)	
	2008	2007	2008	2007	2008	2007	2008	2007
Maturing within 3 months			'000	'000	Sh'000	Sh'000	Sh'000	Sh'000
Sell USD	77.85	62.66	-	1,650	-	103,395	-	(5,010)
Sell Euros	107.52	89.47	100	100	10,752	8,947	(212)	(708)
							<u>(212)</u>	<u>(5,718)</u>

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 77.85 (2007 - Sh 65.70) for US dollar and Sh 109.64 (2007 - Sh 96.55) for Euros.

	2008	2007
	Sh'000	Sh'000
25 SHARE CAPITAL		
Authorised:		
31,250,000 ordinary shares of Sh 20 each	625,000	625,000
Issued and fully paid:		
29,186,100 (2007 - 29,186,100) ordinary shares of Sh 20 each	583,722	583,722
26 STATUTORY RESERVE		
At 1 January	21,188	18,018
Transfer (to)/from retained earnings	(1,654)	3,170
At 31 December	<u>19,534</u>	<u>21,188</u>

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)

	2008	2007
	Sh'000	Sh'000
27	NOTE TO THE CASH FLOW STATEMENT	
<b>(a)</b>	<b>Reconciliation of profit before taxation to cash generated from operating activities</b>	
	121,168	234,826
Profit before taxation		
Depreciation	16,204	15,489
Amortisation of intangible assets	7,509	5,291
Profit on disposal of equipment	(385)	(553)
Dividends income	-	(16,560)
Gain on sale of investment	-	(154,150)
	<hr/>	<hr/>
Profit before working capital changes	144,496	84,343
Increase in balances with Central Bank of Kenya		
- cash ratio requirement	29,900	(43,200)
- cash held under lien-clearing	7,227	(7,227)
Increase in governments securities maturing after 90 days	(32,921)	(318,792)
(Increase)/decrease/in loans and advances to customers	(232,564)	96,096
Decrease in other assets	4,310	31,414
Increase in customer deposits	90,718	535,815
Increase/(decrease)/ in deposits due to banking institutions	305	(48,328)
Increase in other liabilities	36,957	128,536
Decrease/(increase) in financial liability – derivatives	(5,506)	5,718
Movement in related company balances	-	(8,857)
	<hr/>	<hr/>
Cash generated from operating activities	42,922	455,518
	<hr/> <hr/>	<hr/> <hr/>
<b>(b)</b>	<b>Analysis of the balances of cash and cash equivalents</b>	
Cash on hand	97,401	114,432
Balances with Central Bank of Kenya - other	31,193	39,354
Placements and balances due from banking institutions	309,397	294,022
Government securities maturing within 90 days	574,116	606,596
	<hr/>	<hr/>
	1,012,107	1,054,404
	<hr/> <hr/>	<hr/> <hr/>

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)

## 28 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2008 Sh'000	2007 Sh'000
(a) Contingent liabilities		
Letters of credit	73,864	3,572
Letters of guarantee and performance bonds	216,749	217,319
Forward exchange contracts	10,964	118,060
	<u>301,577</u>	<u>338,951</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 29 and concentration of contingent liabilities is covered under note (2) (1) on financial risk management objectives and policies.

	2008 Sh'000	2007 Sh'000
(b) Capital commitments		
Authorised but not contracted for	43,037	19,201
Authorised and contracted for	8,311	700
	<u>51,348</u>	<u>19,901</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:

	2008 Sh'000	2007 Sh'000
Within one year	10,609	13,439
In the second to fifth year inclusive	27,239	34,579
After five years	4,763	3,268
	<u>42,611</u>	<u>51,286</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)

29 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 2008 include advances and loans to companies associated to directors. Contingent liabilities at 31 December 2008 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 8,584,656 (2007 - Sh 6,429,720).

- (b) Loans and advances:

	Directors' associated companies		Employees	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
At 1 January	370,801	294,233	47,162	38,570
Net movement during the year	36,774	76,568	19,316	8,592
At 31 December	<u>407,575</u>	<u>370,801</u>	<u>66,478</u>	<u>47,162</u>

These loans and advances are performing and are adequately secured, except for loans amounting to Sh 38,858,845 which are classified as non-performing.

Interest earned on advances to directors and associated companies amounted to Sh 18,886,000 (2007 - Sh 39,325,000) and Sh 4,589,132 (2007 - Sh 3,750,000) on staff advances.

- (c) Deposits:

	Directors' associated companies		Employees	
	2008 Sh'000	2007 Sh'000	2008 Sh'000	2007 Sh'000
At 1 January	188,290	152,989	11,470	14,368
Net movement during the year	61,667	35,301	2,474	(2,898)
At 31 December	<u>249,957</u>	<u>188,290</u>	<u>13,944</u>	<u>11,470</u>

Interest paid on deposits from directors and associated companies amounted to Sh 8,002,686 (2007 - 6,834,917) and Sh 492,896 (2007 - Sh 416,373) on staff deposits.

- |  |                |                |
|--|----------------|----------------|
| (d) Guarantees and letters of credit to<br>companies associated to directors | 2008<br>Sh'000 | 2007<br>Sh'000 |
|  | <u>54,345</u>  | <u>77,334</u>  |

TRANS-NATIONAL BANK LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

29 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

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

	2008 Sh'000	2007 Sh'000
Salaries and other benefits	49,560	47,667
Directors' remuneration:		
Fees for services as directors	3,086	3,169
Allowances	5,824	5,210
	<u>8,910</u>	<u>8,379</u>

30 ASSET PLEDGED AS SECURITY

As at 31 December 2008, assets pledged as security were balances with Central Bank of Kenya under lien for the Domestic Foreign Currency clearing amounting to USD 110,000.

31 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.

32 COUNTRY OF INCORPORATION

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

33 CURRENCY

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