ANNUAL REPORT & FINANCIAL STATEMENTS 2010

TRANS NATIONAL BANK LIMITED

Innovative & Responsive

Your Style of Banking

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CORPORATE INFORMATION

DIRECTORS	M Cherwon	Chairman
	P Kemei	
	J K Kenduiwo	
	A DeSimone*	
	H Tororey	
	D K Rana** – retired on 31 October 2010	
	* American	
	** Indian	
CHIEF EXECUTIVE OFFICER	Sammy Lang'at – Appointed on 8th November 2010	
AUDIT COMMITTEE	H Tororey	Chairman
	P Kemei	
	J K Kenduiwo	
	F Mayodi	
CREDIT COMMITTEE	P Kemei	Chairman
	H Tororey	
	S Tanui	
STRATEGY COMMITTEE	J K Kenduiwo	Chairman
	M Cherwon	
	P Kemei	
	F Sheikh	
RISK COMMITTEE	A DeSimone	Chairman
	P Kemei	
	F Sheikh	
ASSETS AND LIABILITY MANAGEMENT COMMITTEE		
	F Sheikh	
	S Tanui	
	P Gitau	
	W Ruto	
HUMAN RESOURCES COMMITTEE	J K Kenduiwo	Chairman
	H Tororey	
	A DeSimone	
	D Namwendwa	
SECRETARY	Billow Kerrow	
	Certified Public Secretary (Kenya)	
	P O Box 72133 - 00200 Nairobi	
REGISTERED OFFICE	Trans-National Plaza	
	City Hall Way	
	P O Box 75840 - 00200 Nairobi	
AUDITORS	Deloitte & Touche	
	Certified Public Accountants (Kenya)	
	Deloitte Place Waiyaki Way, Muthangari	
	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	

CORPORATE GOVERNANCE STATEMENT

Trans National Bank Limited is fully committed to the principles of transparency, integrity and accountability. The Directors of the bank are ultimately accountable to all stakeholders for ensuring that the bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 2.
D. K Rana retired on 31 October 2010. Sammy Lang'at was appointed CEO effective 8 November 2010.

The Board is responsible for formulating bank policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the bank and implements corporate governance policies of the bank.

The Board comprises five non-executive Directors. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and Chairmen of Board committees are non-executive Directors.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the Bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors before hand. The Board meets regularly and at least eight times annually. In accordance with the bank's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The Bank Secretary is always available to the Board of Directors.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 35 (d) to the financial statements for the year ended 31 December 2010. The bank advances loans to Directors and their associated companies as disclosed in Note 35 (d).

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the bank and its Directors or Management except those disclosed in Note 35 to the financial statements for the year ended 31 December 2010.

2. BOARD COMMITTEES

The Board has in place five main committees, namely the Risk Management, Credit, Human Resources, Audit, Strategy & Business development. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the Bank's objectives and obligations to its stakeholders.

All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary.

a) Risk Management Committee

The committee assists the Board in establishing and implementing overall risk management system and policies. The committee periodically reviews existing levels of risks for various identified and unidentified risks through analysis of scenarios showing impact on capital and determine risk appetite for such risks through setting risk limits. The identified risks monitored by the committee include size of overall credit risk on statement of financial position, liquidity risk, market risk, exchange risk, interest rate risk, operations risk, regulatory risk and reputational risk etc. The committee studies risks associated with new and existing products and established mitigations on the risks.

CORPORATE GOVERNANCE STATEMENT (contd)

b) Credit Committee

The committee assists the Board in providing policy guidelines on credit business of the bank. The committee is responsible for review of overall performance of credit portfolio into various asset classes, review of significant exposures in normal and watch portfolios, recommending appetite levels through risk and return balance in credit business to Risk Management Committee, review slippages and debt recovery, ensuring adequacy of bad and doubtful debt provisions. The committee reviews quality of monitoring of credit portfolio across the bank. The committee periodically reviews credit policy.

c) Human Resources Committee

The committee is responsible for providing policy guidelines on HR practices of recruitment, training, remuneration and compensations, disciplinary actions and manpower quality across the bank, review system of performance management, job gradation, skills gaps, principles of rationalisation etc. The committee is responsible for study of productivity levels across the bank and address anomaly in staff productivity. The committee assists the Board in providing efficient, productive and quality organisation structure for the bank. The committee periodically reviews HR policy.

d) Audit Committee

The Audit Committee is chaired by a non-executive Director. The other members are non-executive appointees of the Board with the Chief Executive Officer in attendance. The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the Bank are properly established, monitored and reported on. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. The Audit committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank

e) Strategy Committee

The committee assists the Board in formulation of overall strategic direction of the bank. This includes identifying strengths and weaknesses and opportunities and threats and identifying strategic objectives to realise full potential of the bank. The committee reviews growth strategy of the bank, marketing plans, product offering, client segment review, identification of business opportunities and analysis of business strategies of competition. The committee assists the Board in periodically aligning the strategy direction to changes in market direction.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the Bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the Bank's system of internal control and for reviewing its effectiveness. The Bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the Internal Auditor. The Bank has in place a chain of controls which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. BUSINESS ETHICS

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its clients, intermediaries, insiders, employees and other stakeholders are conducted at arm's length, with integrity and transparency. The business is conducted with high levels of transparency and accountability.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the bank recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for all its staff. The bank assists its staff to undertake continuous professional and development training programmes to fulfil their potential. This process is appropriately managed to align staff development with the bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

CORPORATE GOVERNANCE STATEMENT (contd)

6. SHAREHOLDERS

The list of the shareholders and their individual holdings at the year end was as follows:

	2010 Holding No. of Shares	%	2009 Holding No. of Shares	%
Archers and Wilcock Limited	29,180,676	23.75%	7,295,169	25.00%
Sovereign Trust Limited	28,298,776	23.03%	7,074,694	24.24%
Duggan Limited	19,089,820	15.42%	4,736,598	16.23%
Pyramid Trustee Limited	18,578,900	15.12%	4,644,725	15.91%
November Nominees Limited	8,941,568	7.28%	2,235,392	7.66%
Simbi Investors	5,048,820	4.11%	1,262,205	4.32%
Losupuk Limited	3,428,432	2.79%	857,108	2.94%
Kenyerere Limited	2,636,760	2.15%	659,190	2.26%
Samkolit (K) Limited	511,284	0.42%	127,821	0.44%
Toiyoi Investments Ltd	256,468	0.21%	64,117	0.22%
Others	6,914,804	5.74%	229,081	0.78%
TOTAL	**122,886,308**	**100%**	**29,186,100**	**100%**

CORPORATE GOVERNANCE STATEMENT (contd)

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

During the year, attendances at meetings of the Board, Audit Committee and Credit Committee, were as follows:

a) Board Meetings

Name	Number of attendance	Percentage attendance
Mr. Michael Cherwon	9 out of 9	100%
Mr. Dhirendra Rana	7 out of 9	78%
Mr. Peter Kemei	9 out of 9	100%
Mr. Andre DeSimone	8 out of 9	89%
Mr. John Kenduiwo	9 out of 9	100%
Mr. Hilary Tororey	9 out of 9	100%

b) Committee Meetings

i) Audit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Hilary Tororey	4 out of 4	100%
Mr. Peter Kemei	4 out of 4	100%
Mr. John Kenduiwo	4 out of 4	100%
Mr. Fredrick Mayodi	4 out of 4	100%

ii) Credit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Peter Kemei	6 out of 6	100%
Mr. Dhirendra Rana	4 out of 6	67%
Mr. Hilary Tororey	6 out of 6	100%
Mr. Samuel Tanui	6 out of 6	100%

8. COMPLIANCE

The Bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards in its commitment to best practice. Additionally, the Bank complies with International Financial Reporting Standards (IFRS).

....
Director

....
Director

16th March 2011

REPORT OF THE DIRECTORS

The directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2010, 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	158,582
Taxation charge	(16,240)
Profit for the year	142,342

DIVIDENDS

The directors do not recommend the payment of dividend for the year ended 31 December 2010 (2009: nil).

DIRECTORS

The current directors are listed on page 2.

Mr. Dhirendra K Rana retired on 31 October 2010.

SECRETARY

Lucy Kariuki resigned as Company Secretary on 15 April 2010 and was replaced by Billow Kerrow on the same date.

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

16th March 2011

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors accept responsibility for these financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of 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

16th March 2011

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 11 to 55 which comprise the statement of financial position as at 31 December 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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 bank'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 bank'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 2010 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

Certified Public Accountants (Kenya)

16th March 2011
Nairobi

CHAIRMAN REPORT

It is my pleasure to present the TNBL's Annual Report and Financial Statements for the year ended 31st December 2010.

Economic and Business Environment

There was a noted improvement of key sectors of the economy in 2010, such as agriculture, manufacturing, financial institutions, tourism, and construction. This was partly attributed to improved confidence in the economy, credit expansion to the specific sectors, and increased agricultural activity coupled with the recovery of the global economy.

Significant recovery was witnessed in economic performance with improvements in the third quarter of 2010 compared to a similar period in 2009, following favourable weather conditions, increased liquidity in the banking system, and prudent macroeconomic management. Reliable rainfall distribution resulted in continued improvement in the performance of the agriculture sector relative to the performance of the sector in 2009. The generally steady oil prices and lower communications costs during the period also helped to ease inflationary pressures and resulted in a general downward trend in overall inflation.

In this regard, the overall economy is estimated to have grown by 4.5% compared to 2.6% in year 2009. Inflation is estimated to have stalled at 3.84% compared to 5.3% in the previous year. The downward trend is attributed to falling prices of food, medical goods and services, education and recreation, as well as personal goods & services.

Interest rates continued to fall with 91 day and 182 days treasury bills closing the year at 2.31% and 2.55%, respectively, from 6.7% and 7.3% in December 2009.

As a monetary measure to reduce short-term interest rates, Central Bank of Kenya reduced the Central Bank Rate (CBR) to below 6% from 7% in December 2009. This was influenced by the need to stimulate growth and ease credit flow to the productive sectors of the economy.

In the foreign exchange market, the Kenya Shillings depreciated against the dollar to close the year at KES 80.75 against KES 75.9 in year 2009. This was mainly caused by the uncertainty of currencies in the international trade as well as a wider deficit in the balance of payments following increased imports and reduced short-term flows.

In the Bond market, the Government continued borrowing from the domestic market to finance budget deficits and infrastructure initiatives. The market remained highly active both in the primary and secondary markets. Bond trading in the secondary market saw players reap huge benefits.

Banking Industry in Kenya

Three deposit taking microfinance institutions were licensed in the year.
The banking industry remained all time vibrant. With increased supervisory efforts by Central Bank, corporate governance and risk management in banks remained a key focus in the industry.

Banks aggressively competed for the market share of the unbanked population a move which resulted in banks reporting high growth.
The sector registered growth in deposits, injection of new capital and retention of profits. Overall the industry's total asset base expanded by 35% and profitability was up by 46%.

Financial Results

The bank performed well in 2010 financial year when compared to 2009. Profit after tax rose by 58%. This is largely accounted for by the increased asset base of 42%. Customer deposits grew by 63% which is a sign that the bank can compete for a bigger market share in the economy.

The bank opened two new branches in Kabarnet and Sheikh Karume Road in Nairobi. The bank is therefore on course in achieving its expansion strategy aimed at repositioning itself in the market to gain a competitive edge in service delivery.

The core capital of the bank increased significantly due to growth in profitability and positive results of private placement offer. The liquidity levels remained strong throughout the year with new focus on retail and corporate lending in the New Year. Reduction of NPA levels remains a priority.
The SME sector and focusing on the Agriculture sectors in the new branches has significantly contributed towards strategy driven retail business. The bank will continue with its expansion strategy to enhance its footage in retail banking segment.

The future of the bank is, indeed, very bright as the management focuses on consolidating efforts to bring a new outlook of the bank. We are looking forward to increased market share, improved efficiency, improved staff productivity and enhanced customer service.

Capital

During the year, the bank increased its authorized share capital through a private placement initiative. This move enlarged our capital structure and will help the bank strengthen corporate governance as well as market niche. The proceeds will be used in funding expansion projects in the future in line with the bank's retail strategy.

Corporate Governance

Mr. Dhirendra Rana, the Managing Director and Chief Executive Officer, after eight years of dedicated service to the bank retired on 31st October 2010. Throughout his tenure the bank had recorded growth in assets and in profitability as well as stabilizing the corporate governance structure of the bank. We are extremely grateful to him for the immense contribution he made to the Bank's success.

On 8th November 2010, Mr. Sammy Langat was appointed as the Chief Executive Officer. He is an experienced banker having been in the industry for 21 years serving in various senior positions. He is expected to drive the envisioned TNBL role in provision of convenient financial services and solutions to customers in Kenya and the region as outlined in our 5 year strategy 2010-2014.

The Board will continue to play its role effectively under the corporate governance structure. The non-executive directors will maintain oversight on the management of the bank, through board meetings as well as through the various board committees.

Economic Outlook

The year 2011 started with crisis in Middle East which influenced negatively the fuel costs and a weakened Kenyan currency. These factors together with persistent drought in some areas fueled inflation which requires urgent intervention from the Government and all stakeholders.

The general elections are coming up in a year's time. The country is also going through transformation with transition to the new constitution already taking course. This exposes the nation to political risk which if not well mitigated can affect the economy adversely.

This will however be partly controlled by the Government's ambitious infrastructure spending program. Large-scale investment in infrastructure will support an improvement in Kenya's business environment, as well as its productive capacity.

However, at Trans-national Bank, we are aware that banking remains a risk-based industry and we will remain prudent both in pricing and management of risk. We are repositioning ourselves in the market to take advantage of the opportunities that will undoubtedly arise to deliver record results in the year 2011.

Appreciation

In conclusion, I would wish to recognize all our stakeholders:

- Our shareholders for providing the required capital for sustainable growth of the bank.
- Our esteemed customers who despite having a variety of choices have offered continued support over the years.
- Our regulators, the Central Bank of Kenya and the Capital Markets Authority for their co-operation and guidance throughout the year.

- Our employees for their commitment and dedication to exceed stakeholder expectations.
- To my fellow directors for their diligence and commitment in providing timely response and in executing their responsibilities both in the Board and in the respective Board Committees.

Thank you.

Michael Cherwon
Chairman

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Sh'000	2009 Sh'000
INTEREST INCOME	7	444,900	414,694
INTEREST EXPENSE	8	(97,159)	(80,314)
NET INTEREST INCOME		347,741	334,380
Fees and commission income	9	110,032	101,509
Gains on foreign exchange dealings	10	37,679	36,400
Bad debts recovered		51,720	11,412
Other income	11	111,029	101
OPERATING INCOME		658,201	483,802
Other operating expenses	12	(438,074)	(362,625)
Impairment losses on loans and advances	21	(61,545)	(33,600)
PROFIT BEFORE TAXATION		158,582	87,577
TAXATION (CHARGE)/CREDIT	14	(16,240)	2,579
PROFIT FOR THE YEAR		142,342	90,156
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		142,342	90,156
		Sh	Sh
EARNINGS PER SHARE			
- Basic and diluted	15	1.22	0.77

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 Sh'000	2009 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	16	378,979	244,764
Deposits and balances due from banking institutions	17	266,005	173,493
Corporate bonds held at fair value	18	-	47,514
Government securities	19	1,835,375	926,097
Loans and advances to customers	20	1,937,580	1,688,664
Quoted shares	22	57,477	-
Other assets	23	136,168	119,241
Equipment	24	86,883	79,744
Intangible assets	25	10,712	16,029
Deferred tax asset	26	52,673	68,912
TOTAL ASSETS		4,761,852	3,364,458
LIABILITIES			
Customer deposits	27	3,010,470	1,844,938
Deposits due to banking institutions	28	15,856	25,000
Other liabilities	29	194,784	168,932
Financial liability - derivatives	30	14	148
TOTAL LIABILITIES		3,221,124	2,039,018
SHAREHOLDERS' FUNDS			
Share capital	31	614,432	583,722
Share premium	31	42,236	-
Retained earnings		861,278	720,899
Statutory reserve	32	22,782	20,819
TOTAL SHAREHOLDERS' FUNDS		1,540,728	1,325,440
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		4,761,852	3,364,458

The financial statements on pages 11 to 55 were approved by the board of directors on 16th March 2011 and were signed on its behalf by:

Director Chief Executive Officer

Director Company Secretary

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	Share capital Sh'000	Share premium Sh'000	Statutory reserve Sh'000	Revenue reserve Sh'000	Total Sh'000
At 1 January 2009		583,722	-	19,534	632,028	1,235,284
Transfer to statutory reserve	32	-	-	1,285	(1,285)	-
Profit for the year		-	-	-	90,156	90,156
At 31 December 2009		583,722	-	20,819	720,899	1,325,440
At 1 January 2010		583,722	-	20,819	720,899	1,325,440
Transfer to statutory reserve	32	-	-	1,963	(1,963)	-
Issued in the year	31	30,710	42,236	-	-	72,946
Profit for the year		-	-	-	142,342	142,342
At 31 December 2010		614,432	42,236	22,782	861,278	1,540,728

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2010

	Note	2010 Sh'000	2009 Sh'000
Cash flows from operating activities			
Cash generated/(used) in operations	33(a)	373,079	(584,189)
Tax recoverable write-off		-	116
Tax paid		-	-
Cash generated/(used) in operating activities		373,079	(584,305)
Cash flows from investing activities			
Additions to equipment	24	(35,121)	(53,907)
Additions to intangible assets	25	(4,101)	(12,757)
Proceeds from disposal of equipment		3,181	587
Net cash used in investing activities		(36,041)	(66,077)
Cash flow from financing activities			
Proceeds from issue of share capital	31	72,946	-
Net cash used in financing activities		72,946	-
Increase/(decrease) in cash and cash equivalents		409,934	(650,382)
Cash and cash equivalents at 1 January		755,214	995,662
Cash and cash equivalents at 31 December	33(b)	755,214	345,280

NOTES TO THE FINANCIAL STATEMENTS

1 REPORTING ENTITY

Trans-National Bank Limited (The "bank") provides commercial banking services. The bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya.
The address of its registered office is as follows:
Trans-National Plaza, City Hall Way,
P O Box 75840
Nairobi- 00200

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

(i) Relevant new and revised standards affecting amounts reported in the current year (and/or prior years)

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 1 clarify that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or noncurrent..

Amendments to IAS 7 Statement of Cash Flows (as part of Improvements to IFRSs issued in 2009)

The amendments to IAS 7 specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

IFRIC 17 Distributions of Non-cash Assets to Owners

The interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

The amendments have been applied prospectively

(ii) Relevant new and revised standards in issue but not yet effective

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)

The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The amendment is effective date for annual periods beginning on or after 1 January 2011). The bank will apply this amendment prospectively. The directors, however, anticipate no material impact to the bank financial statements.

Amendments to IFRS 7 Financial Instruments: Disclosures (as part of Improvements to IFRSs issued in 2010)

The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans. The bank will apply this amendment prospectively. The directors, however, anticipate no material impact to the bank's financial statements. The directors, however, anticipate no material impact to the bank financial statements.

(ii) Relevant new and revised standards in issue but not yet effective

IFRS 9, Financial Instruments

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

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that

2 ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs) (Continued)

are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

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

IFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the bank's financial statements for the annual period beginning1 January 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities.

(iii) Early adoption of standards

The bank did not early-adopt any new or amended standards in 2010.

3. ACCOUNTING POLICIES

Statement of compliance

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

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

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting except for certain properties that are measured at revalued amounts and the following financial instruments, measured at fair value:

- Derivative financial instruments
- Financial instruments at fair value through profit & loss
- Available for sale financial assets.

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within profit or loss 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.

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.

3. ACCOUNTING POLICIES (Continued)

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

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

Equipment

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

Depreciation

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

Leasehold improvements	20%
Motor vehicles	25%
Computer hardware and software	30%
Equipment, furniture, fixtures and fittings	12.5%

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 of non-financial assets

At the end of each reporting period, 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 recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. Previously recognised impairment losses may be reversed to the extent of the assets carrying amount.

Foreign currencies

i) Functional and presentation currency

The financial statements of the bank are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Kenya Shillings, which is the bank's functional and presentational currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

ii) Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3. ACCOUNTING POLICIES (Continued)

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.

Offsetting

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

Financial instruments

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

Financial assets

a) Classification and measurement

The bank classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets classified as held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if:

a) it has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or b) on initial recognition it is part of a portfolio of identified financial instruments that the bank manages together and for which there is evidence of a recent actual pattern of short-term profit taking; or; c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the bank's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or
c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in the profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

ii) Due from banks and loans and advances to customers

Due from banks and loans, advances and receivables include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

After initial recognition, these amounts are subsequently measured at amortised cost using the effective interest

3. ACCOUNTING POLICIES (Continued)

rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in profit and loss. The losses arising from impairment are recognised in profit or loss..

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank has the positive intention and ability to hold to maturity.

Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss.

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. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

iv) Available-for-sale financial assets

Available for sale investments are those that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are intially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets which are recognised in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in the profit and loss when the bank's right to receive the dividends is established

b) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- the bank has transferred substantially all the risks and rewards of the asset, or
- the bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

3. ACCOUNTING POLICIES (Continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

c) Impairment and uncollectability of financial assets

The bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss' event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that the bank uses to determine that there is objective evidence of an impairment loss include:

- Deliquency in contractual payments of principal and interest;
- Cashflow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

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 profit or loss for the period.

i) Assets carried at amortised cost

The bank assesses whether objective evidence of impairment exist individually for assets that are individually significant and individually or collectively for assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instruments effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that is, on the basis of the bank's grading process that considers asset type, industry, geographical location, collateral types, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cashflows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable

3. ACCOUNTING POLICIES (Continued)

c) Impairment and uncollectability of financial assets (contd)

data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit and loss.

ii) Available-for-sale financial assets

In the case of investment classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

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

iii) Renegotiated loans

Where possible, the bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Financial liabilities and equity instruments issued by the bank

a) Classification and measurement

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

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

a) it has been acquired or incurred principally for the purpose of repurchasing it in the near term; or
b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

3 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability (other than a financial liability held for trading) may also be designated as at fair value through profit or loss upon initial recognition if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

i) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the tems of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income eanred is recognised on a straight line basis over the life of the guarantee.

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.The bank derecognises financial liabilities when, and only when, the bank's obligations are discharged, cancelled or they expire.

3 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Derivative financial instruments

Derivatives, which comprise solely forward exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and subsequently measured at fair value. The fair value is determined using forward exchange market rates at the statement of financial position date or appropriate pricing models. The derivatives do not qualify for hedge accounting. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Changes in the fair value of derivatives are recognised immediately in the statement of comprehensive income.

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 statement of financial position 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 statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

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.

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.

3 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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 statement of comprehensive income in the year to which they relate.

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.

Comparatives

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

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

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

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

The bank 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 statement of comprehensive income, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows 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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES

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

- credit risk
- liquidity risk
- market 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 Committee (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.

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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES

Credit risk (Continued)

- 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).
- 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 committee 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 - Gross

	2010 Sh'000	%	2009 Sh'000	%
Agriculture	72,334	3	86,432	4
Manufacturing	40,261	2	42,838	2
Wholesale and retail	260,483	12	170,584	9
Transport and communication	345,910	16	205,485	11
Real estate	287,370	13	228,533	12
Social community and personal services	481,535	23	375,680	18
Business services	137,026	6	39,017	2
Other	513,523	24	790,799	40
	2,138,442	100	1,939,368	100

(b) Customer deposits

	2010 Sh'000	%	2009 Sh'000	%
Building societies	20	-	11	-
Co-operative societies	5,448	-	3,319	-
Insurance companies	7,970	-	4,586	-
Private enterprises	1,739,310	58	1,070,442	58
Non profit institutions and individuals	1,257,722	42	766,580	42
	3,010,470	100	1,844,938	100

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Credit risk (Continued)

(i) Management of credit risk (Continued)

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

	2010 Sh'000	%	2009 Sh'000	%
Agriculture	7,642	3	8,933	3
Manufacturing	7,949	3	9,292	3
Wholesale and retail	3,445	1	4,027	1
Transport and communication	62,689	25	73,283	25
Real estate	6,877	3	8,039	3
Social community and personal services	10,062	4	11,763	4
Business services	63,502	25	74,234	25
Other	91,760	36	107,267	36
	253,926	100	296,838	100

(ii) Maximum exposure to credit risk before collateral held

	2010 Sh'000	%	2009 Sh'000	%
Credit exposures:				
On balance sheet items:				
Deposits and balances due from banking institutions	266,005	6	173,493	6
Loans and advances to customers	1,937,580	45	1,688,664	54
Government securities held to maturity	1,715,115	39	704,604	22
Government securities at fair value	120,260	3	221,493	7
Corporate bonds at fair value	-	-	47,514	2
Equity investments at fair value	57,477	1	-	-
	4,096,437	94	2,835,768	91
Off balance sheet items:				
Letters of credit	28,451	1	23,266	1
Letters of guarantees and performance bonds	209,325	5	262,666	8
Foreign exchange forward contracts	16,150	-	10,906	-
	253,926	6	296,838	9
	4,350,363	100	3,132,606	100

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Credit risk (Continued)

(iii) Classification of loans and advances

	2010 Sh'000	2009 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	194,124	187,337
Grade 3 & 4: Impaired (doubtful)	342,500	316,959
Gross amount	536,624	504,296
Suspended interest	(66,355)	(90,196)
Allowance for impairment	(200,417)	(250,704)
Carrying amount	269,852	163,396
Past due but not impaired		
Watch (30-90 days)	205,799	257,781
Neither past due nor impaired		
Grade 1 : Normal	1,461,929	1,267,487
Total carrying amount	1,937,580	1,688,664

Impaired loans and advances

Impaired loans and securities are loans and advances 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 and a provision at 3 % is made and appropriated under statutory reserves.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Credit risk (Continued)

(iii) Classification of loans and advances

Loans and advances that are neither past due nor impaired

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

Loans with renegotiated terms

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

	2010 Sh'000	2009 Sh'000
Renegotiated loans 1-90 days	13,468	13,091

(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 the credit committee 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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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.

In thousands of Kenya Shillings	Loans and advances to customers Gross	Net
31 December 2010		
Grade 5: Individually impaired	194,124	-
Grade 3&4: Individually impaired	343,073	271,994
Total	537,197	271,994
31 December 2009		
Grade 5: Individually impaired	161,528	-
Grade 3&4: Individually impaired	254,159	164,983
Total	415,687	164,983

(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 2010.

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

	2010 Sh'000	2009 Sh'000
Against individually impaired		
Property	487,520	229,314
Equities	1,859	288
Other	158,480	72,961
	647,859	302,563
Against past due but not impaired		
Property	226,575	121,922
Equities	-	1,680
Other	25,742	156,368
	252,317	279,970
Total	900,176	582,533

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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 it 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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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:

	2010	2009
At 31 December	75.30%	65.50%
Average for the period	71.78%	73.31%
Maximum for the period	78.40%	78.20%
Minimum for the period	63.70%	65.50%
Statutory Minimum requirement	20.00%	20.00%

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.

AT 31 December 2010 FINANCIAL LIABILITIES	Upto 3 months Sh'000	3-6 months Sh'000	6-12 months Sh'000	1-3 years Sh'000	3-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
Deposits due to banking institutions	15,856	-	-	-	-	-	15,856
Customer deposits	2,255,582	196,680	178,961	235,577	160,760	-	3,027,560
Financial liability - derivatives	14	-	-	-	-	-	14
Contractual maturity dates	2,271,452	196,680	178,961	235,577	160,760	-	3,043,430
FINANCIAL ASSETS							
Cash and bank balances with The Central Bank of Kenya	252,163	60,138	25,290	33,306	8,081	-	378,979
Deposits and balances due from banking institutions	266,005	-	-	-	-	-	266,005
Loans and advances to customers	126,369	270,702	357,478	745,829	327,924	232,142	2,060,444
Equity investments at fair value	57,477	-	-	-	-	-	57,477
Government securities	112,041	267,225	-	56,021	79,235	1,320,853	1,835,375
Expected maturity dates	814,055	598,065	382,768	835,156	415,240	1,552,995	4,598,280
Net liquidity gap	1,457,397	(401,385)	(203,807)	(599,579)	(254,480)	(1,552,995)	(1,554,850)
At 31 December 2009							
Total financial liabilities	1,398,404	120,657	109,787	144,519	98,621	-	1,871,988
Total financial assets	1,551,738	596,815	199,900	375,833	212,497	292,234	3,187,900
Net liquidity gap	(158,334)	(476,158)	(90,113)	(231,314)	(113,876)	(292,234)	(1,315,912)

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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'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 7% 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.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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 2010 FINANCIAL ASSETS	Upto 3 months Sh'000	3-6 months Sh'000	6-12 Months Sh'000	1-3 years Sh'000	Over 3 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
Cash and bank balances with The Central Bank of Kenya	-	-	-	-	-	378,979	378,979
Deposits and balances due from banking institutions	25,639	-	-	-	-	240,366	266,005
Loans and advances to customers	1,116,174	130,617	209,147	272,936	208,706	-	1,937,580
Equity Investments at fair value	57,477	-	-	-	-	-	57,477
Government securities	111,707	266,427	-	55,853	1,401,388	-	1,835,375
Total financial assets	1,310,997	397,044	209,147	328,789	1,610,094	619,345	4,475,416
FINANCIAL LIABILITIES							
Deposits due to banking institutions	15,856	-	-	-	-	-	15,856
Customer deposits	2,238,492	196,680	178,961	235,577	160,760	-	3,010,470
Financial liabilities – derivatives	14	-	-	-	-	-	14
Total financial liabilities	2,254,362	196,680	178,961	235,577	160,760	-	3,026,340
On balance sheet interest sensitivity gap	(943,365)	200,364	30,186	93,212	1,449,334	619,345	1,449,075
At 31 December 2009							
Total assets	1,085,347	576,934	182,278	352,288	488,198	395,487	3,080,532
Total liabilities	1,396,513	120,657	109,787	144,519	98,621	-	1,870,097
On balance sheet interest sensitivity gap	(311,166)	456,277	72,491	207,769	389,577	395,487	1,210,435

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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 recognised 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 2010.

31 December 2010	Amount Sh'000	Scenario 1 8% increase in net interest margin Sh'000	Scenario 2 8% decrease in net interest margin Sh'000
Profit before tax	158,582	172,758	147,164
Adjusted core capital	1,536,150	1,550,325	1,524,731
Adjusted total capital	1,558,933	1,573,108	1,547,514
Risk weighted assets (RWA)	1,899,564	1,899,564	1,899,564
Adjusted core capital to RWA	80.87%	81.61%	80.27%
Adjusted total capital to RWA	82.07%	82.81%	81.47%

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

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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 31December. Included in the table are the bank's financial instruments at carrying amounts categorised by currency.

AT 31 December 2010 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	337,411	23,897	4,032	7,916	5,723	378,979
Deposits and balances due from banking institutions	101,735	151,876	6,552	3,871	1,971	266,005
Loans and advances	1,862,257	30,805	1,030	-	43,488	1,937,580
Equity investments at fair value	57,477	-	-	-	-	57,477
Government securities	1,835,375	-	-	-	-	1,835,375
Total financial assets	4,194,255	206,578	11,614	11,787	51,182	4,475,416
FINANCIAL LIABILITIES						
Deposits due to banking institutions	-	15,856	-	-	-	15,856
Customer deposits	2,841,045	151,380	8,502	9,543	-	3,010,470
Financial liability - derivatives	-	14	-	-	-	14
Total financial liabilities	2,841,045	167,250	8,502	9,543	-	3,026,340
Net on balance sheet position	1,353,210	39,328	3,112	2,244	51,182	1,449,076
Off balance sheet position	(215,286)	(27,772)	(187)	(5,163)	(5,504)	(253,926)
At 31 December 2009						
Total financial assets	2,845,030	183,864	13,623	26,577	11,438	3,080,532
Total financial liabilities	1,726,528	125,506	8,785	6,004	3,263	1,870,086
Net on balance sheet position	1,118,502	58,358	4,838	20,573	8,175	1,210,446
Off balance sheet position	(152,585)	(31,989)	(180)	(40,237)	(71,847)	(296,838)

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (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 Trans-national bank's business is transacted is Kenya shilling.

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

31 December 2010	Amount Sh'000	Scenario 1 10% appreciation of Kenya shilling Sh'000	Scenario 2 10% depreciation of Kenya shilling Sh'000
Profit before tax	158,582	162,350	154,814
Adjusted core capital	1,536,150	1,539,918	1,532,382
Adjusted total capital	1,558,933	1,562,701	1,555,165
Risk weighted assets(RWA)	1,899,564	1,899,564	1,899,564
Adjusted core capital to RWA	80.87%	81,07%	80.67%
Adjusted total capital to RWA	82.07%	82.27%	81.87%

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.

d) Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

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

(ii) Fair value hierachy

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

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi stock exchange.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

d) Fair value of financial assets and liabilities (Continued)

(ii) Fair value hierachy (Continued)

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

31 December 2010	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Fair value through profit or loss					
- Equity investments	16	57,477	-	-	57,477
- Goverment securities	17	120,260	-	-	120,260
Financial asset		177,737	-	-	177,737
Fair value					
- Financial derivative	27	14	-	-	14
Financial liability		14	-	-	14

31 December 2009	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Fair value through profit or loss					
- Corporate bonds	16	47,514	-	-	47,514
- Goverment securities	17	221,493	-	-	221,493
Financial asset		269,007	-	-	269,007
Fair value					
- Financial derivative	27	148	-	-	148
Financial liability		148	-	-	148

6 CAPITAL MANAGEMENT

Regulatory capital

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

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

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

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings 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.

6 CAPITAL MANAGEMENT (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 500m. This minimum level will be increased gradually to Sh 1billion by end of 2012.
- 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.
- Total 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:

	2010 Sh'000	2009 Sh'000
Tier 1 capital		
Total share capital	614,432	583,722
Retained earnings	860,868	720,899
Less intangible assets	(10,712)	(16,029)
Total	1,464,588	1,288,592
Tier 2 capital		
Statutory reserve	22,782	20,819
Total regulatory capital	1,487,370	1,309,411
Risk-weighted assets		
Retail bank, corporate bank and central treasury	1,899,564	1,847,897
Total risk weighted assets	1,899,564	1,847,897
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	78.0%	70.8%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	79.2%	69.7%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

7 INTEREST INCOME

	2010 Sh'000	2009 Sh'000
Interest on loans and advances	306,760	306,509
Interest on Government securities held to maturity	121,089	92,711
Interest on deposits and balances due from banking institutions	2,398	9,239
Interest on Government securities held at fair value	11,731	5,519
Interest on corporate bonds held at fair value	2,922	716
	444,900	414,694

8 INTEREST EXPENSE

	2010 Sh'000	2009 Sh'000
Interest on customer deposits	96,711	79,877
Interest on deposits due to banking institutions	448	437
	97,159	80,314

9 FEES AND COMMISSION INCOME

	2010 Sh'000	2009 Sh'000
Commissions	93,609	87,777
Ledger related fees	16,423	13,732
	110,032	101,509

10 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.

11 OTHER INCOME/(LOSS)

	2010 Sh'000	2009 Sh'000
Gain on sale of treasury bonds	103,765	-
Gain on disposal of equipment	3,036	-
Miscellaneous income	4,228	101
	111,029	101

12 OTHER OPERATING EXPENSES

	2010 Sh'000	2009 Sh'000
Staff costs (note 13)	225,427	202,370
Other expenses	47,769	26,699
Rent and parking	28,056	24,020
Depreciation (note 24)	26,296	21,130
Computer expenses	12,007	15,402
Security services	19,531	14,243
Amortisation (note 25)	9,418	9,460
Telephone, data and postage	15,917	8,425
Insurance	9,589	8,083
Advertising and marketing	5,281	5,119
Stationery and supplies	5,785	4,923
Directors' emoluments - fees	4,114	3,771
- other emoluments	9,316	7,384
Loss on disposal of equipment	-	3,544
Auditors' remuneration	3,600	3,420
Contribution to Deposit Protection Fund	2,951	2,680
Fair value loss on corporate bonds (note 18)	-	602
Fair value loss on government securities (note 19)	4,750	1,350
Fair value loss on quoted investments (note 22)	8,267	-
	438,074	362,625

NOTES TO THE FINANCIAL STATEMENTS (Continued)

13 STAFF COSTS

	2010 Sh'000	2009 Sh'000
Salaries and wages	186,507	173,113
Pension costs - defined contribution plan	11,941	9,957
Other staff costs	13,393	7,052
Provision for leave pay	8,612	6,960
Medical expenses	4,605	4,982
National Social Security Fund contributions	369	306
	225,427	202,370

14 TAXATION

(a) TAX CREDIT

	2010 Sh'000	2009 Sh'000
Current taxation based on the taxable profit for the year at 30%	-	-
Deferred taxation charge/(credit) (note 26) - current year	15,572	(2,194)
- prior year under/(over)provision	668	(385)
Tax charge/(credit)	16,240	(2,579)

(b) RECONCILIATION OF TAX CHARGE/(CREDIT) TO THE EXPECTED TAX BASED ON ACCOUNTING PROFIT

	2010 Sh'000	2009 Sh'000
Accounting profit before taxation	158,582	87,577
Tax at the applicable rate of 30%	47,575	26,273
Tax effect of expenses not deductible for tax purposes	7,347	4,012
Tax effect of revenues that are not taxable	-	(215)
Prior years deferred tax credit not recognised	(39,350)	(32,264)
Prior year deferred tax under/(over)provision	668	(385)
Tax credit	16,240	(2,579)

(c) TAX RECOVERABLE MOVEMENT

	2010 Sh'000	2009 Sh'000
At the beginning of the year	-	116
Prior year overprovision	-	(116)
At the end of the year	-	-

15 EARNINGS PER SHARE

	2010	2009
Profit attributable to owners of the company – Sh'000	142,342	90,156
Weighted average number of shares during the year	116,996,849	116,744,400
Basic earnings per share – Sh	1.22	0.77

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 2010 and 31 December 2009.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2010 Sh'000	2009 Sh'000
Cash on hand	174,818	110,986
Balances with Central Bank of Kenya:		
- Cash ratio requirement	124,209	81,909
- Cash held under lien	8,883	8,349
- Other (available for use by the bank)	71,069	43,520
	378,979	244,764

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 2010, the cash ratio requirement was 4.5% (2009 -5%) of all customer deposits. These funds are not available to finance the bank's day to day operations.

17 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2010 Sh'000	2009 Sh'000
Held to maturity: At amortised cost		
Deposits due within 90 days	1,785	1,874
Current accounts due on demand	264,220	171,619
	266,005	173,493

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2010 was 1.16% (2009 - 4.6%) and nil for current account balances.

18 CORPORATE BONDS HELD AT FAIR VALUE THROUGH PROFIT AND LOSS

	2010 Sh'000	2009 Sh'000
Face value	-	47,400
Interest receivable	-	716
Fair value loss	-	(602)
	-	47,514

The effective interest rate on corporate bonds held at fair value was nil (2009 – 12.5%).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19 GOVERNMENT SECURITIES

	2010 Sh'000	2009 Sh'000
Treasury bills - at amortised cost		
Face value - maturing within 90 days	-	45,000
- maturing between 90 days to 1year	200,000	-
Less: unearned discount	(2,166)	(2,719)
	197,834	42,281
Treasury bonds - at fair value through profit and loss		
Cost	125,011	222,843
Fair value loss	(4,750)	(1,350)
	120,261	221,493
Treasury bonds – Held to maturity		
- maturing within 90 days	61,344	-
- maturing between 90 days to 1 year	-	463,097
- maturing between 1 - 2 years	-	114,415
- maturing after 2 years but within 5 years	77,496	75,781
- maturing after 5 years	1,378,440	9,030
	1,517,280	662,323
	1,835,375	926,097

The weighted average effective interest rates as at year end were:	% age	% age
Treasury bills held to maturity	4	8.25
Treasury bonds held to maturity	9.04	11.25

20 LOANS AND ADVANCES TO CUSTOMERS

	2010 Sh'000	2009 Sh'000
(a)Loans and advances to customers	1,868,506	1,740,180
Staff loans	99,520	89,856
Finance lease receivables (note 20b)	219,261	146,127
	2,187,287	1,976,163
Less: unearned finance charges (note 20b)	(48,845)	(36,795)
	2,138,442	1,939,368
Impairment loss on loans and advances (note 21)	(200,862)	(250,704)
	1,937,580	1,688,664

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

(b) Finance lease receivables

	Minimum lease payments 2010 Sh'000	Minimum lease payments 2009 Sh'000	Present value of minimum lease payments 2010 Sh'000	Present value of minimum lease payments 2009 Sh'000
Amounts receivable under finance leases:				
Within one year	107,735	68,756	83,735	51,443
In the second to fifth year inclusive	111,526	77,371	86,681	57,889
	219,261	146,127	170,416	109,332
Less: unearned finance income	(48,845)	(36,795)	-	-
Present value of minimum lease payments receivable	170,416	109,332	170,416	109,332

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 (2009: 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 2010 was 14.5 % (2009 – 17.5%).

The weighted average effective interest rate on finance lease receivables at 31 December 2010 was 14% (2009 - 15%).

NON PERFORMING LOANS AND ADVANCES TO CUSTOMERS

Included in net advances of Sh 1,937,580,000 (2009 - Sh 1,688,664,000) are loans and advances amounting to Sh 269,979,860 (2009 - Sh 253,591,324), net of specific provisions, which have been classified as non-performing.

	2010 Sh'000	2009 Sh'000
MATURITY OF GROSS LOANS AND ADVANCES (NET OF FINANCE CHARGES)		
Maturing:		
Up to one month	438,464	390,339
1-3 months	259,053	231,758
3-6 months	116,162	132,090
6-12 months	504,807	451,619
1-3 years	393,531	352,067
3-5 years	223,427	199,886
Over 5 years	202,998	181,609
Loans and advances to customers (gross)	2,138,442	1,939,368

20 LOANS AND ADVANCES TO CUSTOMERS (Continued)

GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)	2010 Sh'000	2009 sh'000
Overdrafts	938,909	869,705
Term loans	1,199,533	1,069,663
Loans and advances to customers (gross)	2,138,442	1,939,368

The related party transactions and balances are covered under note 33 and concentration of advances to customers is covered under note (2) (1) on financial risk management objectives and policies.

21 IMPAIRMENT LOSS ON LOANS AND ADVANCES

	2010 Sh'000	2009 Sh'000
At 1 January	250,704	240,762
Provisions in the year	61,545	33,600
Written off in the year	(111,387)	(23,658)
At 31 December	200,862	250,704

22 QUOTED EQUITY INVESTMENTS

At fair value through profit and loss:

	2010 Sh'000	2009 Sh'000
At 1 January	-	-
Additions	117,339	-
Disposals	(51,595)	-
Fair value loss	(8,267)	-
At 31 December	57,477	-

23 OTHER ASSETS

	2010 Sh'000	2009 Sh'000
Clearing and transit items	30,184	26,775
Deposits and prepayments	6,499	5,893
Other assets	99,485	86,573
	136,168	119,241

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24 EQUIPMENT

	Leasehold improvements Sh'000	Furniture, fittings and equipment, computer, hardware Sh'000	Motor Vehicles Sh'000	Total Sh'000
COST				
At 1 January 2009	57,426	114,599	7,623	179,648
Additions	24,620	29,287	-	53,907
Disposals	(32)	(5,712)	(775)	(6,519)
At 31 December 2009	82,014	138,174	6,848	227,036
At 1 January 2010	82,014	138,174	6,848	227,036
Additions	12,531	20,690	1,900	35,121
Write offs	(1,529)	(17)	-	(1,546)
Disposals	-	(5,426)	(6,068)	(11,494)
At 31 December 2010	93,016	153,421	2,680	249,117
DEPRECIATION				
At 1 January 2009	36,129	85,542	6,879	128,550
Charge for the year	8,218	12,645	267	21,130
Eliminated on disposals	(32)	(1,872)	(484)	(2,388)
At 31 December 2009	44,315	96,315	6,662	147,292
At 1 January 2010	44,315	96,315	6,662	147,292
Charge for the year	10,496	15,245	555	26,296
Eliminated on write off	-	(5)	-	(5)
Eliminated on disposals	-	(5,281)	(6,068)	(11,349)
At 31 December 2010	54,811	106,274	1,149	162,234
NET BOOK VALUE				
At 31 December 2010	38,205	47,147	1,531	86,883
At 31 December 2009	37,699	41,859	186	79,744

Equipment with a cost of Sh 103,731,103 (2009 - Sh 103,633,000) were fully depreciated as at 31 December 2010. The nominal annual depreciation charge on these assets would have been Sh 24,664,000 (2009 - Sh 23,234,000).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25 INTANGIBLE ASSETS (Computer Software)

	2010 Sh'000	2009 Sh'000
COST		
At 1 January	45,717	32,960
Additions	4,101	12,757
At 31 December	49,818	45,717
AMORTISATION		
At 1 January	29,688	20,228
Charge for the year	9,418	9,460
At 31 December	39,106	29,688
NET BOOK VALUE		
At 31 December	10,712	16,029

Intangible assets with a cost of Sh 32,334,000 (2009 - Sh 7,526,000) were fully amortised as at 31 December 2010. The nominal annual amortisation charge on these assets would have been Sh 9,701,000 (2009 - Sh 2,258,000).

26 DEFERRED TAX ASSET

	2010 Sh'000	2009 Sh'000
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	6,681	3,573
Provisions		
-Leave pay	1,905	1,603
-Legal fee	4,845	4,578
-Gratuity and union salary increment	1,378	4,642
-Unrealised Exchange gains	(11,303)	-
-Bonus and other staff costs	13,108	11,617
Tax losses	36,059	82,251
	52,673	108,264
Tax asset not recognised	-	(39,352)
	52,673	68,912
Movement in deferred tax asset is as follows:		
At 1 January	68,913	66,334
Income statement credit:		
- Current year	(15,572)	2,194
- Prior year (over)/under provision	(668)	385
Income statement (charge)/credit - Note 14 (a)	(16,240)	2,579
At 31 December	52,673	68,913

As at 31 December 2010, the bank had taxable losses amounting to Sh 120,198,237 (2009 – Sh 271,513,917) available for future relief.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

27 CUSTOMER DEPOSITS

	2010 Sh'000	2009 Sh'000
Current and demand accounts	1,122,995	598,847
Savings accounts	508,233	347,723
Fixed and call deposit accounts	1,379,242	898,368
	3,010,470	1,844,938

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	2010 Sh'000	2009 Sh'000
Repayable:		
Within one month	1,833,790	1,260,211
Within 1 - 3 months	337,749	206,741
Within 3 - 6 months	507,094	27,977
Within 6-12 months	326,568	253,953
Within 1-3 years	5,269	96,056
	3,010,470	1,844,938

The weighted effective interest rate on interest bearing customer deposits at 31 December 2010 was 4.10% (2009 – 4.35%).

The related party transactions and balances are covered under note 35 and concentration of customer deposits is covered under note (2) (1) on financial risk management objectives and policies.

28 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

	2010 Sh'000	2009 Sh'000
Demand accounts	15,856	25,000

The effective interest rate on deposits and balances due to banking institutions was 3.0% (2009 – 4.0%).

29 OTHER LIABILITIES

	2010 Sh'000	2009 Sh'000
Bankers cheques outstanding	36,704	34,814
Deposits for letters of credit and letters of guarantee	9,704	11,883
Provision for leave pay	6,350	4,936
Other liabilities and accruals	142,026	117,299
	194,784	168,932

30 FINANCIAL LIABILITY DERIVATIVE

	Contract exchange rate		Foreign currency		Contract value		Fair value liability	
At 31 December 2010 Maturing within 3 months	2010	2009	2010 $'000	2009 $'000	2010 Sh'000	2009 Sh'000	2010 Sh'000	2009 Sh'000
Sell Dollars	80.75	-	200	-	16,150	-	(14)	-
							(14)	-
As at December 2009 Maturing within 3 months	2009	2008	2009 'e000	2008 Sh'000	2009 Sh'000	2008 Sh'000	2009 Sh'000	2008 sh'000
Sell Euros	107.58	107.52	100	100	10,758	10,752	(148)	(212)
							(148)	(212)

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 Sh 80.68 for Dollars in 2010 and Sh.107.58 (2008-Sh 107.52) for Euros in 2009.

31 SHARE CAPITAL

	Number Of shares Shs '000	Share Capital Shs '000	Share Premium Shs'000	Total Shs'000
As at 1 January 2009	29,186,100	583,722	-	583,722
Issued in the year	-	-	-	-
As at 31 December 2009	29,186,100	583,722	-	583,722
As at 1 January 2010	29,186,100	583,722	-	583,722
Share split	87,558,300	-	-	-
Issued in the year	6,142,908	30,710	56,812	87,522
Issue expenses	-	-	(14,576)	(14,576)
As at 31 December 2010	122,886,308	614,432	42,236	656,668

During the year, the bank increased the authorised share capital from Shs 625,000,000 to Shs 1,150,000,000 by creation of 105,000,000 ordinary shares of Shs 5 each to rank pari passu in all respects with the existing ordinary shares of the bank.

During the year, the bank split its existing shares in the ratio 1:4 resulting in 31,250,000 shares of per value Shs. 20 being split to 125,000,000 ordinary share of par value of Shs 5 each.

The issued shares as at 31 December 2010 are 122,886,308 (2009: 29,186,100) and are fully paid. In

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32 STATUTORY RESERVE

	2010 Sh'000	2009 Sh'000
At 1 January	20,819	19,534
Transfer from retained earnings	1,963	1,285
At 31 December	22,782	20,819

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.

33 NOTES TO THE STATEMENT OF CASH FLOWS

	2010 Sh'000	2009 Sh'000
(a)Reconciliation of profit before taxation to cash generated from/(used in) operating activities		
Profit before taxation	158,582	87,577
Depreciation	26,296	21,130
Amortisation of intangible assets	9,418	9,460
(Loss)/profit on disposal of equipment	(3,036)	3,544
Profit before working capital changes	191,260	121,711
Balances with Central Bank of Kenya		
- (Increase)/decrease in cash ratio requirement	(42,300)	7,300
- (Increase)/decrease in cash held under lien-clearing	(534)	(8,349)
Increase in governments securities maturing after 90 days	(792,073)	(5,462)
Decrease/(increase) in government securities held at fair value	101,232	(221,493)
Decrease/(increase) in corporate bonds held at fair value	47,514	(47,514)
(Increase)/decrease in loans and advances to customers	(248,916)	(247,962)
(Increase)/decrease in other assets	(16,927)	(33,910)
(Increase)/decrease in quoted investments	(57,477)	-
Increase/(decrease) in customer deposits	1,165,532	(45,685)
Increase/(decrease) in other liabilities	25,852	(102,993)
(Decrease) in financial liability – derivatives	(134)	(64)
Cash generated from/(used in) operating activities	373,029	(584,189)
(b) Analysis of the balances of cash and cash equivalents		
Cash on hand	174,818	110,986
Balances with Central Bank of Kenya - other	71,069	43,520
Placements and balances due from banking institutions	266,005	173,493
Government securities maturing within 90 days	259,178	42,281
Deposits due to banking institutions	(15,856)	(25,000)
	755,214	345,280

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

(b) Analysis of the balances of cash and cash equivalents

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.

34 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2010 Sh'000	2009 Sh'000
(a) Contingent liabilities		
Letters of credit	28,451	23,266
Letters of guarantee and performance bonds	209,325	262,666
Forward exchange contracts	16,150	10,906
	253,926	296,838

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

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

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

The related party transactions and balances are covered under note 33 and concentration of contingent liabilities is covered under note (2) (1) on financial risk management objectives and policies.

	2010 Sh'000	2009 Sh'000
(b) Capital commitments		
Authorised but not contracted for	30,000	20,572
Authorised and contracted for	5,850	10,032
	35,850	30,604

(c) Operating lease arrangements

The bank as a lessee
At the reporting date, the bank had outstanding commitments under operating leases which fall due as follows:

	2010 Sh'000	2009 Sh'000
Within one year	28,043	18,822
In the second to fifth year inclusive	77,812	41,877
After five years	-	5,032
	105,855	65,731

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

35 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 2010 include advances and loans to companies associated to directors. Contingent liabilities at 31 December 2010 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 12,324,937 (2009 - Sh 8,780,488).

(b) Loans and advances:

	Directors' associated companies 2010 Sh'000	Employees 2009 Sh'000	2010 Sh'000	2009 Sh'000
At 1 January	484,840	407,575	89,856	66,478
Net movement during the year	98,306	77,265	9,650	23,378
At 31 December	583,146	484,840	99,506	89,856

These loans and advances are performing and are adequately secured, except for loans amounting to Sh 6,686,000 which are classified as non-performing.

Interest earned on advances to directors and associated companies amounted to Sh 27,021,528 (2009 - Sh 22,466,270) and Sh 8,391,727 (2009 - Sh 6,840,269) on staff advances.

(c) Deposits:

	Directors' associated companies 2010 Sh'000	Employees 2009 Sh'000	2010 Sh'000	2009 Sh'000
At 1 January	446,359	249,957	19,600	13,944
Net movement during the year	815,886	196,402	13,161	5,656
At 31 December	1,262,245	446,359	32,761	19,600

Interest paid on deposits from directors and associated companies amounted to Sh 38,996,850 (2009 - 25,907,841) and Sh 2,045,293 (2009 - Sh 1,372,000) on staff deposits.

	2010 Sh'000	2009 Sh'000
(d) Guarantees and letters of credit to companies associated to directors	65,591	52,536

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35 RELATED PARTY TRANSACTIONS (Continued)

(d) Key management compensation

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

	2010 Sh'000	2009 Sh'000
Salaries and other benefits	79,122	61,808
Directors' remuneration:		
Fees for services as directors	4,114	3,771
Allowances	9,319	7,384
	13,433	11,155

36 ASSET PLEDGED AS SECURITY

As at 31 December 2010, assets pledged as security were balances with Central Bank of Kenya under lien for the Domestic Foreign Currency clearing amounting to USD 110,000 (2009: USD 110,000).

37 POST BALANCE SHEET EVENTS

No significant post balance sheet events have come to the attention of the Directors.

38 COUNTRY OF INCORPORATION

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

39 CURRENCY

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

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON WEDNESDAY 20TH APRIL 2011, AT 10.00 AM, AT THE INTERCONTINENTAL HOTEL, CITY HALL WAY, NAIROBI, TO CONDUCT THE FOLLOWING BUSINESS:-

1. To read the notice convening the meeting, which is issued in accordance with article 38 of the articles of the Company.

2. Ordinary Business

2.1 To confirm minutes of the last Annual General Meeting held on 21st April 2010.

2.2 Matters arising there from

2.3 To receive the Directors' Report and Auditor's Report and approve the audited Accounts for the year ended 31st December 2010.

2.4 To elect Directors. In accordance with section 24(1) of the Company's Articles of Association, the current Directors hereby retire, and being eligible, offer themselves for re-election.

2.5 To approve the Directors' remuneration for the year ended 31st December 2010.

2.6 To note that the Auditors, Deloitte & Touche, have expressed their willingness to continue in office under section 159(2) of the Company's Act (Cap 486), and to authorize the Directors to fix their remuneration.

2.7 Any other transaction of the ordinary business of the Company.

By Order of the Board

Billow A. Kerow
COMPANY SECRETARY

DATED 29TH March 2011

Note:

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his stead. If the member is a corporation, the proxy shall be appointed in accordance with the Articles of the Company, or be represented in accordance with the Articles. Such a proxy need not be a member.

   A proxy form is attached herewith, and if used, shall be deposited with the Secretary of the Company no later than 48 hours before the time appointed for holding the meeting.

2. Any member may, by written notice duly signed by him or her and delivered to the Secretary not less than 14 days or not more than 35 days before the date appointed for the Annual General Meeting, nominate a person for appointment as a director, and must include a statement signed by the person nominated indicating that person's willingness to be appointed a director.

PROXY FORM

TRANS NATIONAL BANK LIMITED

I/WE……

OF……

being a member of the above named Company, hereby appoint

……

Of……

……

Whom failing

……

Of

……

or failing him, the Chairman of the meeting, as our/my proxy; to vote for us/me and on our/my behalf at the Annual General Meeting of the Company to be held in Nairobi on Wednesday 20th April 2011 at 10.00 am and at any adjournment thereof.

As witness under our/my hand this ………………………………….. day of………………………………….2011

Signed

……

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the company.

2. In case of a member being a corporation, this form must be completed under its common seal, or under the hand of an officer or attorney duly authorised in writing.

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TNB
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Your Style of Banking