TRANS NATIONAL BANK LIMITED

Innovative & Responsive

Annual Report and Financial Statements

2011

Our Branch Network

Nairobi Branches:

City Hall Way Branch
Trans National Plaza
P.O. Box 34353-00100
Tel. 254-2-2224235/6, 252188-91
Fax 020 2249228
Nairobi

Kirinyaga Road Branch
TNB Building
P.O. Box 69963-00400
Tel. 254-2-240009, 252188-91, 224235/6
Nairobi

Sheikh Karume Branch
Pramukh Plaza
P.O. Box 60377 00100
Tel. 254-020-2216060, 2216061
Fax 020-2216060
Nairobi

JKIA Branch
Arrival Terminal
P.O. Box 75840-00200
Tel. 254-2-824502, 822684
Nairobi

Mombasa Branches

Mombasa Branch
Maganjo Building
Nyerere Avenue
P.O. Box 85384
Tel. 254-041-2315404, 2315366, 2315394
Fax 2316156
Mombasa

MIA Branch
Moi International Airport
P.O. Box 85384 - 80100
Tel. 254-041- 3432877
Mombasa

Up country Branches

Nakuru Branch
Seguton Building
Kenyatta Avenue
P.O. Box 148
Tel. 254-051-2211915-7
Fax 051 - 2214121
Nakuru

Kabarak Branch
Kabarak University
Students Centre
P.O. Box 148 - 20100
Tel. 254-051-343162/3
Nakuru

Eldoret Branch
Hughes Building, Uganda Road
P.O. Box 4308 - 30100
Tel. 254-053-2031846, 2031284, 2031756
Fax 053 - 2033089
Eldoret

Olenguruone Branch
Bidii House
P.O Box 44-20152
Tel. 254-051 641008, 051 641009
Olenguruone

Kericho Branch
USMA Plaza, Ground Floor, Temple Road
P.O Box 2157
Tel. 254-052 20950/1
Fax 052 20950
Kericho

Nandi Hills Branch
Trans National House, Market Street
P.O Box 384 30301
Tel. 254-020 2488655, 053-643262
Fax 053-643364
Nandi Hills

EPZ Branch
EPZ Athi River
P.O Box 75840 00200
Tel. 254-045 - 6626367, 045 - 6626361
Fax 045 - 6626367
Nairobi

Kabarnet Branch
Matetai Building, Philemon Road
P.O Box 385 30400,
Tel. 254-053-22028/29
Fax 053-22181
Kabarnet

Kitale Branch
Executive Building, Kenyatta Street
P.O. Box 3184-30200
Tel: 254-054-30516
Kitale

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CORPORATE INFORMATION

DIRECTORS	M. Cherwon	Chairman
	P. Kemei	
	J. K. Kenduiwo	
	A. DeSimone*	
	H. Tororey	
	H. Cheserem (Mrs)	
	* American	
CHIEF EXECUTIVE OFFICER	Sammy Lang'at	
AUDIT COMMITTEE	H. Tororey	Chairman
	P. Kemei	
	J. K. Kenduiwo	
	I. Muiruri	
CREDIT COMMITTEE	P. Kemei	Chairman
	H. Tororey	
	Sammy Lang'at	
	S. Tanui	
STRATEGY COMMITTEE	J. K. Kenduiwo	Chairman
	P. Kemei	
	Sammy Lang'at	
	L. Molonko	
RISK COMMITTEE	A. DeSimone	Chairman
	P. Kemei	
	F. Sheikh	
HUMAN RESOURCES COMMITTEE	J. K. Kenduiwo	Chairman
	H. Tororey	
	Sammy Lang'at	
	D. Namwendwa	
ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)	Sammy Lang'at	Chairman
	F. Sheikh	
	S. Tanui	
	L. Molonko	
	W. Ruto	
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 Advocates 4th floor Yaya Centre P.O Box 43356 – 00100 NAIROBI
	Cheptumo & Company Advocates Trans National Plaza City Hall Way P.O Box 35556 – 00200 NAIROBI
	Ochieng Onyango Kibet & Ohaga Advocates ACK Garden House 5th Floor Block C P.O Box 43170 – 00100 NAIROBI
	Mukite Musangi & Co Advocates 2nd Floor Seguton Building Kenyatta Avenue P.O Box 149 – 20100 NAKURU

It gives me great pleasure to present, on behalf of the board of Directors, the Trans National Bank Annual Report and financial statements for the year ended 31st December, 2011. I am pleased to report that the Bank delivered a year of good profit, indeed a record growth both in income and balance sheet.

OPERATING ENVIRONMENT

In many ways, 2011 has been a challenging year given the global and domestic shocks that hit the economy occasioned by the characteristic supply shocks, like fuel prices and constrained food supply which affected negatively both domestic prices and output. This resulted into a deteriorating macroeconomic environment that saw the Kenya Shilling weakening significantly against major currencies, sharp rise in inflation rates and the near doubling of lending rates.

During 2011, the local currency depreciated by 5.4% against the USD. However, in October the Shilling reached a historical low of Kshs.107/USD having depreciated by over 30% since beginning of the year. The Shilling, however, gained ground to close at 85.1/USD by 31st December.

Persistent rising inflation levels was another economic challenge in 2011. This resulted from drought conditions experienced early in the year that led to food shortages, rising crude oil prices and significant currency weakness that made imported goods relatively more expensive. The overall inflation rose from 4.5% to 18.9% as at 31st December, 2011.

Policy response to the unstable macroeconomic environment has its pitfalls. During the year, Central Bank increased the Central Bank Rate to 18.0% and the cash ratio to 5.25% resulting to increased cost of lending.
In view of the macroeconomic instability, economic growth slowed down in 2011. The quarterly GDP growth for Q3 2011 was 3.6% compared to 5.7% in 2010 for a similar period as the key sectors of the economy registered low growth. Agricultural sector growth declined from 8.6% to 4.8% while that of manufacturing sector declined from 5.7% to1.1% over the same periods. Accordingly, 2011 GDP is expected to register modest growth of 4.8% compared to 4.6% in 2010.

DEVELOPMENT IN THE BANKING SECTOR

During the end of third quarter of 2011, and despite the shocks hitting the economy and policy responses putting banks in a tight rope, the industry performance in the first three quarters surpassed expectations and registered substantial increase in assets driven by growth in deposits, injection of capital and retention of profits.

Deposits base grew by an impressive 21% as at the end of October 2011 compared to October 2010. Deposit mobilization efforts were boosted by the new delivery channels introduced in the year, including adoption of Agency banking that has taken root with more than 8,700 agents across the country.

The asset base hit the Kshs. 2 trillion mark in September 2011. This is mainly attributed to the banks' expansion of their lending portfolio through introduction of loan products that suit the needs of different market niches. The gross loans stood at Kshs. 1.2 trillion as at October 2011, a 35% increase from October 2010.

BANK'S PERFORMANCE

Despite the difficult operating environment, I am delighted to report that the Bank recorded substantial growth during the year 2011.

The total asset base of the Bank grew to Kshs 7.3 billion from Kshs 4.8 billion during the year which represents a growth of 52%.

Customers' deposits grew from Kshs 3.0billion to Kshs 5.2billion (by 73%), while the credit portfolio increased by 74% to Kshs 3.3billion compared to Kshs 1.9billion as at December 2010.

The pre-tax profit for this year recorded 86% rise over the previous year from Kshs 159m in 2010 to Kshs 295 million.

STRATEGIC PLAN

The Bank is currently on the 2nd year of its 5 year 2010-2014 Strategic Plan. The Plan is ambitious, aiming to secure the Bank a position as one of the key players by 2014. With the strong foundation laid over the past years, through development of robust structures and understanding of our customers' needs, we are prepared to sustain the growth momentum we have exhibited in our performance.

DIVIDEND

Reflecting our strong confidence in the future growth of the Bank, the Board recommends a dividend payout of Kshs.1 per share.

FUTURE OUTLOOK

The economic outlook for the next 12 months is positive given the short rains observed in the 4th quarter of 2011 have improved the food situation in the country easing out inflation. This is expected to ease pressure on interest rates and allow Central Bank of Kenya consider gradually unwinding the tight monetary stance.

However, the key possible source of risk to the economy may be the forthcoming general elections. Lack of clarity on the timing and the push to make some key amendments to the constitution pose a risk to investment. The political uncertainty coupled with the likelihood of a slow pace of private sector credit extension could dampen economic activity. Against this, the Kenyan economy is projected to grow by an average of 5.3% in 2012 and we expect the Bank to enhance its growth trajectory.

As a board, we are committed to working with the management and staff in all efforts to serve our customers' needs, grow the Bank and our shareholder value. Our faith in management and staff, which has in the last year delivered such outstanding results, continues to underpin our commitment to support them fully in their innovation and development of the Bank.

We will, however, remain resolute in our focus on targeted growth, prudent risk management and sound corporate governance.

APPRECIATION

The Bank has achieved significant progress during the year and I am confident that this will continue during the coming year and beyond. I wish to sincerely thank all our customers, suppliers, shareholders, directors, staff members, Central Bank of Kenya, our external auditors and correspondent banks for their steadfast support, invaluable guidance and confidence in us, which made it possible to have a successful year in 2011.

Thank You.

Michael K. Cherwon
Chairman Board of Directors

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.

The Board is responsible for formulating the bank's 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 six 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 beforehand. 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 34 (e) to the financial statements for the year ended 31 December 2011. The bank advances loans to directors and their associated companies as disclosed in Note 34 (b).

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 34 to the financial statements for the year ended 31 December 2011.

2. BOARD COMMITTEES

The Board has in place five main committees, namely the Risk Management, Credit, Human Resources, Audit, and Strategy. 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 is chaired by a non executive director and is responsible for overseeing the implementation of the bank's risk management framework and policies to ensure that all current and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risk to keep abreast with new developments and their potential impact on the bank's business. The committee receives periodic reports from the risk and compliance function relating to the bank's strategic risk, credit risk, market risk (interest rate risk, price risk and foreign exchange risk), operational risk, regulatory risk, reputational risk and liquidity risk.

B) Credit Committee

The committee is chaired by a non-executive director and meets at least once quarterly to review the overall lending policy. It also meets at least once in a month to consider and approve loan applications beyond the credit management approval limits, to review and consider all issues that may materially impact on the present and future quality of the institution's risk management and ensuring that the credit policy and risk lending limits of the institution are reviewed where appropriate. Periodically, it reviews the credit policy of the bank.

C) Human Resources (HR) 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 comprises two non executive directors, the CEO and the Head of Finance. The Strategy Committee's roles and responsibilities include an analysis of the strategy of the bank and more specifically;

- Oversight of the implementation of the strategy approved by the Board and review of progress on a regular basis.
- Design of action plans per business unit to ensure that objectives are met while factoring in organisational, human, technical and financial aspects.
- Consider analysis of any investment/capital expenditure programme prior to its submission to the Board.
- Design and submission to the Board of main strategic orientations of the bank.

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.

6. SHAREHOLDERS

The list of the shareholders and their individual holdings as the year ended 31 December, 2011 was as follows:

	No. of Shares	%
Archers and Wilcock Limited	29,180,676	23.75%
Sovereign Trust Limited	28,298,776	23.03%
Duggan Limited	19,089,820	15.42%
Pyramid Trustee Limited	18,578,900	15.12%
November Nominees Limited	8,941,568	7.28%
Simbi Investors	5,048,820	4.11%
Losupuk Limited	3,428,432	2.79%
Kenyerere Limited	2,636,760	2.15%
Lohan Investments Limited	1,781,800	1.45%
Mshale Investments Limited	722,304	0.59%
Others	5,178,453	4.31%
TOTAL	**122,886,309**	**100%**

There were no changes in shareholding during the year.

7. BOARD PERFORMANCE EVALUATION

The Chairman conducts evaluations of the performance of the Board, individual directors and Board Committee's annually. In addition the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board. The results of this evaluation are submitted to Central Bank of Kenya as required under the Prudential Guidelines for institutions licensed under the Banking Act.

8. BOARD AND COMMITTEE MEETINGS ATTENDANCE

a) Board Meetings

During the year under review, the Board held eight meetings excluding the working committee meetings. The Board members attendance for 2011 is as follows;

Name	Number of attendance	Percentage attendance
Mr. Michael Cherwon	8 out of 8	100%
Mr. Peter Kemei	8 out of 8	100%
Mr. Andre DeSimone	7 out of 8	88%
Mr. John Kenduiwo	8 out of 8	100%
Mr. Hilary Tororey	8 out of 8	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. Isaac Muiruri	3 out of 4	75%

ii) Risk and compliance Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Andre DeSimone	4 out of 4	100%
Mr. Peter Kemei	4 out of 4	100%
Mr. Farid Sheikh	4 out of 4	100%

iii) Credit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Peter Kemei	8 out of 8	100%
Mr. Hilary Tororey	8 out of 8	100%
Mr. Sammy Lang'at	8 out of 8	100%
Mr. Samuel Tanui	8 out of 8	100%

9. 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) in its financial reporting.

....

Director   Director

22nd March, 2012

REPORT OF THE DIRECTORS

The directors have the pleasure of submitting their annual report together with the audited financial statements for the year ended 31 December 2011, 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	294,928
Taxation charge	(92,348)
Profit for the year	202,580

DIVIDENDS

The directors recommend the payment of Sh 122,886,309 as dividend for the year ended 31st December, 2011 (2010: NIL).

DIRECTORS

The current directors are listed on page 2.
H.Cheserem (Mrs) was appointed a director on 22nd December 2011.

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 the approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

SECRETARY

Nairobi
22nd March, 2012

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

22nd March, 2012

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 14 to 67 which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and 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
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on 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 of financial statements that give a true and fair in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 2011 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

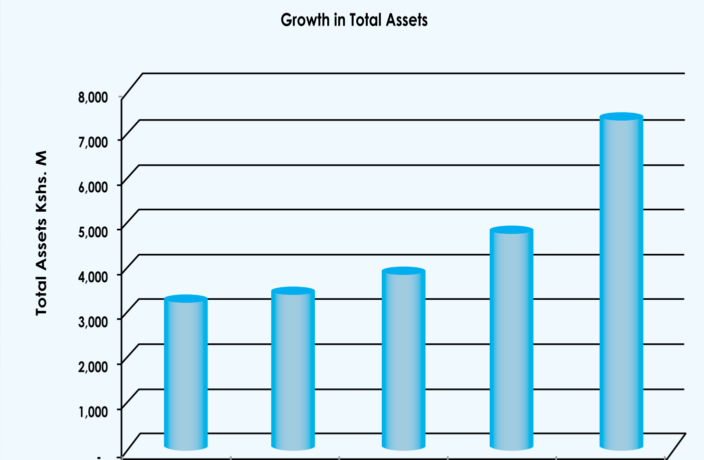
i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

ii) in our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books; and

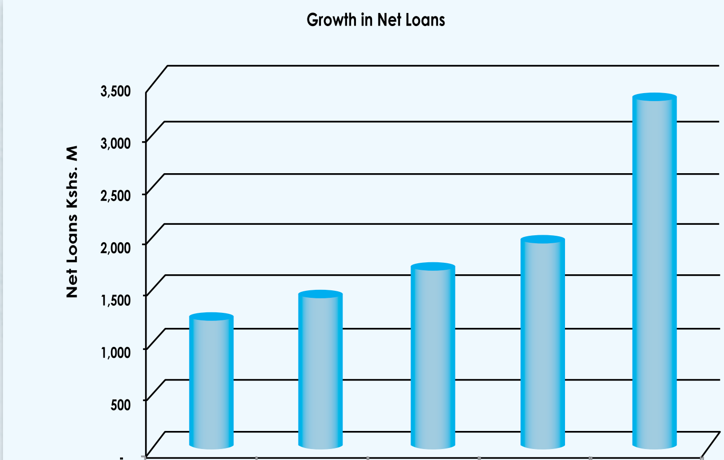
iii) the bank's statement of financial position (balance sheet) and statement of comprehensive income (profit and loss account) are in agreement with the books of account.

Certified Public Accountants (Kenya)

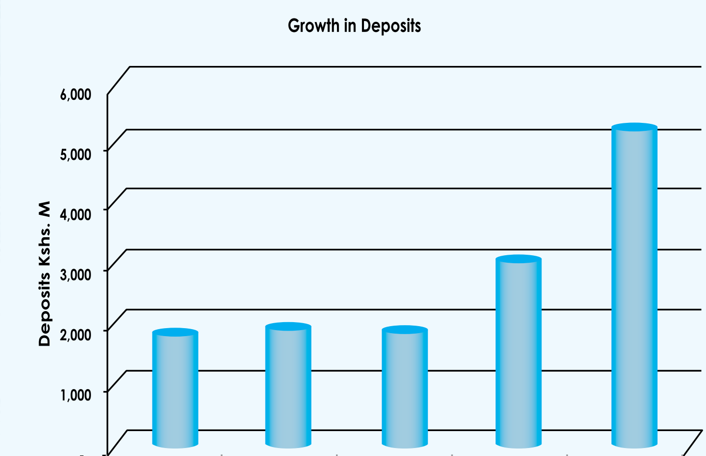
22nd March, 2012
Nairobi



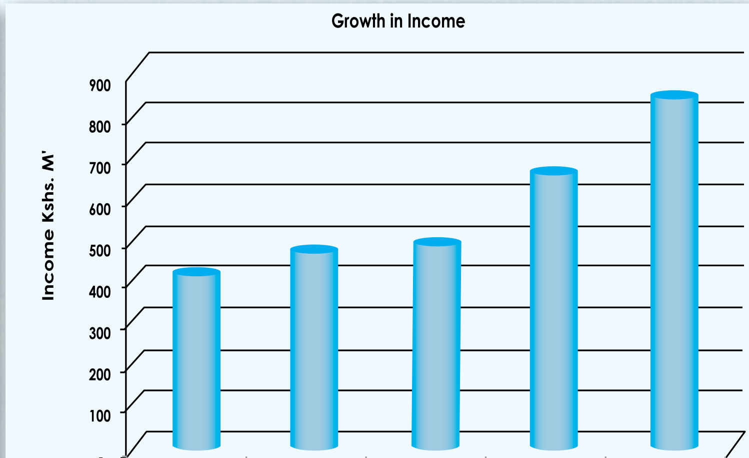
	2007	2008	2009	2010	2011
Total Assets (Kshs. M')	3,221	3,414	3,364	4,762	7,287



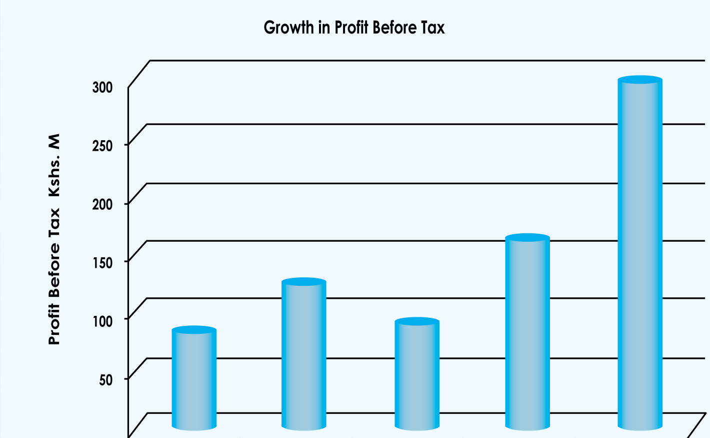
	2007	2008	2009	2010	2011
Net Loans (Kshs M')	1,208	1,441	1,689	1,938	3,308



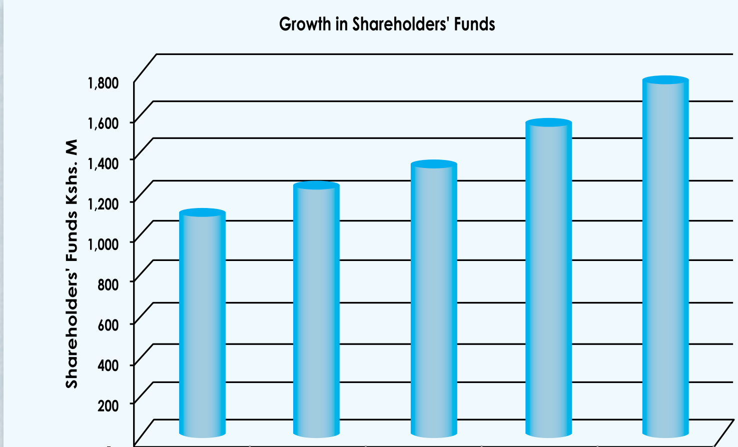
	2007	2008	2009	2010	2011
Deposits (Kshs M')	1,800	1,891	1,845	3,010	5,242



	2007	2008	2009	2010	2011
Income (Kshs. M')	413	469	484	658	841



	2007	2008	2009	2010	2011
P B Tax (Kshs M')	81	121	88	159	295



	2007	2008	2009	2010	2011
Shareholder's Funds	1,103	1,235	1,325	1,541	1,743

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	2011 Sh'000	2010 Sh'000
INTEREST INCOME	7	700,693	444,900
INTEREST EXPENSE	8	(167,815)	(97,159)
NET INTEREST INCOME		**532,878**	**347,741**
Fees and commission income	9	148,993	110,032
Gains on foreign exchange dealings	10	84,818	37,679
Other income	11	74,765	162,749
OPERATING INCOME		841,454	658,201
Other operating expenses	12	(482,302)	(438,074)
Impairment losses on loans and advances	20	(64,224)	(61,545)
PROFIT BEFORE TAXATION		294,928	158,582
TAXATION CHARGE	14	(92,348)	(16,240)
PROFIT FOR THE YEAR		202,580	142,342
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME		202,580	142,342
		=======	=======
		Sh	Sh
EARNINGS PER SHARE			
- Basic and diluted	15	1.65	1.22
		========	=======

	Note	2011 Sh'000	2010 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	16	590,497	378,979
Deposits and balances due from Banking institutions	17	777,408	266,005
Government securities	18	2,318,417	1,835,375
Loans and advances to customers	19	3,308,068	1,937,580
Quoted shares	21	-	57,477
Other assets	22	187,057	136,168
Equipment	23	72,583	86,883
Intangible assets	24	5,788	10,712
Deferred tax asset	25	27,088	52,673
TOTAL ASSETS		**7,286,906**	**4,761,852**
LIABILITIES			
Customer deposits	26	5,241,741	3,010,470
Deposits due to banking institutions	27	-	15,856
Other liabilities	28	235,069	194,784
Financial liability - derivatives	29	25	14
Tax payable	14(c)	66,763	-
TOTAL LIABILITIES		**5,543,598**	**3,221,124**
SHAREHOLDERS' FUNDS			
Share capital	30	614,432	614,432
Share premium	30	42,236	42,236
Retained earnings		1,060,253	861,278
Statutory reserve	31	26,387	22,782
TOTAL SHAREHOLDERS' FUNDS		**1,743,308**	**1,540,728**
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**7,286,906**	**4,761,852**

The financial statements on pages 14 to 67 were approved and authorised for issue by the board of directors on 22nd March, 2012 and were signed on its behalf by:

Director

Chief Executive Officer

Director

Director

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2011

	Note	Share Capital	Share premium	Revenue reserve	Statutory reserve	Total
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2010		583,722	-	720,899	20,819	1,325,440
Transfer to statutory reserve	31	-	-	(1,963)	1,963	-
Issued in the year	30	30,710	42,236	-	-	72,946
Total comprehensive income for the year		-	-	142,342	-	142,342
At 31 December 2010		614,432	42,236	861,278	22,782	1,540,728
At 1 January 2011		614,432	42,236	861,278	22,782	1,540,728
Transfer to statutory reserve	31	-	-	(3,605)	3,605	-
Total comprehensive income for the year		-	-	202,580	-	202,580
At 31 December 2011		614,432	42,236	1,060,253	26,387	1,743,308

	Note	2011 Sh'000	2010 Sh'000
Cash flows from operating activities			
Net cash generated from operating activities	32(a)	383,374	311,685
Cash flows from investing activities			
Purchase of equipment	23	(15,715)	(35,121)
Purchase of intangible assets	24	(330)	(4,101)
Proceeds from disposal of equipment		900	3,181
Proceeds on disposal of quoted shares		50,103	-
Net cash generated from /(used in) investing activities		34,958	(36,041)
Cash flow from financing activities			
Proceeds from issue of share capital	30	-	72,946
Net cash generated from financing activities		-	72,946
Increase in cash and cash equivalents		**418,332**	**348,590**
Cash and cash equivalents at 1 January		**693,870**	**345,280**
Cash and cash equivalents at 31 December	32(b)	**1,112,202**	**693,870**

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 - 00200
Nairobi

2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULT OR FINANCIAL POSITION

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

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

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

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 disclose an analysis of other comprehensive income item by item in the statement of changes in equity or in the notes to the financial statements. In the current year, the bank did not have items to be disclosed in other comprehensive income. For future periods, the bank will disclose such an analysis in the notes to the financial statements, with a single line presentation of other comprehensive income in the statement of changes in equity.
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The bank is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous standard.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 addresses when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendment had no effect on the bank's financial statements.
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured

at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss.

The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the bank has not entered into any transactions of this nature.

Improvements to IFRSs issued in 2010

The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the bank's financial statements

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

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation.	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement (2010)	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	1 January 2015
IAS 12, Income Taxes – limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012

IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRS 10, Consolidated Financial Statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
Amendment to interpretations	
IFRIC 14, IAS 19 – The Limit on a Defined Benefit Asset,	1 January 2013
Minimum Funding Requirements and their interaction; prepayments of a minimum funding requirement	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

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

- IFRS 9, Financial Instruments

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

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

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

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

The directors anticipate that IFRS 9 will be adopted in the bank's financial statements for the annual period beginning 1 January 2013 and that the application may have significant impact on amounts reported in respect of the bank's financial assets and financial liabilities. However it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

- IFRS 13, Fair Value Measurements

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

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

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

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

The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that IFRS 13 will be adopted in the bank's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

- Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)

  These amend IAS 12, Income Taxes, to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 Investment Property will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

  The above amendments are generally effective for annual periods beginning on or after 1 January 2012. The directors anticipate no material impact to the bank's financial statements currently. However, the bank would have to apply this standard to any such arrangements entered into in the future.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

  These amend IAS 1 Presentation of Financial Statements to revise the way other comprehensive income is presented.

  The amendments:

  - Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft
  - Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified
  - Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).
    The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The bank will apply the amendments prospectively. The directors anticipate no material impact to the bank's financial statements.

  IAS 19 (as revised in 2011)- Employee Benefits

  The amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. The amendments require all actuarial gains and losses to be recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the statement of financial position to reflect the full value of the plan deficit or surplus

  The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that this standard will not have a material impact on the bank's financial statements.

IFRIC 20, Stripping Costs in the Production Phase of A Surface Mine
This interpretation, clarifies the requirements for accounting for stripping costs associated with waste removal in surface mining, including when production stripping costs should be recognised as an asset, how the asset is initially recognised, and subsequent measurement.The Interpretation requires stripping activity costs which provide improved access to ore are recognised as a non-current 'stripping activity asset' when certain criteria are met. The stripping activity asset is depreciated or amortised on a systematic basis, over the expected useful life of the identified component of the ore body that becomes more accessible as a result of the stripping activity, using the units of production method unless another method is more appropriate.

This interpretation is effective for annual periods beginning on or after 1 January 2012 . The directors anticipate that this interpretation will have no impact on the bank's financial statements as the bank does not engage in mining activity.

(iii) Early adoption of standards

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

3. SUMMARY OF SIGNIFICANT 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 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.

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.

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 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 initially 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.

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 cash flows 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 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
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 bank'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 earned 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.

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 lessor

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.

The bank as lessee

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

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, while deferred tax liabilities are recognised for all taxable temporally differences.

Retirement benefits

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

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

The bank's contributions in respect of retirement benefit costs are charged to the 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.
- 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

	2011 Sh'000	%	2010 Sh'000	%
Agriculture	445,796	13	72,334	3
Manufacturing	57,150	2	40,261	2
Wholesale and retail	372,617	11	260,483	12
Transport and communication	460,601	14	345,910	16
Real estate	370,643	11	287,370	13
Social community and personal services	690,279	21	481,535	23
Business services	245,443	7	137,026	6
Other	665,540	20	513,523	24
	3,308,068	100	2,138,442	100

(b) Customer deposits

	2011 Sh'000	%	2010 Sh'000	%
Building societies	35	-	20	-
Co-operative societies	259,511	5	5,448	-
Insurance companies	13,142	-	7,970	-
Private enterprises	3,023,766	58	1,739,310	58
Non profit institutions and individuals	1,945,287	37	1,257,722	42
	5,241,741	100	3,010,470	100

(c) Items not reported in statement of financial position (letters of credit and guarantees)

	2011 Sh'000	%	2010 Sh'000	%
Agriculture	21,490	4	7,642	3
Manufacturing	16,118	3	7,949	3
Wholesale and retail	5,373	1	3,445	1
Transport and communication	150,433	28	62,689	25
Real estate	10,745	2	6,877	3
Social community and personal services	21,490	4	10,062	4
Business services	139,688	26	63,502	25
Other	171,923	32	91,760	36
	537,260	100	253,926	100

(ii) Maximum exposure to credit risk before collateral held

	2011 Sh'000	%	2010 Sh'000	%
Credit exposures:				
Items reported in statement of financial position:				
Deposits and balances due from banking institutions	777,408	10	266,005	6
Loans and advances to customers	3,308,068	49	1,937,580	45
Government securities held to maturity	2,318,417	34	1,715,115	39
Government securities at fair value	-	-	120,260	3
Equity investments at fair value	-	-	57,477	1
	6,403,893	93	4,096,437	94
Items not reported in statement of financial position:				
Letters of credit	261,426	4	28,451	1
Letters of guarantees and performance bonds	267,329	3	209,325	5
Foreign exchange forward contracts	8,505	-	16,150	-
	537,260	7	253,926	6
	6,941,153	100	4,350,363	100

(iii) Classification of loans and advances

	2011 Sh'000	2010 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	175,914	194,124
Grade 3 & 4: Impaired (doubtful)	204,802	342,500
Gross amount	380,716	536,624
Suspended interest	(54,656)	(66,355)
Allowance for impairment	(254,274)	(200,417)
Carrying amount	71,786	269,852
Past due but not impaired		
Watch (30-90 days)	665,984	205,799
Neither past due nor impaired		
Grade 1 : Normal	2,570,298	1,461,929
Total carrying amount	3,308,068	1,937,580
	========	========

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.

(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.

	2011	2010
	Sh'000	Sh'000
Renegotiated loans 1-90 days	10,728	13,468
	=======	======

(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.

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

	Loans and advances to customers	
	Gross Sh'000	**Net Sh'000**
31 December 2011		
Grade 5: Individually impaired	175,914	31,159
Grade 3&4: Individually impaired	204,802	120,042
Total	380,716	151,201
31 December 2010		
Grade 5: Individually impaired	194,124	-
Grade 3&4: Individually impaired	342,500	271,994
Total	536,624	271,994

(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 2011.

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

	2011 Sh'000	2010 Sh'000
Against individually impaired		
Property	389,314	487,520
Equities	276	1,859
Other	106,300	158,480
	495,890	647,859
Against past due but not impaired		
Property	522,218	226,575
Equities	-	-
Other	140,202	25,742
	662,420	252,317
Total	1,158,310	900,176

(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.

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

	2011	2010
	67.10%	75.30%
Average for the period	75.97%	71.78%
Maximum for the period	82.00%	78.40%
Minimum for the period	67.10%	63.70%
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 reporting 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 2011 **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
Customer deposits	3,318,367	1,465,429	228,919	218,308	42,677	-	5,273,700
Financial guarantee contracts	537,254	-	-	-	-	-	537,254
	3,855,621	1,465,429	228,919	218,308	42,677	-	5,810,954
FINANCIAL ASSETS							
Cash and bank balances with The Central Bank of Kenya	322,219	203,917	31,855	30,377	2,129	-	590,497
Deposits and balances due from Banking institutions	777,408	-	-	-	-	-	777,408
Loans and advances to customers	1,225,012	169,394	338,728	701,668	310,599	563,714	3,309,114
Government securities	51,289	-	-	275,593	159,406	1,832,129	2,318,417
	2,375,928	373,311	370,583	1,007,638	472,134	2,395,843	6,995,436
Net liquidity gap	1,479,693	1,092,118	(114,664)	(789,330)	(429,457)	(2,072,731)	(1,184,482)
At 31 December 2010							
Total financial liabilities	2,271,452	196,680	178,961	235,577	160,760	-	3,043,430
Total financial assets	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)

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 reporting 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.

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 reporting date whereby financial assets and liabilities at carrying amounts are categorized by the earlier of contractual re-pricing or maturity dates.

AT 31 December 2011 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	-	-	-	-	-	590,497	590,497
Deposits and balances due from Banking institutions	575,000	-	-	-	-	202,408	777,408
Loans and advances to customers	1,694,546	188,938	377,809	782,624	346,435	240,602	3,630,954
Government securities	51,289	-	-	275,593	159,406	1,832,129	2,318,417
Total financial assets	2,320,835	188,938	377,809	1,058,217	505,841	2,865,636	7,317,276
FINANCIAL LIABILITIES							
Customer deposits	3,298,258	1,456,548	227,532	216,985	42,418	-	5,241,741
Sensitivity gap	(977,423)	(1,267,610)	150,277	841,232	463,423	2,865,636	2,075,535
At 31 December 2010							
Total assets	1,310,997	397,044	209,147	328,789	1,610,094	619,345	4,475,416
Total liabilities	2,254,362	196,680	178,961	235,577	160,760	-	3,026,340
Interest sensitivity gap	(943,365)	200,364	30,186	93,212	1,449,334	619,345	1,449,075

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 2011.

31 December 2011	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	294,928	318,522	271,334
Adjusted core capital	1,805,883	1,828,576	1,782,557
Adjusted total capital	1,828,665	1,851,358	1,851,991
Risk weighted assets (RWA)	3,739,956	3,739,956	3,739,956
Adjusted core capital to RWA	48.29%	48.89%	47.66%
Adjusted total capital to RWA	48.90%	49.50%	49.52%

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.

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 2011 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	506,290	69,637	1,378	9,199	3,993	590,497
Deposits and balances due from Banking institutions	576,788	191,607	3,874	2,757	2,382	777,408
Loans and advances	3,293,339	337,603	4	8	-	3,630,942
Equity investments at fair value	-	-	-	-	-	-
Government securities	2,318,417	-	-	-	-	2,318,417
Total financial assets	6,694,834	598,847	5,256	11,964	6,375	7,317,264
FINANCIAL LIABILITIES						
Customer deposits	4,638,405	588,745	8,540	6,051	-	5,241,741
Net on balance sheet position	2,088,390	10,102	(3,284)	5,913	6,375	2,075,523
Off balance sheet position	(239,822)	(180,867)	(195)	(32,587)	(83,789)	(537,260)
At 31 December 2010						
Total financial assets	4,194,255	206,578	11,614	11,787	51,182	4,475,416
Total financial liabilities	2,841,045	167,250	8,502	9,543	-	3,026,340
Net items reported in statement of financial position	1,353,210	39,328	3,112	2,244	51,182	1,449,076
Items not reported in statement of financial position	(215,286)	(27,772)	(187)	(5,163)	(5,504)	(253,926)

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 2011	Amount Sh'000	Scenario 1 10% appreciation of Kenya shilling Sh'000	Scenario 2 10% depreciation of Kenya shilling Sh'000
Profit before tax	294,928	324,421	266,435
Adjusted core capital	1,805,883	1,814,365	1,797,401
Adjusted total capital	1,828,665	1,837,147	1,820,183
Risk weighted assets(RWA)	3,739,956	3,739,956	3,739,956
Adjusted core capital to RWA	48.29%	48.51%	48.06%
Adjusted total capital to RWA	48.90%	49.12%	48.67%

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 hierarchy

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.

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

31 December 2011	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Fair value					
- Financial derivative	29	25	-	-	25
Financial liability		**25**	-	-	**25**
31 December 2010					
Fair value through profit or loss					
- Quoted equity investments	21	57,477	-	-	57,477
- Government securities	18	120,261	-	-	120,261
Financial asset		**177,738**	-	-	**177,738**
Fair value					
- Financial derivative	29	14	-	-	14
Financial liability		**14**	-	-	**14**

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.

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:

	2011 Sh'000	2010 Sh'000
Tier 1 capital		
Total share capital	614,432	614,432
Share Premium	42,236	42,236
Retained earnings	1,060,253	861,278
Less: intangible assets	(5,788)	(10,712)
Total	1,711,133	1,507,234
Tier 2 capital		
Statutory reserve	26,387	22,782
Total regulatory capital	1,737,520	1,530,016
Risk-weighted assets		
Retail bank, corporate bank and central treasury	3,739,956	1,899,564
Total risk weighted assets	3,739,956	1,899,564
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	46.5%	78.0%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	46.3%	79.2%

7 INTEREST INCOME

	2011 Sh'000	2010 Sh'000
Loans and advances	450,509	306,760
Government securities held to maturity	215,639	121,089
Deposits and balances due from banking institutions	30,946	2,398
Government securities (treasury bills) held at fair value	3,599	11,731
Corporate bonds held at fair value	-	2,922
	700,693	444,900

8 INTEREST EXPENSE

	2011 Sh'000	2010 Sh'000
Interest on customer deposits	164,330	96,711
Interest on deposits due to banking institutions	3,485	448
	167,815	97,159

9 FEES AND COMMISSION INCOME

	2011	2010
	Sh'000	Sh'000
Commissions	131,118	93,609
Ledger related fees	17,875	16,423
	148,993	110,032
	======	======

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 monetary assets and liabilities.

11 OTHER INCOME

Gain on sale of treasury bonds	52,869	103,765
Gain on disposal of equipment	124	3,036
Miscellaneous income	5,542	4,228
Bad debts recovered	16,230	51,720
	74,765	162,749
	======	======

12 OTHER OPERATING EXPENSES

Staff costs	(note 13)	278,760	242,194
Other operating expenses		40,473	45,532
Rent and parking		33,399	28,056
Depreciation	(note 23)	29,240	26,296
Computer expenses		15,196	12,007
Security services		19,782	19,531
Amortisation	(note 24)	5,254	9,418
Telephone, data and postage		18,078	15,917
Insurance		10,330	9,589
Advertising and marketing		11,752	5,281
Stationery and supplies		5,814	5,785
Auditors' remuneration		2,700	2,500
Contribution to Deposit Protection Fund		4,150	2,951
Fair value loss on government securities	(note 18)	-	4,750
Fair value loss on quoted investments	(note 21)	7,374	8,267
		482,302	438,074
		=======	=======

13 STAFF COSTS

	2011 Sh'000	2010 Sh'000
Salaries and wages	207,837	186,507
Pension costs - defined contribution plan	12,809	11,941
Provision for leave pay	12,257	8,612
Medical expenses	5,647	4,605
National Social Security Fund contributions	374	369
Other staff costs	19,704	13,393
Directors' emoluments - fees	4,971	4,114
- other emoluments	11,534	9,319
Refreshments & entertainment	3,626	3,334
	278,760	242,194

14 TAXATION

(a) Tax charge

Current taxation based on the taxable profit for the year at 30%

	2011	2010
Current tax charge	66,763	-
Deferred taxation charge (note 25) - current year	28,825	15,572
- prior year over provision	(3,240)	668
Tax charge	92,348	16,240

(b) Reconciliation of tax charge to the expected tax based on accounting profit

	2011	2010
Accounting profit before taxation	294,928	158,582
Tax at the applicable rate of 30%	88,478	47,575
Tax effect of expenses not deductible for tax purposes	7,110	7,347
Prior years deferred tax credit not recognised	-	(39,350)
Prior year deferred tax under/ (over)provision	(3,240)	668
Tax charge for the year	92,348	16,240

(c) Tax movement

	2011	2010
At the beginning of the year	-	-
Taxation charge	66,763	-
Tax paid during the year	-	-
	66,763	-

15 EARNINGS PER SHARE

	2011 Sh'000	2010 Sh'000
Profit attributable to owners of the company – Sh'000	202,580	142,342
	======	=======
Weighted average number of shares during the year	122,886,309	116,996,849
	=========	=========
Basic earnings per share – Sh	1.65	1.22
	========	=========

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 2011 and 31 December 2010.

16 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2011 Sh'000	2010 Sh'000
Cash on hand	209,366	174,818
Balances with Central Bank of Kenya:		
- Cash ratio requirement	246,376	124,209
- Cash held under lien	9,328	8,883
- Other (available for use by the bank)	125,427	71,069
	590,497	378,979
	=======	=======

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 2011, the cash ratio requirement was 5.25 % (2010 - 4.5%) of all customer deposits. These funds are not available to finance the bank's day to day operations. The cash held under lien is denominated in USD 110,000 (2010-110,000). These amounts are held by the Central Bank of Kenya for domestic Foreign Currency clearing and thus is not available for the bank's use (note 35).

17 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2011 Sh'000	2010 Sh'000
Held to maturity: At amortised cost		
Deposits due within 90 days	1,785	1,785
Current accounts due on demand	775,623	264,220
	777,408	266,005
	======	=======

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2011 was 1.16% (2010 - 4.6%) and nil for current account balances.

18 GOVERNMENT SECURITIES

	2011 Sh'000	2010 Sh'000
Treasury bills - at amortised cost		
Face value- maturing between 90 days to 1year	-	200,000
Less: unearned discount	-	(2,166)
	-	197,834
Treasury bonds - at fair value through profit and loss		
Cost	-	125,011
Fair value loss	-	(4,750)
	-	120,261
Treasury bonds – Held to maturity		
- maturing within 90 days	51,289	61,344
- maturing between 90 days to 1 year	-	-
- maturing between 1 - 2 years	275,593	-
- maturing after 2 years but within 5 years	159,406	77,496
- maturing after 5 years	1,832,129	1,378,440
	2,318,417	1,517,280
	2,318,417	1,835,375

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

	% age	% age
Treasury bills held to maturity	-	4
Treasury bonds held to maturity	8.50	9.04

19 LOANS AND ADVANCES TO CUSTOMERS

			2011 Sh'000	2010 Sh'000
(a)	Loans and advances to customers		3,089,194	1,868,506
	Staff loans		150,912	99,520
	Finance lease receivables	(note 19(b))	390,848	219,261
			3,630,954	2,187,287
	Less: unearned finance charges	(note 19(b))	(68,613)	(48,845)
			3,562,341	2,138,442
	Impairment loss on loans and advances	(note 20)	(254,274)	(200,862)
			3,308,068	1,937,580

(b) Finance lease receivables

	Minimum lease payments 2011 Sh'000	2010 Sh'000	Present value of minimum lease payments 2011 Sh'000	2010 Sh'000
Amounts receivable under finance leases:				
Within one year	196,962	107,735	150,920	83,735
In the second to fifth year inclusive	193,886	111,526	171,315	86,681
	390,848	219,261	322,235	170,416
Less: unearned finance income	(68,613)	(48,845)	-	-
Present value of minimum lease payments receivable	322,235	170,416	322,235	170,416

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 (2010: 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 2011 was 16.5% (2010 – 14.5 %).

The weighted average effective interest rate on finance lease receivables at 31 December 2011 was 15.5% (2010 - 14%).

(c) Non performing loans and advances to customers

Included in net advances of Sh 3,308,068,000 (2010 - Sh 1,937,580,000) are loans and advances amounting to Sh 96,005,347 (2010 - Sh 269,979,860), net of specific provisions, which have been classified as non-performing.

(d) MATURITY OF GROSS LOANS AND ADVANCES (NET OF FINANCE CHARGES)

	2011	2010
	Sh'000	Sh'000
Maturing:		
Up to one month	756,780	438,464
1-3 months	447,121	259,053
3-6 months	200,493	116,162
6-12 months	742,718	504,807
1-3 years	679,227	393,531
3-5 years	385,631	223,427
Over 5 years	350,371	202,998
Loans and advances to customers (gross)	3,562,341	2,138,442
	=======	=======

GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)

	2011	2010
	Sh'000	Sh'000
Overdrafts	910,389	938,909
Term loans	2,780,521	1,199,533
Loans and advances to customers (gross)	3,690,910	2,138,442
	=======	=======

The related party transactions and balances are covered under note 34 and concentration of advances to customers is covered under note (2) (1) on financial risk management objectives and policies.

20 IMPAIRMENT LOSS ON LOANS AND ADVANCES

	2011 Sh'000	2010 Sh'000
At 1 January	200,862	250,704
Provisions in the year	79,704	61,545
Recoveries in the year	(15,480)	-
	64,224	61,545

	2011 Sh'000	2010 Sh'000
Written off in the year	(10,812)	(111,387)
At 31 December	254,274	200,862
	=======	=======

21 QUOTED EQUITY INVESTMENTS

At fair value through profit and loss:

At 1 January	57,477	-
Additions	-	117,339
Disposals	(50,103)	(51,595)
Fair value loss	(7,374)	(8,267)
At 31 December	-	57,477
	=======	=======

22 OTHER ASSETS

Clearing and transit items	54,457	30,184
Deposits and prepayments	5,980	6,499
Other assets	126,620	99,485
	187,057	136,168
	======	======

23 EQUIPMENT

	Leasehold improvements Sh'000	Furniture, fittings and equipment, computer, hardware Sh'000	Motor vehicles Sh'000	Total Sh'000
COST				
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
At 1 January 2011	93,016	153,421	2,680	249,117
Additions	188	8,494	7,033	15,715
Disposals	-	(920)	-	(920)
At 31 December 2011	93,204	160,995	9,713	263,912
DEPRECIATION				
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
At 1 January 2011	54,811	106,274	1,149	162,234
Charge for the year	11,639	15,514	2,087	29,240
Eliminated on disposals	-	(144)	-	(144)
At 31 December 2011	66,450	121,644	3,236	191,329
NET BOOK VALUE				
At 31 December 2011	26,754	39,351	6,477	72,583
	======	======	=====	======
At 31 December 2010	38,205	47,147	1,531	86,883
	======	======	=====	======

Equipment with a cost of Sh 127,570,085 (2010 - Sh 103,731,103) were fully depreciated as at 31 December 2011. The nominal annual depreciation charge on these assets would have been Sh 28,379,621 (2010 - Sh 24,664,000).

24 INTANGIBLE ASSETS (COMPUTER SOFTWARE)

	2011 Sh'000	2010 Sh'000
COST		
At 1 January	49,818	45,717
Additions	330	4,101
At 31 December	50,148	49,818
AMORTISATION		
At 1 January	39,106	29,688
Charge for the year	5,254	9,418
At 31 December	44,360	39,106
NET BOOK VALUE		
At 31 December	5,788	10,712

Intangible assets with a cost of Sh 32,487,888 (2010 - Sh 32,334,000) were fully amortised as at 31 December 2011. The nominal annual amortisation charge on these assets would have been Sh 9,746,366 (2010 - Sh 9,701,000).

25 DEFERRED TAX ASSET

	2011 Sh'000	2010 Sh'000
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	9,047	6,681
Provisions		
-Leave pay	2,725	1,905
-Legal fee	3,163	4,845
-Gratuity and union salary increment	8,737	1,378
-Unrealised exchange gains	-	(11,303)
-Other staff costs	3,416	13,108
Tax losses	-	36,059
	27,088	52,673

Movement in deferred tax asset is as follows:

At 1 January		52,673	68,913
Profit and loss charge:			
- Current year		(28,825)	(15,572)
- Prior year (over)/under provision		3,240	(668)
Profit and loss charge -	Note 14 (a)	(25,585)	(16,240)
At 31 December		27,088	52,673

As at 31 December 2010, the bank had taxable losses amounting to Sh 94,429,005 available for future relief. The tax losses were utilised during the year ended 31 December 2011.

26 CUSTOMER DEPOSITS

	2011 Sh'000	2010 Sh'000
Current and demand accounts	1,370,676	1,122,995
Savings accounts	646,311	508,233
Fixed and call deposit accounts	3,224,755	1,379,242
	5,241,741	3,010,470

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

Repayable:		
Within one month	3,150,372	1,833,790
Within 1 - 3 months	1,720,779	337,749
Within 3 - 6 months	132,315	507,094
Within 6-12 months	235,941	326,568
Within 1-3 years	2,334	5,269
	5,241,741	3,010,470

The weighted effective interest rate on interest bearing customer deposits at 31 December 2011 was 9 % (2010 – 4.10%).

The related party transactions and balances are covered under note 34 and concentration of customer deposits is covered under note 2 on financial risk management objectives and policies.

27 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

	2011 Sh'000	2010 Sh'000
Demand accounts	-	15,856
	======	======

The effective interest rate on deposits and balances due to banking institutions for the year ended 31 December 2011 was nil (2010: 3.0% p.a).

28 OTHER LIABILITIES

	2011 Sh'000	2010 Sh'000
Bankers cheques outstanding	54,269	36,704
Deposits for letters of credit and letters of guarantee	11,469	9,704
Provision for leave pay	9,083	6,350
Other liabilities and accruals	160,248	142,026
	235,069	194,784
	======	======

29 FINANCIAL LIABILITY DERIVATIVE

At 31 December 2011

Maturing within 3 months	Contract exchange rate 2010 $'000	Foreign currency 2010 Sh'000	Contract value 2010 Sh'000	Fair value liability 2010
Sell Dollars	85.05	100	8,505	(25)
				=====

At 31 December 2010

Maturing within 3 months	Contract exchange rate 2010 $'000	Foreign currency 2010 Sh'000	Contract value 2010 Sh'000	Fair value liability 2010
Sell Dollars	80.75	200	16,150	(14)
				=====

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 84.80 for Dollars in 2011 (2010- Sh 80.68 for Dollars).

30 SHARE CAPITAL

	Number of shares	Share capital Shs '000	Share premium Shs'000	Total Shs'000
As at 1 January 2010	29,186,100	583,722	-	583,722
Share split	87,557,300	-	-	-
Issued in the year	6,142,909	30,710	42,236	72,946
As at 31 December 2010, 1 January 2011 & 31 December 2011	122,886,309	614,432	42,236	656,668

In 2010, 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.

In 2010, 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 2011 are 122,886,309 (2010: 122,886,309) and are fully paid. In 2010, additional shares of 6,142,922 were issued at a premium of Shs 9.25.

31 STATUTORY RESERVE

	2011 Sh'000	2010 Sh'000
At 1 January	22,872	20,819
Transfer from retained earnings	3,605	1,963
At 31 December	26,387	22,782

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 receivables computed per IAS 39. The statutory reserve is not distributable.

32 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from/(used in) operating activities

	2011 Sh'000	2010 Sh'000
Profit before taxation	294,928	158,582
Depreciation (note 23)	29,240	26,296
Amortisation of intangible assets	5,254	9,418
Profit on disposal of equipment	(124)	(3,036)
Loss on disposal of shares (note 21)	7,374	-
Working capital changes;		
Balances with Central Bank of Kenya		
- Cash ratio requirement	(122,167)	(42,300)
- Cash held under lien-clearing	(445)	(534)
Government securities maturing after 90 days	(801,137)	(853,417)
Government securities held at fair value	120,261	101,232
Corporate bonds held at fair value	-	47,514
Loans and advances to customers	(1,370,488)	(248,916)
Other assets	(50,889)	(16,927)
Quoted investments	-	(57,477)
Customer deposits	2,231,271	1,165,532
Other liabilities	40,285	25,852
Financial liability – derivatives	11	(134)
Cash generated from operating activities	383,374	311,685

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

	2011 Sh'000	2010 Sh'000
Cash on hand (note 16)	209,366	174,818
Balances with Central Bank of Kenya – other (note 16)	125,427	71,069
Placements and balances due from banking institutions (note 17)	777,408	266,005
Government securities maturing within 90 days (note 18)	-	197,834
Deposits due to banking institutions (note 27)	-	(15,856)
	1,112,201	693,870

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.

33 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

		2011 Sh'000	2010 Sh'000
(a)	Contingent liabilities		
	Letters of credit	26,426	28,451
	Letters of guarantee and performance bonds	267,323	209,325
	Forward exchange contracts	8,505	16,150
		537,254	253,926

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 34 and concentration of contingent liabilities is covered under note (2) (1) on financial risk management objectives and policies.

		2011 Sh'000	2010 Sh'000
(b)	Capital commitments		
	Authorised but not contracted for	86,356	30,000
	Authorised and contracted for	8,589	5,850
		94,945	35,850

(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:

	2011 Sh'000	2010 Sh'000
Within one year	28,067	28,043
In the second to fifth year inclusive	47,089	77,812
	75,156	105,855

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

34 RELATED PARTY TRANSACTIONS

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

Placings are made in the bank by directors, their associates and companies associated to directors. Advances to customers at 31 December 2011 include advances and loans to companies associated to directors. Contingent liabilities at 31 December 2011 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 16,080,017 (2010 - Sh 12,324,737).

(b) Loans and advances:

	Directors' associated companies		Employees	
	2011	2010	2011	2010
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	583,146	484,840	99,506	89,856
Net movement during the year	(83,250)	98,306	51,406	9,650
At 31 December	499,896	583,146	150,912	99,506

These loans and advances are performing and are adequately secured.

Interest earned on advances to directors and associated companies amounted to Sh 31,661,319 (2010- Sh 27,021,528) and Sh 11,519,193 (2010 –Sh 8,391,727) on staff advances.

(c) Deposits:

	Directors' associated companies		Employees	
	2011	2010	2011	2010
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	1,262,245	446,359	32,761	19,600
Net movement during the year	193,321	815,886	3,623	13,161
At 31 December	1,455,566	1,262,245	36,384	32,761

Interest paid on deposits from directors and associated companies amounted to Sh 42,369,400 (2010 - 38,996,850) and Sh 2,243,621 (2010 - Sh 2,045,293) on staff deposits.

	2011	2010
	Sh'000	Sh'000
(d) Guarantees and letters of credit to companies associated to directors	32,274	65,591
	=======	=======

(e) Key management compensation

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

	2011	2010
	Sh'000	Sh'000
Salaries and other benefits	57,705	79,122
	=======	=======

Directors' remuneration:

Fees for services as directors	4,971	4,114
Allowances	11,534	9,319
	16,505	13,433
	======	======

35 ASSET PLEDGED AS SECURITY

As at 31 December 2011, assets pledged as security were balances with Central Bank of Kenya under lien for the Domestic Foreign Currency clearing amounting to USD 110,000 (2010: USD 110,000).

36 POST BALANCE SHEET EVENTS

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

37 COUNTRY OF INCORPORATION

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

38 CURRENCY

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

		2011 Sh'000	2010 Sh'000
INCOME			
Interest on loans and advances		450,509	306,760
Interest on government securities		215,639	121,089
Interest on placements		30,946	2,398
Interest on government securities at fair value		3,599	11,731
Interest on commercial bonds at fair value		-	2,922
		700,693	444,900
INTEREST EXPENSE			
Interest on deposits		164,330	96,711
Interest on money markets		3,485	448
		167,815	97,159
NET INTEREST INCOME		532,878	347,741
FEES AND COMMISSIONS		148,993	110,032
OTHER OPERATING INCOME	II	159,583	200,428
OPERATING EXPENSES	II	(482,302)	(438,074)
IMPAIRMENT LOSS ON LOANS AND ADVANCES		(64,224)	(61,545)
PROFIT BEFORE TAXATION		294,928	158,582
TAXATION CHARGE		(92,348)	(16,240)
		202,580	142,342

	2011 Sh'000	2010 Sh'000
OTHER OPERATING INCOME		
Gain on foreign exchange dealings	84,818	37,679
Gain on disposal of equipment and furniture	124	3,036
Bad debts recovered	16,230	51,720
Miscellaneous income	5,542	4,228
Gain on sale of treasury bonds	52,869	103,765
	159,583	200,428
	======	======
ADMINISTRATION		
Staff costs	278,760	242,194
Other expenses	16,260	14,018
Rent and parking fees	33,399	28,056
Depreciation	29,240	26,296
Computer maintenance	15,196	12,007
Security services	19,782	19,531
Amortisation of intangible assets	5,254	9,418
Telephone, data and postage	18,078	15,917
Insurance	10,330	9,589
Advertising and marketing	11,752	5,281
Miscellaneous expenses	-	977
Stationery and supplies	5,814	5,785
Auditors' remuneration	2,700	2,500
Electricity and water	4,922	3,704
Licenses	3,267	3,494
Deposit protection fund	4,150	2,951
Subscriptions and donations	3,072	4,189
Maintenance costs	5,061	4,828
Car running expenses	1,851	3,502
Legal and professional fees	6,224	3,373
ATM expenses	4,224	2,920
Fair value loss on government securities	-	13,018
Travel and accommodation	2,967	4,526
	482,302	438,074
	=======	=======
STAFF COSTS		
Salaries and wages	207,837	186,507
Pension costs - defined contribution plan	12,809	11,941
Other staff costs	19,704	13,393
Provision for leave pay	12,257	8,612
Directors' emoluments - fees	4,971	4,114
- other emoluments	11,534	9,319
Medical expenses	5,647	4,605
National Social Security Fund contributions	374	369
Refreshments & entertainment	3,626	3,334
	278,760	242,194
	=======	=======

NOTES

NOTES

ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON THURSDAY 10TH MAY 2012, AT 10.00 AM, AT THE LAICO REGENCY HOTEL, UHURU HIGHWAY, 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 20th April, 2011.

   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, 2011.

   2.4 To declare and approve a final dividend of Kshs. 1.00 (one shilling) per share for the financial year ended 31st December, 2011 payable to shareholders on the Register of Members as at 31st December, 2011.

   2.5 To elect Directors. In accordance with section 24 of the Company's Articles of Association, Mr. Peter Kemei and Mr. Andre DeSimone hereby retire, and being eligible, offer themselves for re-election.

   2.6 To confirm the appointment of Mrs. Helena Cheserem as a Director of the Company.

   2.7 To approve the Directors' remuneration for the year ended 31st December, 2011.

   2.8 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.

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

By Order of the Board

Billow A. Kerow
COMPANY SECRETARY

Dated 3rd April, 2012

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 Thusrday 10th May 2012 at 10.00 am and at any adjournment thereof.

As witness under our/my hand this …………….. day of……………..2012

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.

Mobile Banking

Chapaa Popote

Mobile Banking Service from TNB

Dial *862# to:

- Transfer Money from Account to M-PESA
- Transfer Money from M-PESA to Account
- Acount Balance Inquiry
- Mini Statement
- Account Statement Request
- Salary Credit Notification
- Loan Deposit Notification
- Airtime Topup

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