



Transnational Bank

**Annual Report & Financial Statements
2012**

Branch Network

Nairobi County

City Hall Way Branch

Trans National Plaza
P.O. Box 34353 - 00100
Tel. 254 - 2 - 2224235
Nairobi

Kirinyaga Road Branch

TNB Building
P.O. Box 69963 - 00400
Tel. 254 - 2 - 240009
Nairobi

Sheikh Karume Branch

Pramukh Plaza
P.O. Box 60377 - 00100
Tel. 254 - 020 - 2216060
Nairobi

Mombasa County

Mombasa Branch

Maganjo Building
Nyerere Avenue
P.O. Box 85384 - 80100
Tel. 254 - 041 - 2315404
Mombasa

Baringo County

Kabarnet Branch

Matetai Building
P.O. Box 385 - 30400
Tel. 254 - 053 - 22028
Kabarnet

Kericho County

Kericho Branch

USMA Plaza
P.O. Box 2157 - 20200
Tel. 254 - 052 - 20950
Kericho

Machakos County

EPZ Branch

EPZ Athi River
P.O. Box 75840 - 00200
Tel. 254 - 045 - 6626367
Nairobi

Nakuru County

Nakuru Branch

Seguton Building
P.O. Box 148 - 20100
Tel. 254 - 051 - 2211915
Nakuru

Kabarak Branch

Kabarak University
P.O. Box 148 - 20100
Tel. 254 - 051 - 343162
Nakuru

Olenguruone Branch

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

Nandi County

Nandi Hills Branch

Trans National House
P.O. Box 384 - 30301
Tel. 254 - 020 - 2488655
Nandi Hills

Narok County

Narok Branch

Mara House
P.O. Box 852 - 20500
Tel: 254 - 05023033
Narok

Trans Nzoia County

Kitale Branch

Executive Building
P.O. Box 3184 - 30200
Tel: 254 - 054 - 30516
Kitale

Uasin Gishu County

Eldoret Branch

Hughes Building
P.O. Box 4308 - 30100
Tel. 254 - 053 - 2031846
Eldoret

International Airport

JKIA Branch

Arrival Terminal
P.O. Box 75840 - 00200
Tel. 254 - 2 - 824502
Nairobi

MIA Branch

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

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Notes	

DIRECTORS	M. Cherwon P. Kemei J. K. Kenduiwo A. DeSimone* H. Tororey H. Cheserem (Mrs) Sammy Lang'at * American	Chairman
CHIEF EXECUTIVE OFFICER	Sammy Lang'at	
AUDIT COMMITTEE	H. Tororey P. Kemei J. K. Kenduiwo I. Muiruri	Chairman
CREDIT COMMITTEE	P. Kemei H. Tororey Sammy Lang'at S. Tanui	Chairman
STRATEGY COMMITTEE	J. K. Kenduiwo P. Kemei Sammy Lang'at L. Molonko	Chairman
RISK COMMITTEE	A. DeSimone P. Kemei H. Cheserem J. Makawuondo	Chairman
HUMAN RESOURCES COMMITTEE	J. K. Kenduiwo H. Tororey H. Cheserem Sammy Lang'at N. Siwatom	Chairman
ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)	Sammy Lang'at F. Sheikh J. Makawuondo L. Molonko W. Ruto S. Tanui	Chairman
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

Chairman's Statement

It gives me great pleasure to present, on behalf of the Board of Directors, the Transnational Bank Annual Report and financial statements for the year ended 31st December, 2012.

2012 Operating Environment

The economic environment in early 2012 was difficult due to the spill over effects of 2011 including high inflation, rising interest rates and weak Kenya Shilling. However, macroeconomic conditions improved progressively during the year leading to recovery in Gross Domestic Product (GDP) growth. The improved GDP growth was on the back of strong growth in Agriculture, Manufacturing and Transport and Construction sectors. Accordingly, 2012 economic growth is estimated at 4.2%.

Development in the Banking Sector

During the end of third quarter of 2012, the Kenyan Banking Sector continued to register improved performance compared to 2011. This is attributed to innovations, adoption of cost effective channels and continued expansion of banks through new branches and subsidiaries in the Eastern Africa region. Deposits base grew by 15% as at the end of September 2012 compared to September 2011. Deposit mobilization efforts were boosted by continued adoption of new delivery channels, including adoption of Agency banking that has seen 10 commercial banks recruit more than 14,168 agents across the country.

The asset base was at Kshs. 2.3trillion as at end of September 2012 representing 15.0% growth over 2011 attributed to the banks' expansion of the lending portfolio. Gross loans stood at Kshs. 1.3 trillion as at September 2012, 10% growth over September 2011. However, non performing loans were up in 9 out of 11 sectors associated with high interest rates regime. Profit before tax rose by 27.0% to Kshs. 80.8billion as at September 2012 compared to September 2011.

Bank's Performance

Despite the high interest environment, I am delighted to report that the Bank recorded substantial growth during the year. The total asset base of the Bank grew by 21% from Kshs 7.3 billion to Kshs 8.8 billion. Customers' deposits grew from Kshs 5.2billion to Kshs 6.5billion (by 25%), while the credit portfolio increased 27% to Kshs 4.2billion compared to Kshs 3.3billion as at December 2011. Profit before tax was at Kshs. 322.1m compared to Kshs. 294.9m in 2011. Reflecting on this growth and our strong confidence in the future, the Board of Directors recommends a dividend payout of Kshs.1 per share amounting to Kshs. 122,886,309.

Strategic Plan

The Bank is currently on the 3rd year of its 5 year 2010-2014 Strategic Plan. The Strategy identifies Information Technology, Re-branding and improved Bank efficiency as critical factors in achieving the Bank's strategic objectives. To this end, the Bank is currently upgrading its Core Banking System with rebranding exercise ongoing besides the continuous endeavour to improve on the Bank's business processes. With the operationalization of the county governments, the Bank has positioned itself to take advantage of county banking through enhanced branch rollout.

The Board recognizes that notable changes have occurred in the operating environment and as a result, the Directors will be reviewing the Banks Strategic Plan in tandem to the changes. On the pipeline under Board of Directors' review, is the Bank's Dividend Policy and Capitalization of the Bank's retained earnings.

Future Outlook

Following the improved economic conditions during the 2nd half of 2012, we believe this has set pace for higher growth in 2013 that will result to improved economic growth. The growth will be buoyed by stable macroeconomic environment, increased infrastructural development within the counties and improved judicial system that is considered pro-business under the new constitution dispensation. A smooth political transition will undoubtedly improve business confidence and position the economy on a growth trajectory to achieving vision 2030 targets.

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 coming year and beyond. I wish to sincerely thank all our customers, shareholders, directors, staff members and correspondent banks for their steadfast support, invaluable guidance and confidence in us, which made it possible to have a successful year.

Michael K. Cherwon
Chairman Board of Directors

Transnational Bank Limited (“the Bank”) 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 and one executive director. The directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and the 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 35 (e) to the financial statements for the year ended 31 December 2012. The Bank advances loans to directors and their associated companies as disclosed in Note 35 (b).

b) Related Party Transactions

There have been no related party transactions, pecuniary transactions or relationships between the Bank and its directors or management except those disclosed in Note 35 to the financial statements for the year ended 31 December 2012.

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 structures 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 risks 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 per quarter 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 Bank 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 rationalising etc. The committee is responsible for study of productivity levels across the Bank and addressing anomaly in staff productivity. The committee assists the Board in providing efficient, productive and quality organisation structures for the Bank. The committee periodically reviews the 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 Chief Executive Officer and the Head of Finance. The Strategy Committee's roles and responsibilities include an analysis of the Bank's strategy 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.
- 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 on-going process of identifying, evaluating and managing significant risks inherent in its business, through 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 shareholders and their individual holdings as at 31 December, 2012 was as follows:

	No. of Shares	%
Archers and Wilcock Limited	29,180,676	23.75%
Sovereign Trust Limited	28,298,779	23.03%
Duggan Limited	19,089,820	15.53%
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%
Others	5,900,754	4.79%
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 nine meetings excluding the working committee meetings. The Board members attendance for 2012 is as follows;

Name	Number of attendance	Percentage attendance
Mr. Michael Cherwon	9 out of 9	100%
Mr. Peter Kemei	9 out of 9	100%
Mr. Andre DeSimone	7 out of 9	78%
Mr. John Kenduiwo	9 out of 9	100%
Mrs. Hellena Cheserem	9 out of 9	100%
Mr. Hilary Tororey	9 out of 9	100%
Mr. Sammy Lang'at	8 out of 9	89%

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	4 out of 4	100%

ii) Risk and Compliance Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Andre DeSimone	3 out of 3	100%
Mr. Peter Kemei	3 out of 3	100%
Mrs. Hellena Cheserem	2 out of 3	67%
Mr. Jeremiah Makawuondo	3 out of 3	100%

iii) Credit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Peter Kemei	5 out of 5	100%
Mr. Hilary Tororey	5 out of 5	100%
Mr. Sammy Lang'at	5 out of 5	100%
Mr. Samuel Tanui	5 out of 5	100%

9. DIRECTORS' EXTERNAL ACTIVITIES AND CONFLICTS OF INTEREST

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Bank.

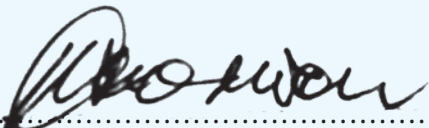
Business transactions with all parties, directors or their related parties are carried out at arms length. In 2012 the directors submitted their annual declarations of interests which included:-


- An acknowledgement that should it come to the attention of a director that a matter concerning the Bank may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the bank, the director will be obliged to offer their resignation.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 35.

10. 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 prepares its financial statements in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Kenyan Companies Act.


.....
Director


.....
Director

25th March, 2013

The directors have the pleasure of submitting their annual report together with the audited financial statements for the year ended 31 December 2012, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan 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	322,054
Taxation charge	(108,661)
	—————
Profit for the year	213,393
	=====

DIVIDENDS

The directors recommend the payment of Sh 122,886,309 as dividend for the year ended 31 December 2012 (2011: Sh 122,886,309).

DIRECTORS

The current directors are listed on page 2. Mr Sammy Lang'at was appointed a director effective 24 July 2012.

AUDITORS

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

25th March, 2013
Nairobi

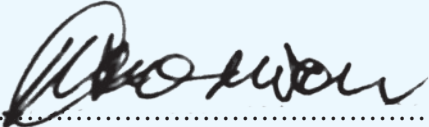
STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 its operating results 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 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.

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 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.

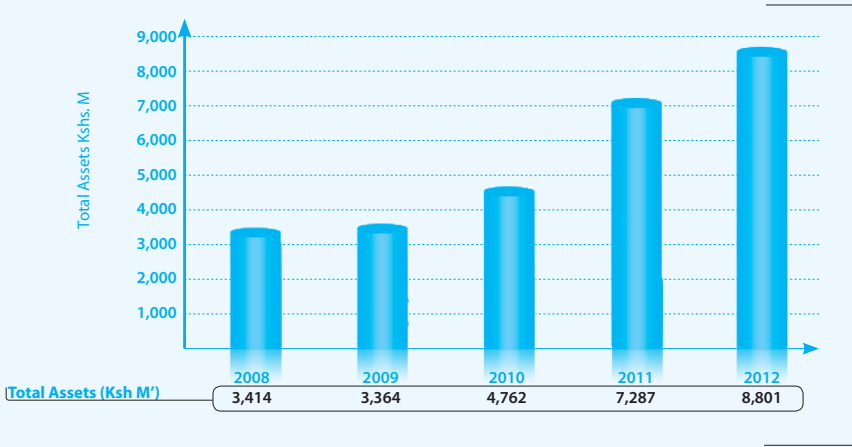


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Director

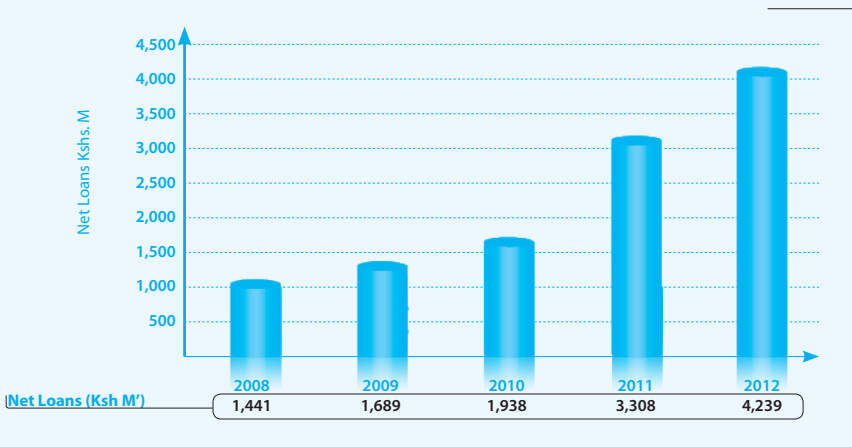


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Director

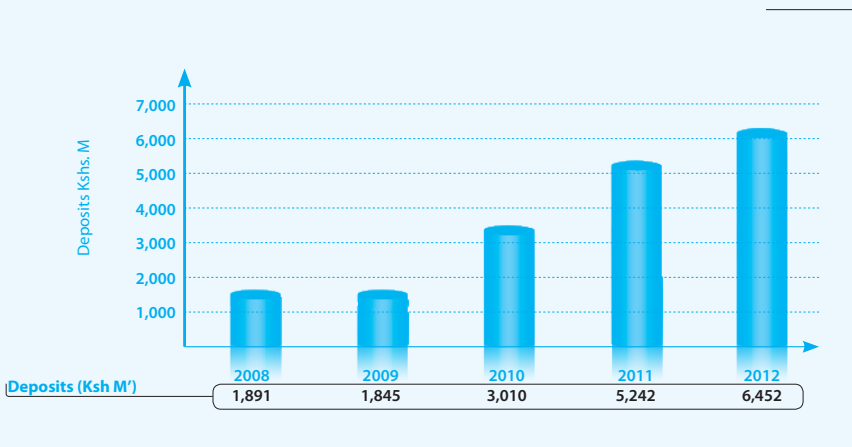
25th March, 2013



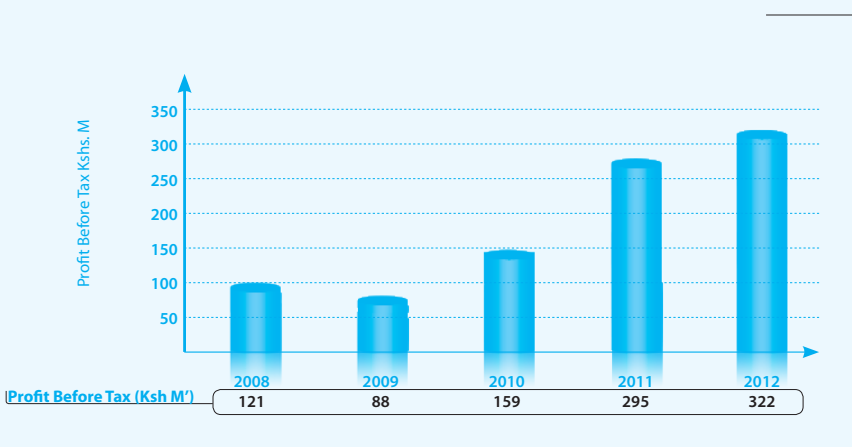
Growth in Total Assets



Growth in Net Loans



Growth in Deposits



Growth in Profit Before Tax

Report on financial statements

We have audited the accompanying financial statements of Trans National Bank Limited, set out on pages 14 to 65 which comprise the statement of financial position as at 31 December 2012, 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 2012 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)

25th March, 2013
Nairobi

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012


STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Sh'000	2011 Sh'000
INTEREST INCOME	7	984,968	700,693
INTEREST EXPENSE	8	(433,240)	(167,815)
		<hr/>	<hr/>
NET INTEREST INCOME		551,728	532,878
Fees and commission income	9	160,859	148,993
Gains on foreign exchange dealings	10	108,756	84,818
Other income	11	145,326	74,765
		<hr/>	<hr/>
OPERATING INCOME		966,669	841,454
Other operating expenses	12	(593,952)	(482,302)
Impairment losses on loans and advances	20	(50,663)	(64,224)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION		322,054	294,928
TAXATION CHARGE	14	(108,661)	(92,348)
		<hr/>	<hr/>
PROFIT FOR THE YEAR		213,393	202,580
OTHER COMPREHENSIVE INCOME		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME		213,393	202,580
		<hr/> <hr/>	<hr/> <hr/>
EARNINGS PER SHARE			
- Basic and diluted	15	1.74	1.65
		<hr/> <hr/>	<hr/> <hr/>


**STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2012**

	Note	2012 Sh'000	2011 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	16	849,079	590,497
Deposits and balances due from banking institutions	17	967,044	777,408
Government securities	18	2,439,189	2,318,417
Loans and advances to customers	19	4,238,908	3,308,068
Other assets	22	179,815	187,057
Property and equipment	23	91,066	72,583
Intangible assets	24	9,255	5,788
Deferred tax asset	25	27,026	27,088
		<hr/>	<hr/>
TOTAL ASSETS		8,801,382	7,286,906
		=====	=====
LIABILITIES			
Customer deposits	26	6,451,636	5,241,741
Due to banking institutions	27	172,000	-
Other liabilities	28	308,650	235,069
Financial liability - derivatives	29	124	25
Tax payable	14(c)	35,157	66,763
		<hr/>	<hr/>
TOTAL LIABILITIES		6,967,567	5,543,598
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS			
Share capital	30	614,432	614,432
Share premium		42,236	42,236
Retained earnings		1,142,128	1,060,253
Statutory reserve	31	35,019	26,387
		<hr/>	<hr/>
TOTAL SHAREHOLDERS' FUNDS		1,833,815	1,743,308
		<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		8,801,382	7,286,906
		=====	=====


The financial statements on pages 15 to 66 were approved and authorised for issue by the board of directors on 25th March 2013 and were signed on its behalf by:



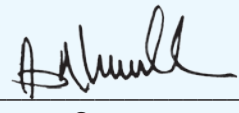
Director



Director



Chief Executive Officer



Company Secretary

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	Share Capital Sh'000	Share premium Sh'000	Revenue reserve Sh'000	Statutory reserve Sh'000	Total Sh'000
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		<u>614,432</u>	<u>42,236</u>	<u>1,060,253</u>	<u>26,387</u>	<u>1,743,308</u>
At 1 January 2012		614,432	42,236	1,060,253	26,387	1,743,308
Transfer to statutory reserve	31	-	-	(8,632)	8,632	-
Total comprehensive income for the year		-	-	213,393	-	213,393
Dividends declared - 2011		-	-	(122,886)	-	(122,886)
At 31 December 2012		<u>614,432</u>	<u>42,236</u>	<u>1,142,128</u>	<u>35,019</u>	<u>1,833,815</u>

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2012**

	Note	2012 Sh'000	2011 Sh'000
Cash flows from operating activities			
Net cash generated from operating activities	32(a)	690,825	373,319
Tax paid	14(c)	(140,205)	-
		<hr/>	<hr/>
Cash generated from operating activities		550,620	373,319
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of equipment	23	(51,169)	(15,715)
Purchase of intangible assets	24	(10,543)	(330)
Proceeds from disposal of equipment		-	900
Proceeds on disposal of quoted shares		-	50,103
		<hr/>	<hr/>
Net cash (used in)/generated from investing activities		(61,712)	34,958
		<hr/>	<hr/>
Cash flow from financing activities			
Dividends paid		(122,886)	-
		<hr/>	<hr/>
Increase in cash and cash equivalents		366,022	408,277
Cash and cash equivalents at 1 January		1,163,491	755,213
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	32(b)	1,529,513	1,163,490
		=====	=====

1 REPORTING ENTITY

Trans National Bank Limited (The “Bank”) provides commercial Banking services. The Bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya. The address of its registered office is as follows:

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

2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULT OR FINANCIAL POSITION

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

(i) *New and amended standards and interpretations in issue and effective in the year ended 31 December 2012*

The following new and revised IFRSs were effective in the current year and have not affected the amounts reported in these financial statements.

Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs.
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets.	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.
Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale.

(ii) *New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2012*

New and Amendments to the standards	Effective for annual periods beginning on or after
IFRS 9, Financial Instruments	1 January 2015
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

IAS 27 (as revised in 2011), Separate Financial Statements	1 January 2013
IAS 28 (as revised in 2011), Investments in Associates and Joint Ventures	1 January 2013
Amendments to IAS 1, Presentation of Items of Other Comprehensive Income	1 July 2012
IAS 19 (as revised in 2011), Employee Benefits	1 January 2013
Amendments to IAS 32, Offsetting Financial Assets and Financial Liabilities	1 January 2014
Amendments to IFRSs, Annual Improvements to IFRSs 2009-2011 Cycle except for the amendment to IAS 11	1 January 2013
Amendments to IFRS 7, Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IFRS 9 and IFRS 7, Mandatory Effective Date of IFRS 9 and Transition Disclosures	1 January 2015
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

(iii) Impact of new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2012

IFRS 9: Financial Instruments

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2011 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- 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 the 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 presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that IFRS 9 will be adopted in the Bank's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 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 10, Consolidated Financial Statements**

Requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in *IAS 27 Consolidated and Separate Financial Statements* and *SIC-12 Consolidation - Special Purpose Entities*.

The Standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements.

The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

- Power over the investee
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect the amount of the returns.

IFRS 10 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

As the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the impact.

- **IFRS 11, Joint Arrangements**

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*.

IFRS 11 deals with how a joint arrangement should be classified where two or more parties have joint control. There are two types of joint arrangements under IFRS 11: joint operations and joint ventures. These two types of joint arrangements are distinguished by parties' rights and obligations under the arrangements. IFRS 11 requires retrospective application with specific transitional provisions. IFRS 11 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

As the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the impact.

- **IFRS 12, Disclosure of Interests in Other Entities**

Requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

In high-level terms, the required disclosures are grouped into the following broad categories:

- **Significant judgements and assumptions** - such as how control, joint control, significant influence has been determined
- **Interests in subsidiaries** - including details of the structure of the group, risks associated with structured entities, changes in control, and so on
- **Interests in joint arrangements and associates** - the nature, extent and financial effects of interests in joint arrangements and associates (including names, details and summarised financial information)
- **Interests in unconsolidated structured entities** - information to allow an understanding of the nature and extent of interests in unconsolidated structured entities and to evaluate the nature of, and changes in, the risks associated with its interests in unconsolidated structured entities

IFRS 12 lists specific examples and additional disclosures which further expand upon each of these disclosure objectives, and includes other guidance on the extensive disclosures required.

IFRS 12 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

As the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the impact.

- **IFRS 13, Fair Value Measurement**

Replaces the guidance on fair value measurements 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

Entities are required to make various disclosures depending upon the nature of the fair value measurement (e.g. whether it is recognised in the financial statements or merely disclosed) and the level in which it is classified.

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.

- **IAS 27 Separate Financial Statements (2011)**

Amended version of IAS 27 which now only deals with the requirements for separate financial statements, which have been carried over largely unchanged from IAS 27, Consolidated and Separate Financial Statements. Requirements for consolidated financial statements are now contained in IFRS 10, Consolidated Financial Statements.

The Standard requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9, Financial Instruments.

The Standard also deals with the recognition of dividends, certain group reorganisations and includes a number of disclosure requirements.

IAS 27 is effective for annual periods beginning on or after 1 January 2013.

As the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the impact.

- **IAS 28 Investments in Associates and Joint Ventures (2011)**

This Standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The Standard defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

IAS 28 is effective for annual periods beginning on or after 1 January 2013

As the impact of adoption depends on the nature of relationships between the Bank and other entities at the date of adoption, it is not practical to quantify the impact.

- **Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)**

Amends the disclosure requirements in IFRS 7 Financial Instruments: Disclosures to require information about all recognised financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation.

The amendments also require disclosure of information about recognised financial instruments subject to enforceable master netting arrangements and similar agreements even if they are not set off under IAS 32. The IASB believes that these disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.

This amendment is effective for annual periods beginning on or after 1 January 2013.

The directors anticipate that this amendment will be adopted in the Bank's financial statements for the annual period beginning 1 January 2013 and that the application will not have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities.

- **Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)**

Amends IAS 32 Financial Instruments: Presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

This amendment is effective for annual periods beginning on or after 1 January 2014.

The directors anticipate that this amendment will be adopted in the Bank's financial statements for the annual period beginning 1 January 2014 and that the application will not have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities.

- **IAS 19 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 consolidated 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, as the Bank does not operate a defined benefit plan.

- **IFRIC 20, Stripping Costs in the Production Phase of A Surface Mine**

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs).

- **IFRIC 20, Stripping Costs in the Production Phase of A Surface Mine**

Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognised as a non-current asset (stripping activity asset) when certain criteria are met, whereas the costs of normal on-going operational stripping activities are accounted for in accordance with IAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

IFRIC 20 is effective for annual periods beginning on or after 1 January 2013. Specific transitional provisions are provided to entities that apply IFRIC 20 for the first time. However, IFRIC 20 must be applied to production stripping costs incurred on or after the beginning of the earliest period presented.

The directors anticipate that IFRIC 20 will have no effect on the Bank's financial statements as the Bank does not engage in mining activities.

(iv) Early adoption of standards

The Bank did not early-adopt new or amended standards in 2012.

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:

- Derivative financial instruments
- Financial instruments at fair value through profit & loss
- Financial instruments held to maturity.

Interest income and expense

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

Property and equipment

Property and 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 property and 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 it operates (the "functional currency"). The financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation 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 and held-to-maturity investments. 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 and advances to customers 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.

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:

- Delinquency 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) 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.

ii) 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 terms 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 profit or loss.

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 tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible

in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income.

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 are 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 fair value through profit and loss. The investments would therefore be measured at fair value not amortised cost.

(ii) Key sources of estimation uncertainty

Property and equipment and intangible assets

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

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 - net

	2012		2011	
	Sh'000	%	Sh'000	%
Agriculture	672,013	16	445,796	14
Manufacturing	76,521	2	57,150	2
Wholesale and retail	646,439	15	372,617	11
Transport and communication	687,459	16	460,601	14
Real estate	355,409	8	370,643	11
Social community and personal services	524,673	13	690,279	21
Business services	376,367	9	245,443	7
Other	900,027	21	665,540	20
	<u>4,238,908</u>	<u>100</u>	<u>3,308,068</u>	<u>100</u>
	=====	===	=====	===

(b) Customer deposits

	2012		2011	
	Sh'000	%	Sh'000	%
Building societies	43	-	35	-
Co-operative societies	319,309	5	259,511	5
Insurance companies	160,585	-	13,142	-
Private enterprises	3,575,691	58	3,023,766	58
Non profit institutions and individuals	2,396,008	37	1,945,287	37
	<u>6,451,636</u>	<u>100</u>	<u>5,241,741</u>	<u>100</u>
	=====	===	=====	===

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

	2012		2011	
	Sh'000	%	Sh'000	%
Agriculture	20,169	3	21,490	4
Manufacturing	15,127	2	16,118	3
Wholesale and retail	5,043	1	5,373	1
Transport and communication	155,199	24	150,433	28
Real estate	10,085	2	10,745	2
Social community and personal services	20,169	3	21,490	4
Business services	131,103	20	139,688	26
Other	291,297	45	171,923	32
	<u>648,192</u>	<u>100</u>	<u>537,260</u>	<u>100</u>
	=====	===	=====	===

(ii) Maximum exposure to credit risk before collateral held

Credit exposures:

Items reported in the statement of financial position:

	2012 Sh'000	%	2011 Sh'000	%
Deposits and balances due from banking institutions	967,044	12	777,408	10
Loans and advances to customers	4,238,908	51	3,308,068	49
Government securities held to maturity	2,252,091	27	2,318,417	34
Government securities at fair value	187,098	2	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
	7,645,141	92	6,403,893	93
	<hr/>	<hr/>	<hr/>	<hr/>

Items not reported in the statement of financial position:

	2012 Sh'000	%	2011 Sh'000	%
Letters of credit	143,953	2	261,426	4
Letters of guarantees and performance bonds	155,199	2	267,329	3
Foreign exchange forward contracts	349,040	4	8,505	-
	<hr/>	<hr/>	<hr/>	<hr/>
	648,192	8	537,260	7
	<hr/>	<hr/>	<hr/>	<hr/>
	8,293,333	100	6,941,153	100
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

(iii) Classification of loans and advances

	2012 Sh'000	2011 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	193,316	175,914
Grade 3 & 4: Impaired (doubtful)	318,745	204,802
	-----	-----
Gross amount	512,061	380,716
Suspended interest	(51,867)	(54,656)
Allowance for impairment (note 20)	(230,716)	(229,515)
	-----	-----
Carrying amount	229,478	96,545
	-----	-----
Past due but not impaired		
Watch (30-90 days)	644,201	665,984
Allowance for impairment (note 20)	(19,326)	(24,759)
	-----	-----
	624,875	641,225
	-----	-----
Neither past due nor impaired		
Grade 1: Normal	3,384,555	2,570,298
	-----	-----
Total carrying amount	4,238,908	3,308,068
	=====	=====

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 general provision at 3% is made.

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 and 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 general 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.

	2012 Sh'000	2011 Sh'000
Renegotiated loans 1-90 days	52,411 =====	10,728 =====

(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 2012		
Grade 5: Individually impaired	193,316	120,655
Grade 3 & 4: Individually impaired	318,745	108,823
	-----	-----
Total	512,061 =====	229,478 =====
31 December 2011		
Grade 5: Individually impaired	175,914	31,159
Grade 3 & 4: Individually impaired	204,802	65,386
	-----	-----
Total	380,716 =====	96,545 =====

(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 2012.

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

	2012 Sh'000	2011 Sh'000
Against individually impaired		
Property	395,400	389,314
Equities	230	276
Other	98,400	106,300
	-----	-----
	494,030	495,890
	-----	-----
Against past due but not impaired		
Property	586,550	522,218
Other	157,471	140,202
	-----	-----
	744,021	662,420
	-----	-----
Total	1,238,051	1,158,310
	=====	=====

(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:

	2012	2011
At 31 December	60.40%	67.10%
Average for the period	58.65%	75.97%
Maximum for the period	66.90%	82.00%
Minimum for the period	51.80%	67.10%
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 2012	Upto 3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
FINANCIAL LIABILITIES	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Customer deposits	5,808,018	465,958	241,619	3,235	-	-	6,518,830
Financial guarantee contracts	349,040	-	-	-	-	-	349,040
Due to banking institutions	172,000	-	-	-	-	-	172,000
	<u>6,329,058</u>	<u>465,958</u>	<u>241,619</u>	<u>3,235</u>	<u>-</u>	<u>-</u>	<u>7,039,870</u>
=====							
FINANCIAL ASSETS							
Cash and bank balances with the Central Bank of Kenya	849,079	-	-	-	-	-	849,079
Deposits and balances due from banking institutions	967,044	-	-	-	-	-	967,044
Loans and advances to customers	1,624,543	222,296	444,514	920,801	407,600	739,764	4,359,518
Government securities	388,448	-	-	74,338	159,357	2,165,669	2,787,812
	<u>3,829,114</u>	<u>222,296</u>	<u>444,514</u>	<u>965,139</u>	<u>566,957</u>	<u>2,905,433</u>	<u>8,963,453</u>
	<u>2,499,944</u>	<u>243,662</u>	<u>(202,895)</u>	<u>(991,904)</u>	<u>(566,957)</u>	<u>(2,905,433)</u>	<u>(1,923,583)</u>
=====							
At 31 December 2011							
Total financial liabilities	3,855,621	1,465,429	228,919	218,308	42,677	-	5,810,954
Total financial assets	2,375,928	373,311	370,583	1,007,638	472,134	2,395,842	6,995,436
	<u>1,479,693</u>	<u>1,092,118</u>	<u>(141,664)</u>	<u>(789,330)</u>	<u>(429,457)</u>	<u>(2,395,842)</u>	<u>(1,184,482)</u>
=====							

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 2012	Upto 3 months Sh'000	3-6 months Sh'000	6-12 months Sh'000	1-3 years Sh'000	Over 3years Sh'000	Non- 5 years Sh'000	Total Sh'000
FINANCIAL ASSETS							
Cash and Bank balances with the Central Bank of Kenya	-	-	-	-	-	849,079	849,079
Deposits and balances due from banking institutions	-	-	-	-	-	967,044	967,044
Loans and advances to customers	1,545,981	500,077	432,168	895,227	396,279	719,218	4,488,950
Government securities	201,350	-	-	74,338	2,163,501	-	2,439,189
Total financial assets	1,747,331	500,077	432,168	969,565	2,559,780	2,535,341	8,744,262
FINANCIAL LIABILITIES							
Customer deposits	5,747,733	461,155	239,547	3,201	-	-	6,451,636
Due to banking institutions	172,000	-	-	-	-	-	172,000
Total financial liabilities	5,919,733	461,155	239,547	3,201	-	-	6,623,636
Interest sensitivity gap	(4,172,402)	38,922	192,621	966,364	2,559,780	2,535,341	2,120,626
At 31 December 2011							
Total assets	2,320,835	188,938	377,809	1,058,217	505,841	2,865,636	7,317,276
Total liabilities	3,298,258	1,456,548	227,532	216,985	42,418	-	5,241,741
Interest sensitivity gap	(977,423)	(1,267,610)	150,277	841,232	463,423	2,865,636	2,075,535

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 2013.

31 December 2012	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	322,054	347,819	296,290
Adjusted core capital	1,896,239	2,047,938	1,744,540
Adjusted total capital	1,931,258	2,085,759	1,776,758
Risk weighted assets (RWA)	4,717,588	5,322,470	4,533,956
Adjusted core capital to RWA	39.20%	42.34%	36.06%
Adjusted total capital to RWA	39.75%	42.93%	36.57%

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 31 December. Included in the table below are the Bank's financial instruments at carrying amounts categorised by currency.

At 31 December 2012	KSH	USD	GBP	EURO	Others	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	806,367	29,653	3,427	6,697	2,935	849,079
Deposits and balances due from banking institutions	800,605	141,840	2,551	16,878	5,170	967,044
Loans and advances	4,157,940	323,786	2	7,222	-	4,488,950
Government securities	2,439,189	-	-	-	-	2,439,189
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial assets	8,204,101	495,279	5,980	30,797	8,105	8,744,262
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
FINANCIAL LIABILITIES						
Customer deposits	6,179,924	254,390	4,614	10,981	1,727	6,451,636
Due to banking institutions	-	172,000	-	-	-	172,000
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total financial liabilities	6,179,924	426,390	4,614	10,981	1,727	6,623,636
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net on balance sheet position	2,024,177	68,889	1,366	19,816	6,378	2,120,626
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Off balance sheet position	247,256	156,728	208	22,721	41,279	648,192
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011						
Total financial assets	6,694,834	598,847	5,256	11,964	6,375	7,317,276
Total financial liabilities	4,638,405	588,745	8,540	6,051	-	5,241,741
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net items reported in statement of financial position	2,056,429	10,102	(3,284)	5,913	6,375	2,075,523
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Items not reported in statement of financial position	(239,822)	(180,867)	(195)	(32,587)	(83,789)	(537,260)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

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

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

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

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

31 December 2012	Amount Sh'000	Scenario 1 10% appreciation of Kenya shilling Sh'000	Scenario 2 10% depreciation of Kenya shilling Sh'000
Profit before tax	322,054	354,260	289,849
Adjusted core capital	1,896,239	2,085,863	1,706,615
Adjusted total capital	1,931,258	2,124,384	1,738,132
Risk weighted assets(RWA)	4,928,213	5,421,034	4,435,392
Adjusted core capital to RWA	39.20%	43.12%	35.28%
Adjusted total capital to RWA	39.75%	43.73%	35.78%

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.

	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
31 December 2012					
Fair value - Financial derivative	29	124	-	-	124
Government securities at fair value	18	187,098	-	-	187,098
		<hr/>	<hr/>	<hr/>	<hr/>
		187,222	-	-	187,222
		<hr/>	<hr/>	<hr/>	<hr/>
Financial liability		124	-	-	124
		=====	=====	=====	=====
31 December 2011					
Fair value - Financial derivative	29	25	-	-	25
		=====	=====	=====	=====

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.

NOTES TO THE FINANCIAL STATEMENTS

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 1 billion as at 31 December 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:

	2012 Sh'000	2011 Sh'000
Tier 1 capital		
Total share capital	614,432	614,432
Share Premium	42,236	42,236
Retained earnings	1,142,128	1,060,253
Less: intangible assets	(9,255)	(5,788)
	-----	-----
Total	1,789,541	1,711,133
	-----	-----
Tier 2 capital		
Statutory reserve	35,019	26,387
	-----	-----
Total regulatory capital	1,824,560	1,737,520
	=====	=====
Risk-weighted assets		
Retail bank, corporate bank and central treasury	4,717,588	3,739,956
	-----	-----
Total risk weighted assets	4,717,588	3,739,956
	=====	=====
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	38%	46%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	38%	46%

	2012 Sh'000	2011 Sh'000
7 INTEREST INCOME		
Loans and advances	774,528	450,509
Government securities held to maturity	198,134	215,639
Deposits and balances due from Banking institutions	12,306	30,946
Government securities (treasury bills) held at fair value	-	3,599
	<hr/>	<hr/>
	984,968	700,693
	=====	=====
8 INTEREST EXPENSE		
Interest on customer deposits	408,676	164,330
Interest on deposits due to Banking institutions	24,564	3,485
	<hr/>	<hr/>
	433,240	167,815
	=====	=====
9 FEES AND COMMISSION INCOME		
Commissions	143,142	131,118
Ledger related fees	17,717	17,875
	<hr/>	<hr/>
	160,859	148,993
	=====	=====
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		
	2012 Sh'000	2011 Sh'000
Gain on sale of treasury bonds	111,839	52,869
Gain on disposal of equipment	-	124
Miscellaneous income	33,292	5,542
Bad debts recovered	195	16,230
	<hr/>	<hr/>
	145,326	74,765
	=====	=====

NOTES TO THE FINANCIAL STATEMENTS

	2012 Sh'000	2011 Sh'000
12 OTHER OPERATING EXPENSES		
Staff costs (note 13)	309,135	262,255
Directors' emoluments - fees	6,686	4,971
- other emoluments	15,425	11,534
Other expenses	58,279	40,473
Rent and parking	46,307	33,399
Depreciation (note 23)	32,685	29,240
Computer maintenance	11,924	15,196
Security services	25,850	19,782
Amortisation (note 24)	7,076	5,254
Telephone, data and postage	21,950	18,078
Insurance	12,822	10,330
Advertising and marketing	18,617	11,752
Stationery and supplies	6,936	5,814
Auditors' remuneration	2,943	2,700
Contribution to Deposit Protection Fund	6,343	4,150
Fair value loss on government securities (note 18)	10,974	-
Fair value loss on quoted investments (note 21)	-	7,374
	<hr/>	<hr/>
	593,952	482,302
	=====	=====

13 STAFF COSTS

	2012 Sh'000	2011 Sh'000
Salaries and wages	245,796	207,837
Pension costs - defined contribution plan	16,445	12,809
Provision for leave pay	12,519	12,257
Medical expenses	5,488	5,647
National Social Security Fund contributions	425	374
Other staff costs	24,411	19,704
Refreshments and entertainment	4,051	3,626
	<hr/>	<hr/>
	309,135	262,255
	=====	=====

14 TAXATION

(a) Taxation charge

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

Current tax charge	108,599	66,763
Deferred taxation charge (note 25)	62	28,825
Deferred taxation prior year over provision	-	(3,240)
	<hr/>	<hr/>
Taxation charge	108,661	92,348
	=====	=====

	2012 Sh'000	2011 Sh'000
<i>(b) Reconciliation of taxation charge</i> to the expected taxation based on accounting profit		
Accounting profit before taxation	322,054 =====	294,928 =====
Tax at the applicable rate of 30%	96,616	88,478
Tax effect of expenses not deductible for tax purposes	12,045	7,110
Prior year deferred tax over provision	-	(3,240)
	-----	-----
Taxation charge for the year	108,661 =====	92,348 =====
<i>(c) Tax payable</i>		
At the beginning of the year	66,763	-
Taxation charge for the year	108,599	66,763
Tax paid during the year	(140,205)	-
	-----	-----
	35,157 =====	66,763 =====

15 EARNINGS PER SHARE

Profit attributable to owners of the Bank – Sh'000	213,393 =====	202,580 =====
Weighted average number of shares during the year	122,886,309 =====	122,886,309 =====
Basic earnings per share – Sh	1.74 =====	1.65 =====

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 2012 and 31 December 2011, respectively.

16 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2012 Sh'000	2011 Sh'000
Cash on hand	299,550	209,366
Balances with Central Bank of Kenya:		
- Cash ratio requirement	306,500	246,376
- Cash held under lien	9,460	9,328
- Other (available for use by the Bank)	233,569	125,427
	-----	-----
	849,079 =====	590,497 =====

NOTES TO THE FINANCIAL STATEMENTS

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 2012, the cash ratio requirement was 5.25% (2011 - 5.25%) 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 (2011 – USD 110,000). This amount is held by the Central Bank of Kenya for domestic foreign currency clearing and thus is not available for the Bank's use (note 36).

17 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2012 Sh'000	2011 Sh'000
Held to maturity: At amortised cost		
Deposits due within 90 days	-	1,785
Current accounts due on demand	967,044	775,623
	<hr/>	<hr/>
	967,044	777,408
	=====	=====

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2012 was 8.9% (2011 - 1.16%) and nil for current account balances.

18 GOVERNMENT SECURITIES

	2012 Sh'000	2011 Sh'000
Treasury bonds - at fair value through profit and loss		
Cost	198,072	-
Fair value loss	(10,974)	-
	<hr/>	<hr/>
	187,098	-
	<hr/>	<hr/>
Treasury bonds – Held to maturity		
- maturing within 90 days	201,350	51,289
- maturing between 90 days to 1 year	-	-
- maturing between 1 - 2 years	74,338	275,593
- maturing after 2 years but within 5 years	159,357	159,406
- maturing after 5 years	1,817,046	1,832,129
	<hr/>	<hr/>
	2,252,091	2,318,417
	<hr/>	<hr/>
	2,439,189	2,318,417
	=====	=====

	2012 Sh'000	2011 Sh'000
The weighted average effective interest rate as at year end was:	%	%
Treasury bonds held to maturity	8.1 =====	8.5 =====

19 LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances to customers	3,786,371	3,089,194
Staff loans	244,144	150,912
Finance lease receivables (note 19(b))	573,413	390,848
	<hr/>	<hr/>
	4,603,928	3,630,954
Less: unearned finance charges (note 19(b))	(114,978)	(68,613)
	<hr/>	<hr/>
	4,488,950	3,562,341
Impairment loss on loans and advances (note 20)	(250,042)	(254,274)
	<hr/>	<hr/>
	4,238,908	3,308,068
	=====	=====

(b) Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Amounts receivable under finance leases:				
Within one year	288,963	196,962	209,625	150,920
In the second to fifth year inclusive	284,450	193,886	248,810	171,315
	<hr/>	<hr/>	<hr/>	<hr/>
	573,413	390,848	458,435	322,235
Less: unearned finance income	(114,978)	(68,613)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of minimum lease payments receivable	458,435	322,235	458,435	322,235
	=====	=====	=====	=====

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 (2011: 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 2012 was 19.6% (2011 – 16.5%).

The weighted average effective interest rate on finance lease receivables at 31 December 2012 was 15.8 % (2011 - 15.5%).

(c) Non performing loans and advances to customers

Included in net advances of Sh 4,238,908 (2011 - Sh 3,308,068,000) are loans and advances amounting to Sh 193,196,433 (2011 - Sh 96,005,000), net of specific provisions, which have been classified as non-performing.

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

	2012 Sh'000	2011 Sh'000
Maturing:		
Up to one month	1,005,121	756,780
1-3 months	593,846	447,121
3-6 months	266,285	200,493
6-12 months	986,444	742,718
1-3 years	902,118	679,227
3-5 years	512,177	385,631
Over 5 years	222,959	350,371
	-----	-----
Loans and advances to customers (gross)	4,488,950	3,562,341
	=====	=====
GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)		
Overdrafts	1,406,673	910,389
Term loans	3,082,277	2,651,952
	-----	-----
Loans and advances to customers (gross)	4,488,950	3,562,341
	=====	=====

The related party transactions and balances are covered under note 35 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

	2012 Sh'000	2011 Sh'000
At 1 January	254,274	200,862
	<hr/>	<hr/>
Provisions in the year	50,858	79,704
Recoveries in the year	(195)	(15,480)
	<hr/>	<hr/>
	50,663	64,224
	<hr/>	<hr/>
	(54,895)	(10,812)
	<hr/>	<hr/>
At 31 December	250,042	254,274
	<hr/> <hr/>	<hr/> <hr/>
Make up:		
Individually impaired	230,716	229,515
Past due and not impaired	19,326	24,759
	<hr/>	<hr/>
	250,042	254,274
	<hr/>	<hr/>

21 QUOTED EQUITY INVESTMENTS

At fair value through profit and loss:

At 1 January	-	57,477
Additions	-	-
Disposals	-	(50,103)
Fair value loss	-	(7,374)
	<hr/>	<hr/>
At 31 December	-	-
	<hr/> <hr/>	<hr/> <hr/>

22 OTHER ASSETS

Clearing and transit items	22,870	54,457
Deposits and prepayments	5,945	5,980
Other assets	151,000	126,620
	<hr/>	<hr/>
	179,815	187,057
	<hr/> <hr/>	<hr/> <hr/>

23 PROPERTY AND EQUIPMENT

	Leasehold improvements Sh'000	Furniture, fittings and equipment, computer, hardware Sh'000	Motor vehicles Sh'000	Total Sh'000
COST				
At 1 January 2011	93,016	153,421	2,680	249,117
Additions	188	8,494	7,033	15,715
Disposals	-	(920)	-	(920)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011	93,204	160,995	9,713	263,912
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2012	93,204	160,995	9,713	263,912
Additions	18,944	32,225	-	51,169
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	112,148	193,220	9,713	315,081
	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION				
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)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2011	66,450	121,644	3,236	191,330
	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2012	66,450	121,644	3,236	191,330
Charge for the year	12,755	17,697	2,233	32,685
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2012	79,205	139,341	5,469	224,015
	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE				
At 31 December 2012	32,943	53,879	4,244	91,066
	=====	=====	=====	=====
At 31 December 2011	26,754	39,351	6,477	72,583
	=====	=====	=====	=====

Property and equipment with a cost of Sh 132,599,000 (2011 - Sh 127,570,000) were fully depreciated as at 31 December 2012. The nominal annual depreciation charge on these assets would have been Sh 28,784,000 (2011 - Sh 28,379,000).

24 INTANGIBLE ASSETS (Computer Software)

	2012 Sh'000	2011 Sh'000
COST		
At 1 January	50,148	49,818
Additions	10,543	330
	-----	-----
At 31 December	60,691	50,148
	-----	-----
AMORTISATION		
At 1 January	44,360	39,106
Charge for the year	7,076	5,254
	-----	-----
At 31 December	51,436	44,360
	-----	-----
NET BOOK VALUE		
At 31 December	9,255	5,788
	=====	=====

Intangible assets with a cost of Sh 32,599,000 (2011 - Sh 32,488,000) were fully amortised as at 31 December 2012. The nominal annual amortisation charge on these assets would have been Sh 9,789,489 (2011 - Sh 9,746,000).

25 DEFERRED TAX ASSET

The deferred tax asset is attributable to the following items:

Accelerated capital allowances	11,155	9,047
Provisions		
-Leave pay	3,067	2,725
-Legal fee	3,778	3,163
-Gratuity and union salary increment	747	8,737
-Other provisions	8,279	3,416
	-----	-----
	27,026	27,088
	=====	=====

Movement in deferred tax asset is as follows:

At 1 January	27,088	52,673
Profit and loss credit/(charge):		
- Current year charge	(62)	(28,825)
- Prior year over provision	-	3,240
	-----	-----
Profit and loss charge - Note 14(a)	(62)	(25,585)
	-----	-----
At 31 December	27,026	27,088
	=====	=====

26 CUSTOMER DEPOSITS

	2012 Sh'000	2011 Sh'000
Current and demand accounts	1,371,068	1,370,676
Savings accounts	621,490	646,311
Fixed and call deposit accounts	4,459,078	3,224,755
	<u>6,451,636</u>	<u>5,241,741</u>
	=====	=====

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

Repayable:		
Within one month	2,716,893	3,150,372
Within 1 - 3 months	3,030,840	1,720,779
Within 3 - 6 months	461,155	132,315
Within 6-12 months	239,547	235,941
Within 1-3 years	3,201	2,334
	<u>6,451,636</u>	<u>5,241,741</u>
	=====	=====

The weighted effective interest rate on interest bearing customer deposits at 31 December 2012 was 13.6 % (2011 – 9.0%).

The related party transactions and balances are disclosed under note 35 and concentration of customer deposits is covered under note 5 on financial risk management objectives and policies.

27 DUE TO BANKING INSTITUTIONS

Demand accounts	172,000	-
	<u>172,000</u>	<u>-</u>
	=====	=====

The effective interest rate on deposits and balances due to banking institutions at 31 December 2012 was 4% (2011: nil).

28 OTHER LIABILITIES

Bankers cheques outstanding	53,566	54,269
Deposits for letters of credit and letters of guarantee	10,734	11,469
Provision for leave pay	10,222	9,083
Other liabilities and accruals	234,128	160,248
	<u>308,650</u>	<u>235,069</u>
	=====	=====

29 FINANCIAL LIABILITY DERIVATIVE

At 31 December 2012

	Contract exchange rate 2012	Foreign currency 2012 \$'000	Contract value 2012 Sh'000	Fair value liability 2012 Sh'000
Maturing within 3 months				
Buy Dollars	86.20	300	25,860	60
Sell Dollars	86.17	1,200	103,404	(204)
Sell Euros	113.45	130	14,749	20
				—————
				(124)
				=====

At 31 December 2011

	Contract exchange rate 2011	Foreign currency 2011 \$'000	Contract value 2011 Sh'000	Fair value liability 2011 Sh'000
Maturing within 3 months				
Sell Dollars	85.05	100	8,505	(25)
				—————
				(25)
				=====

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency. The fair value is the difference between the contract value and the foreign currency at the closing rate of Sh 86.00 to US Dollar 1 and Sh 113.60 to Euro 1 in 2012 (2011- Sh 80.68 to US Dollar 1 and Sh 109.73 to Euro 1).

30 SHARE CAPITAL

	2012 Sh'000	2011 Sh'000
Authorised		
230,000,000 Ordinary Shares of Sh 5 each	1,150,000	1,150,000
	=====	=====
Issued and fully paid:		
122,886,309 Ordinary Shares of Sh 5 each	614,432	614,432
	=====	=====

31 STATUTORY RESERVE

At 1 January	26,387	22,872
Transfer from retained earnings	8,632	3,605
	—————	—————
At 31 December	35,019	26,387
	=====	=====

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 the impairment of loans and receivables as 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 operating activities

	2012 Sh'000	2011 Sh'000
Profit before taxation	322,054	294,928
Depreciation (note 23)	32,685	29,240
Amortisation of intangible assets (note 24)	7,076	5,254
Profit on disposal of equipment	-	(124)
Loss on disposal of shares (note 21)	-	7,374
Working capital changes;		
Balances with Central Bank of Kenya		
- Cash ratio requirement	(60,124)	(122,167)
- Cash held under lien-clearing	(132)	(445)
Government securities maturing after 90 days	216,387	(811,192)
Government securities held at fair value	(187,098)	120,261
Loans and advances to customers	(930,840)	(1,370,488)
Other assets	95,586	(50,889)
Customer deposits	1,209,895	2,231,271
Other liabilities	(14,763)	40,285
Financial liability – derivatives	99	11
	—————	—————
Cash generated from operating activities	690,825	373,319
	=====	=====

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

Cash on hand (note 16)	299,550	209,366
Balances with Central Bank of Kenya – other (note 16)	233,569	125,427
Placements and balances due from banking institutions (note 17)	967,044	777,408
Government securities maturing within 90 days (note 18)	201,350	51,289
Deposits due to banking institutions (note 27)	(172,000)	-
	—————	—————
	1,529,513	1,163,490
	=====	=====

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 DIVIDENDS

a) Dividends payable

	2012 Sh'000	2011 Sh'000
At 1 January	-	-
Dividends declared	122,886	-
Dividends paid	(122,154)	-
	732	-
At 31 December	732	-

Dividends payable relate to dividends declared in the previous year by the Bank but not collected by the shareholders or their representatives. The dividends payable have been included in other liabilities.

b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A first and final dividend for the year ended 31 December 2012 has been proposed as follows:-

Dividend per share Sh	Total dividend Sh
1	122,886,309
=====	=====

The financial statements for the year ended 31 December 2012 do not reflect this resolution which will be accounted for in shareholders' equity as an appropriation of retained profits in the year ending 31 December 2013.

Payment of dividends is subject to withholding tax at a rate of 5% for resident shareholders.

34 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2012 Sh'000	2011 Sh'000
(a) Contingent liabilities		
Letters of credit	155,199	261,426
Letters of guarantee and performance bonds	349,040	267,329
Forward exchange contracts	143,953	8,505
	648,192	537,260
	=====	=====

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.

NOTES TO THE FINANCIAL STATEMENTS

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

	2012 Sh'000	2011 Sh'000
(b) Capital commitments		
Authorised but not contracted for	128,427	86,356
Authorised and contracted for	19,400	8,589
	<u>147,827</u>	<u>94,945</u>
	=====	=====

(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:

	2012	2011
Within one year	29,935	28,067
In the second to fifth year inclusive	70,783	47,089
	<u>100,718</u>	<u>75,156</u>
	=====	=====

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

35 RELATED PARTY TRANSACTIONS

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

Placings are made in the Bank by directors, their associates and companies associated to directors. Advances to customers at 31 December 2012 include advances and loans to companies associated to directors. Contingent liabilities at 31 December 2012 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 20,981,053 (2011 - Sh 16,080,017).

(b) Loans and advances:

	Directors' associated companies		Employees	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
At 1 January	499,896	583,146	150,912	99,506
Net movement during the year	110,775	(83,250)	93,231	51,406
	<u>610,671</u>	<u>499,896</u>	<u>244,143</u>	<u>150,912</u>
	=====	=====	=====	=====
At 31 December	610,671	499,896	244,143	150,912
	=====	=====	=====	=====

These loans and advances are performing and are adequately secured.

Interest earned on advances to directors and associated companies amounted to Sh 34,167,453 (2011- Sh 31,661,319) and Sh 18,635,565 (2011 –Sh 11,519,193) on staff advances.

(c) Deposits:

	Directors' associated companies		Employees	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
At 1 January	1,455,566	1,262,245	36,384	32,761
Net movement during the year	562,957	193,321	6,116	3,623
	-----	-----	-----	-----
At 31 December	2,018,523	1,455,566	42,500	36,384
	=====	=====	=====	=====

Interest paid on deposits from directors and associated companies amounted to Sh 58,756,256 (2011 - 42,369,400) and Sh 2,620,764 (2011 - Sh 2,243,621) on staff deposits.

	2012 Sh'000	2011 Sh'000
(d) Guarantees and letters of credit to companies associated to directors	45,114	32,274
	=====	=====

(e) Key management compensation

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

	2012 Sh'000	2011 Sh'000
Salaries and other benefits	61,485	57,705
	=====	=====
Directors' remuneration:		
Fees for services as directors	6,686	4,971
Allowances	15,425	11,534
	-----	-----
	21,111	16,505
	=====	=====

36 ASSET PLEDGED AS SECURITY

As at 31 December 2012, assets pledged as security were balances with Central Bank of Kenya under lien for the Domestic Foreign Currency clearing amounting to USD 110,000 (2011: USD 110,000).

NOTES TO THE FINANCIAL STATEMENTS

37 POST BALANCE SHEET EVENTS

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

38 COUNTRY OF INCORPORATION

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

39 CURRENCY

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

**DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012**

	2012 Sh'000	2011 Sh'000
INCOME		
Interest on loans and advances	774,528	450,509
Interest on government securities	198,134	215,639
Interest on placements	12,306	30,946
Interest on government securities at fair value	-	3,599
	<u>984,968</u>	<u>700,693</u>
	=====	=====
INTEREST EXPENSE		
Interest on deposits	408,676	164,330
Interest on money markets	24,564	3,485
	<u>433,240</u>	<u>167,815</u>
	=====	=====
NET INTEREST INCOME	551,728	532,878
FEES AND COMMISSIONS	160,859	148,993
OTHER OPERATING INCOME	II 254,082	159,583
OPERATING EXPENSES	II (593,952)	(482,302)
IMPAIRMENT LOSS ON LOANS AND ADVANCES	(50,663)	(64,224)
	<u>322,054</u>	<u>294,928</u>
PROFIT BEFORE TAXATION	322,054	294,928
TAXATION CHARGE	(108,661)	(92,348)
	<u>213,393</u>	<u>202,580</u>
	=====	=====

**DETAILED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2012 (cont)**

	2012 Sh'000	2011 Sh'000
OTHER OPERATING INCOME		
Gain on foreign exchange dealings	108,756	84,818
Gain on disposal of equipment and furniture	-	124
Bad debts recovered	195	16,230
Miscellaneous income	33,292	5,542
Gain on sale of treasury bonds	111,839	52,869
	<hr/>	<hr/>
	254,082	159,583
	=====	=====
ADMINISTRATION		
Staff costs (note 13)	309,135	262,255
Directors' emoluments - fees	6,686	4,971
- other emoluments	15,425	11,534
Other expenses	21,160	16,260
Rent and parking fees	46,307	33,399
Depreciation	32,685	29,240
Computer maintenance	11,924	15,196
Security services	25,850	19,782
Amortisation of intangible assets	7,076	5,254
Telephone, data and postage	21,950	18,078
Insurance	12,822	10,330
Advertising and marketing	18,617	11,752
Stationery and supplies	6,936	5,814
Auditors' remuneration	2,943	2,700
Electricity and water	5,028	4,922
Licenses	3,974	3,267
Deposit protection fund	6,343	4,150
Subscriptions and donations	4,518	3,072
Maintenance costs	6,248	5,061
Car running expenses	1,684	1,851
Legal and professional fees	4,209	6,224
ATM expenses	5,870	4,224
Fair value loss on government securities	10,974	-
Travel and accommodation	5,588	2,967
	<hr/>	<hr/>
	593,952	482,302
	=====	=====

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON WEDNESDAY 8TH MAY 2013, AT 10.00 AM, AT THE HILTON HOTEL, MAMA NGINA STREET, 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 10th May, 2012.
 - 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, 2012.
 - 2.4 To declare and approve a final dividend of Kshs. 1.00 (one shilling) per share for the financial year ended 31st December, 2012 payable to shareholders on the Register of Members as at 31st December, 2012.
 - 2.5 To elect Directors. In accordance with section 24 of the Company's Articles of Association, Mr. John Kenduiwo hereby retires, and being eligible, offers himself for re-election. Mr. Hilary Tororey hereby retires, and though being eligible, does not offer himself for re-election.
 - 2.6 To approve the Directors' remuneration for the year ended 31st December, 2012.
 - 2.7 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 for which appropriate notice has been issued and received.

3. Special Business

To consider, and if thought fit, pass the following resolution as an ordinary resolution of the Company:

"THAT subject to the receipt of the requisite approvals, the sum of Kenya Shillings three hundred eighty five million, five hundred sixty eight thousand four hundred fifty five (Kshs.385,568,455) being part of the amount standing in the retained earnings be capitalized and accordingly that the sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the Company in the Share register as at 8th May, 2013 to be allocated on or about 8th May, 2013, on condition that the same not be paid in cash but applied in paying up in full at par of seventy seven million one hundred and thirteen thousand six hundred and ninety one (77,113,691) ordinary shares of Kshs.5 each and accordingly allotted and distributed to the members pro rata to their existing shareholding and to rank pari pasu in all aspects with the existing issued shares of the Bank."

"THAT should any of the said seventy seven million one hundred thirteen thousand six hundred ninety one (77,113,691) bonus shares not issued by reason of fractions of a share being disregarded and the same be retained as unallocated in the Banks reserves."

By Order of the Board

Billow A. Kerow
COMPANY SECRETARY

DATED 3rd April, 2013

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

TRANSNATIONAL BANK LIMITED

I/WE.....

Of.....

being a member of the above named Company, hereby appoint

.....

Of.....

.....

Whom failing

.....

Of

.....

or failing him, the Chairman of the meeting, as our/my proxy; to vote for us/me and on our/my behalf at the Annual General Meeting of the Company to be held in Nairobi on Wednesday 8th May, 2013 at 10.00 am and at any adjournment thereof.

As witness under our/my hand this day of.....2013

Signed

.....

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the company.
2. In case of a member being a corporation, this form must be completed under its common seal, or under the hand of an officer or attorney duly authorised in writing.



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