

# Annual Report & Financial Statements 2009



National Bank

THE BANK WHERE YOU BELONG



# CONTENTS | YALIYOMO

<b>Board Of Directors</b>	<b>2-3</b>
Wakurugenzi	2-3
<b>Notice Of The Annual General Meeting</b>	<b>4-6</b>
Ilani Ya Mkutano Mkuu	7-9
<b>Chairman's Statement</b>	<b>11-12</b>
Taarifa Ya Mwenyekiti	13-14
<b>Corporate Social Responsibility</b>	<b>15</b>
<b>Corporate Information</b>	<b>16</b>
Habari Za Kampuni	16
<b>Report Of The Directors</b>	<b>17</b>
Ripoti Ya Wakurugenzi	17
<b>Statement Of Directors' Responsibilities</b>	<b>18</b>
Taarifa Ya Majukumu Ya Wakurugenzi	18
<b>Independent Auditors' Report</b>	<b>19</b>
Ripoti Ya Wakaguzi Huru	19
<b>Statement Of Comprehensive Income</b>	<b>20</b>
<b>Statement Of Financial Position</b>	<b>21</b>
<b>Statement Of Changes In Equity</b>	<b>22</b>
<b>Statement Of Cash Flows</b>	<b>23</b>
<b>Notes To The Financial Statements</b>	<b>24-60</b>
<b>Top Twenty Shareholders</b>	<b>61</b>
<b>National Bank Products And Services</b>	<b>62</b>
<b>Branch Network</b>	<b>63</b>



# BOARD OF DIRECTORS | WAKURUGENZI



**From left to right seated:**

A C Juma	Vice Chairman
R M Marambii	Managing Director
M E G Muhindi	Chairman
Dr. J N Riria	Director

**From left to right standing:**

- |             |   |
|-------------|---|
| L G Kamweti | Company Secretary                         |
| J K Kinyua  | Permanent Secretary, Treasury             |
| A N Ismail  | Executive Director, HR and Administration |
| I M Mworia  | Executive Director, Finance               |
| F L Atwoli  | Director                                  |
| A Kazongo   | Managing Trustee, NSSF                    |
| G O Omino   | Alternate to PS, Treasury                 |
| P W Ngumi   | Director                                  |



# NOTICE OF THE ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Forty First Annual General Meeting of the Shareholders of National Bank of Kenya Limited will be held at the Tsavo Ball Room, Kenyatta International Conference Centre, Nairobi on **Friday 18 June 2010 at 10.00 a.m.** to transact the following business:-

## A. ORDINARY BUSINESS

1. To read the Notice convening the Meeting.
2. To table the proxies and confirm the presence of a quorum
3. To receive and consider the audited financial statements for the year ended 31 December 2009 together with the directors' and auditors' reports thereon.
4. To note that the Board does not recommend the payment of a dividend for the year 2009.
5. To authorise payment of Directors' fees.
6. To confirm that the auditors, Messrs. Deloitte & Touche, shall continue in office and to authorize the directors to fix their remuneration in accordance with Section 159(2) of the Companies Act (Cap. 486).
7. To elect Directors:-

In accordance with articles 90 - 92 of the Company's Articles of Association, P/S Treasury, a Director who retires by rotation and, being eligible, offers himself for re-election.

## B. SPECIAL BUSINESS

8. "THAT A.C. Juma, a Director who retires in accordance with Articles 90 - 92 of the Company's Articles of Association and who is over the age of 70 years, notwithstanding that fact, offers himself to be re-elected as a director of the company for a further period of one year."

To consider and if accepted pass the following Special Resolutions:

### 9. Notices personally, by paper and e-mail

THAT Article 127 of the Company's Articles of Association be amended by the deletion of the current Article 127 and the adoption of the following new Article 127:

'Every notice or other document given by the Company shall be in writing. To the extent permissible by the law the Company may serve any notice or other communication to be given to members or directors by either:

- (a) Personally or
- (b) Publishing such notice in at least two Kenyan daily newspapers with nationwide circulation for at least two consecutive days; or
- (c) Sending such notice through the post or by airmail addressed to such member at his registered postal address; or by electronic media to such member at such electronic media address as the member may notify the Company or the Central Depository system provided that where the Company elects to send such notice to any member at his registered electronic media address the Company shall ensure that such notice is also published in two Kenyan daily newspapers in accordance with paragraph (b) of this Article 127.
- (d) Where the Company elects to serve any notice to members in accordance with paragraph (b) of this Article the Company shall send a similar notice by post, or by electronic mail as the case may be to any and every member who has their registered postal address outside of Kenya'.

### 10. Annual Accounts by Post, Newspapers and e-mail

THAT Article 125 of the Companies Articles of Association be amended by the deletion of the current Article 125 and the adoption of the following new Article 125:

- (a) 'A copy of every balance sheet (including every document required by law to be annexed thereto) which is to be laid before the Company in general meeting, together with a copy of the Auditors' report, (together called the "Accounts") shall not less than twenty-one days before the date of the meeting be sent, or to the extent permissible by law, be otherwise made available by electronic media, to every member of, and every holder of debentures in the Company and to every person registered under Articles 34 to 40.
- (b) The Accounts may be sent by post or otherwise be made available to the extent permissible by law, by electronic media and not by post. This Article shall not require a copy of the Accounts to be sent to more than the first named of any joint holders of any shares or debentures. To the extent permissible by law the Company may send the Accounts to all persons entitled thereto by publishing the Accounts on the Company's official website and if available on the official website of the Nairobi Stock Exchange, provided that the Company shall contemporaneously print a summary of its latest balance sheet and last profit and loss statements together with a summary of the Auditor's report in at least two Kenyan daily newspapers with national circulation for two consecutive days drawing attention to the website(s) on which the Accounts in full may be read, and the address to which a request for a printed copy of the Accounts may be submitted and upon any such publication the Accounts shall be deemed to have been sent to every member or other person entitled to receive a copy of the Accounts'.

# NOTICE OF THE ANNUAL GENERAL MEETING

## 11. Notices when deemed to be served

THAT Article 129 of the Company's Articles of Association be amended by the deletion of the current Article 129 and the adoption of the following new Article 129:

- (a) "Any notice which has been published in a daily newspaper in accordance with Article 127(b) shall be deemed to have been served at 9:00 a.m. on the next business day following the second day of publication.
- (b) Any notice sent by post shall be deemed to have been served at the expiration of Seventy-two hours after posting if addressed within Kenya or at the expiration of One Hundred and Three Hours after posting if outside Kenya.
- (c) Any notice sent by electronic media shall be deemed to have been served at 9:00 a.m. on the business day following the date when transmitted or sent.
- (d) Any Member whose registered address is not within Kenya may by notice in writing require the Company to register an address within Kenya, which, for the purpose of the service of notices, shall be deemed to be his registered address. A Member who has no registered address within Kenya, and who has not given notice as aforesaid, shall be entitled to receive notices from the Company at his address outside Kenya.
- (e) In proving the giving of a notice it shall be sufficient to prove that the notice was published in accordance with Article 127(c), or as the case may be that the envelope containing the notice was properly addressed, stamped and posted, or that the applicable means of telecommunication or electronic communication was properly addressed and transmitted, dispatched or sent in accordance with Article 127(d).
- (f) The failure of any person or entity to receive any notice served pursuant to this Article 129 shall not in any way invalidate any proceedings or actions taken by the Company for which the notice was given"

## 12. Teleconference/Video Conference Board Meetings

THAT the following article be added immediately after article 99:-

- 99A (a) "Meetings of the Board may be held at a place within or without the Republic that has been designated in the notice of the meeting, or, if not stated in the notice or there is no notice, designated or by resolution of the Board.
- (b) Members of the Board may participate in a meeting through use of conference telephone, electronic video screen communication, or other communications equipment. Participation in a meeting through use of conference telephone pursuant to this article constitutes presence in person at that meeting as long as all members participating in the meeting are able to hear one another. Participation in a meeting through use of electronic video screen communication or other communications equipment (other than conference telephone) pursuant to this article constitutes presence in person at that meeting if all of the following apply:
- (i) Each member participating in the meeting can communicate with all of the other members concurrently.
  - (ii) Each member is provided the means of participating in all matters before the Board, including, without limitation, the capacity to propose, or to interpose an objection to, a specific action to be taken by the Company.
  - (iii) The Company adopts and implements some means of verifying both of the following:
    - (a) A person participating in the meeting is a director or other person entitled to participate in the Board meeting.
    - (b) All actions of, or votes by, the Board are taken or cast only by the directors and not by persons who are not directors".

## 13. Dividend warrants and Dividend e-payments

THAT Article 117 of the Company's Articles of Association be amended by the deletion of the current Article 117 and the adoption of the following new Article 117:

"Any dividend, interests or other sum payable to the holder of shares may be paid either:

- (a) by cheque or warrants
- (b) electronic payments

Sent electronically or through the post to the holder or in the case of joint holders the holder whose name stands first in the register in respect of the shares. Every such electronic payment or cheque or warrant shall, unless the holder otherwise directs be made payable to the account or to the order of the registered holder or in the case of joint holders to the account or order of the holder whose name stands first on the register in respect of such shares and shall be sent at his or their risk. Any one or two or more joint holders may give effectual receipts for any dividends or other moneys payable in respect of the shares held by such joint holders".

# NOTICE OF THE ANNUAL GENERAL MEETING

## 14. Definition of the term Electronic Payments

THAT the definition be added to the words-meanings table in the definition clause of the Articles as follows:-

Electronic payments - "Any payment using an integrated electronic platform created by any mobile network operator and any bank or financial institution through which dividend payments may be effected by the Company electronically and withdrawn by the Shareholder as real money".

## 15. Bonus Shares

- (i) "THAT subject to the approval of the Capital Markets Authority and to the agreement of the Nairobi Stock Exchange to the listing of the new Ordinary Shares of the Bank in the sum of Sh 370,585,315/- being the amount now standing to the credit of the Bank's share premium account which amount would be capitalised and combined with an amount of Sh 29,414,685/- from the revenue reserve account so that both sums be applied in making payment in full at par for Ordinary Shares of Sh 5/- each in the capital of the Bank, such new Shares to be distributed as fully paid among the persons who were registered as holders of the Ordinary Shares in the capital of the Bank at the close of Business on 9 April 2010 at the rate of two fully paid new Ordinary Shares for every Five Ordinary Shares of Sh 5/- each held by the members respectively, such new fully paid Shares to rank *pari passu* in all respects with the existing Ordinary Shares.
- (ii) "THAT no Shareholder in the Bank shall be allotted any fractional part of a Share but that all new Shares representing fractions shall be allotted to Directors / Trustees upon the terms that they shall sell the same and account for the net proceeds to those Shareholders entitled thereto in the same proportions in which they are so entitled.

"The Directors of the Bank be and are hereby authorised to attend to and complete all matters required to give effect to all the foregoing Resolutions".

## C. To transact any other business of the Annual General Meeting for which notice has been given.

By Order of the Board

Leonard G Kamweti  
Company Secretary  
National Bank Building  
18 Harambee Avenue, Nairobi  
10 March 2010

A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company. A Proxy Form is available in this report. Shareholders who will not be able to attend the Annual General Meeting are requested to complete and return it to the Registered Office of the Bank not later than 10.00 a.m. on Wednesday 16 June 2010. A Shareholder's Admission Form is on the same page for admission to the Annual General Meeting.

## SECTIONS TO BE DELETED

Dividend warrants	(117) Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrants sent through the post addressed to the holder at his registered address or, in the case of joint holders, addressed to the holder whose name stands first on the Register in respect of the shares. Every such cheque or warrant shall, unless the holder otherwise directs, be made payable to the order of the registered holder or, in the case of joint holders, to the order of the holder whose name stands first on the Register in respect of such shares and shall be sent at his or their risk. Any one or two or more joint holders may give effectual receipts for any dividends or other moneys payable in respect of the shares held by such joint holders.
Copies to be sent to Members	(125) A copy of every balance sheet which sent to Members is to be laid before the company in general meeting, together with copies of the Directors' and Auditors' reports and of every document required by law to be annexed thereto, shall, not less than Twenty-one days before the date of the meeting, be sent to every member and every holder of income notes or debentures of the company.
Service of Notices	(127) Any notice or other document may be served by the company on any member or director either personally or by sending it through the post in a prepaid cover addressed to such member or director at his registered address as appearing in the Register or the company's other records whether such address shall be within or outside Kenya or by telegram, telex or facsimile addressed as aforesaid. In the case of joint holders of a share, all notices shall be given to that one of the joint holders whose name stands first in the Register and notice so given shall be sufficient notice to all the joint holders.
Notice by Post	(129) Where a notice or other document is sent by post it shall be deemed to have been served on the third day after the day on which it was posted. In proving such service or sending, it shall be sufficient to prove that the cover containing the notice or document was properly addressed and put into the post office as a prepaid letter or repaid airmail letter. Where a notice is sent by telegram, telex or facsimile it shall be deemed to have been served on the day after the day on which it was sent. For the purposes of this Article "day" means a working day, excluding Saturdays, Sundays and public holidays.



# ILANI YA MKUTANO MKUU

**ILANI IMETOLEWA HAPA** kwamba mkutano mkuu wa kila mwaka wa arobaini na moja wa wenye hisa wa National Bank of Kenya Limited utafanywa kwenye ukumbi wa Tsavo wa jumba la Kenyatta International Conference Centre, Nairobi **Ijumaa tarehe 18 Juni, 2010 saa nne asubuhi** kutekeleza yafuatayo:-

## A. SHUGHULI ZA KAWAIDA

1. Kusoma Ilani ya kuitisha mkutano.
2. Kuwasilisha fomu za wakala na kuthibitisha kuweko kwa idadi inayohitajika ya wanachama.
3. Kupokea na kuchunguza taarifa za ukaguzi wa pesa kwa kipindi kilichomalizikia tarehe 31 Desemba 2009 pamoja na taarifa za wakurugenzi na wakaguzi.
4. Kufahamu kwamba Halmashauri haipendekezi malipo ya mgao wa faida kwa mwaka 2009.
5. Kuidhinisha malipo ya wakurugenzi.
6. Kuthibitisha kwamba wakaguzi, Deloitte & Touche wataendelea kuhudumu na kuruhusu wakurugenzi kuidhinisha viwango vya malipo yao kuambatana na kufungu nambari 159(2) cha sheria za kampuni (Cap.486).
7. Kuwachagua wakurugenzi:-

Kuambatana na vifungu nambari 90 hadi 92 vya sheria za kampuni, katibu wa wizara ya fedha, Mkurugenzi anayestaafu kwa zamu na kwa kuwa anastahili anajiwasilisha kuchaguliwa tena.

## B. SHUGHULI MAALUM

8. **"KWAMBA** A.C. Juma, mkurugenzi anayestaafu kuambatana na vifungu nambari 90 hadi 92 vya sheria za kampuni na ambaye ana zaidi ya umri wa miaka 70, bila kujali hilo, anajiwasilisha kuchaguliwa tena kama mkurugenzi wa kampuni kwa kipindi kingine cha mwaka mmoja."

Kuchunguza na ikikubaliwa kupitisha maazimio maalum yafuatayo:

### 9. Ilani kwa watu binafsi, gazetini na barua pepe (e-mail)

**KWAMBA** Kifungu nambari 127 cha sheria za kampuni kirekebishwe kwa kuondoa kifungu nambari 127 na kukubaliwa kwa kifungu kipya nambari 127:

'Kila ilani au stakabadhi nyingine yoyote inayotolewa na kampuni itakuwa kwa maandishi. Kwa mujibu wa sheria kampuni itawasilisha ilani au mawasiliano mengine kwa wanachama au wakurugenzi kwa:

- (a) Mtu binafsi au
- (b) Kuchapisha ilani kama hiyo kwenye magazeti mawili ya kila siku yanayosambazwa kote nchini kwa angalau siku mbili mfululizo; au
- (c) Kutuma ilani kama hiyo kwa njia ya posta au barua kwa anuani ya mwanachama iliyosajiliwa; au kwa njia ya vyombo vya habari vya ki-elektroniki jinsi mwanachama atakavyoifahamisha kampuni au Shirika la kuwasajili wamiliki wa hisa (CDSC), ilimradi wakati kampuni inapochagua kutuma ilani kama hiyo kwa mwanachama yeyote kwenye anuani yake ya ki-elektroniki, kampuni itahakikisha kwamba ilani kama hiyo pia imechapishwa kwenye magazeti mawili ya kila siku ya humu nchini kuambatana na ibara (b) ya kifungu hiki nambari 127.
- (d) Wakati kampuni inapochagua kutoa ilani yoyote kwa wanachama kuambatana na ibara(b) ya kifungu hiki kampuni itatuma ilani kama hiyo kwa njia ya posta, au kwa njia ya ki-elektroniki kama inavyopasa kwa kila mwanachama aliye na anuani iliyosajiliwa nje ya Kenya.'

### 10. Akaunti za kila mwaka kwa njia ya Posta, Magazeti na barua pepe(e-mail)

**KWAMBA** kifungu nambari 125 cha sheria za kampuni kirekebishwe kwa kuondoa kifungu cha sasa nambari 125 na kukubaliwa kwa kifungu kipya nambari 125:

- (a) 'Nakala ya kila taarifa ya hesabu za pesa(ikiwemo kila stakabadhi inayohitajika kisheria kuongezewa)kuwasilishwa kwa kampuni kwenye mkutano mkuu, pamoja na nakala ya taarifa ya wakaguzi, (iitwayo ya "uhasibu") katika muda usipoungua siku ishirini na moja kabla ya tarehe ya mkutano itatumwa au kuambatana na sheria kupatikana kwa njia ki-elektroniki na kila mwanachama na kila mmiliki wa hisa katika kampuni na kwa kila mtu aliyesajiliwa chini na vifungu vya sheria nambari 34 hadi 40.
- (b) Akaunti zaweza kutumwa kwa njia ya posta au kupatikana kisheria kwa njia ya ki-elektroniki na wala sio posta. Kifungu hiki hakitahitaji nakala ya akaunti kutumwa kwa zaidi ya mmoja wa wanachama wanaomiliki hisa kwa pamoja. Kisheria kampuni yaweza kutuma akaunti kwa watu wote wanaostahili kwa kuchapisha akaunti kwenye tovuti ya kampuni na ikiwezekana, kwenye tovuti ya Soko la Hisa la Nairobi, bora kampuni itachapisha taarifa ya punde ya hesabu za pesa kwa mukhtasari na taarifa za faida ya mwisho na hasara pamoja na taarifa ya mukhtasari ya wakaguzi katika magazeti mawili ya kila siku ya humu nchini yatakasambazwa nchini kwa siku mbili mfululizo kuonyesha tovuti ambazo akaunti kamili zitasomwa na anuani ambayo nakala ya akaunti iliyochapishwa yaweza kuwasilishwa na wakati wa kuchapisha akaunti itaazimiwa kwamba imetumwa kwa kila mwanachama au mtu mwingine anayestahili kupokea nakala ya akaunti.'

# ILANI YA MKUTANO MKUU

## 11. Itakapoazimiwa Ilani zimetolewa

**KWAMBA** kifungu nambari 129 cha sheria za kampuni kirekebishwe kwa kuondoa kifungu cha sasa nambari 129 na kukubaliwa kwa kifungu kipya kifuatacho nambari 129:

- (a) "Ilani yoyote iliyochapishwa kwenye gazeti la kila siku kuambatana na kifungu nambari 127(b) itaazimiwa kuwa imetolewa saa tatu asubuhi kwenye siku ya pili ya shughuli za kawaida kufuatia siku ya pili ya kuchapishwa.
- (b) Ilani yoyote iliyotumwa kwa njia ya posta itaazimiwa kuwa imetolewa baada ya kumalizika kwa saa sabini na mbili baada ya kutumwa ikiwa ilitumwa kwenye anuani za humu nchini au kumalizika kwa saa mia moja na tatu baada ya kutumwa ikiwa ni nje ya Kenya.
- (c) Ilani yoyote iliyotumwa kwa njia ya faxi au ki-elektroniki itaazimiwa kuwa imetolewa saa tatu asubuhi kwenye siku ya shughuli za kawaida kufuatia tarehe iliyotumwa.
- (d) Mwanachama yeyote ambaye anuani yake iliyosajiliwa haiko nchini Kenya anaweza kuandika ilani ya kuihitaji kampuni kusajili anuani ya humu nchini, kwa minajili ya kupokea ilani, itaazimiwa kuwa anuani yake iliyosajiliwa. Mwanachama asiye kuwa na anuani iliyosajiliwa humu nchini na ambaye hakutoa ilani kama ilivyotarajiwa atapokea ilani kutoka kwa kampuni kwenye anuani yake ya nje ya Kenya.
- (e) Katika kuthibitisha kutolewa kwa ilani inatoshwa kuthibitisha kwamba ilani ilichapishwa kuambatana na kifungu nambari 127(c), au kwamba bahasha yenye ilani iliandikwa anuani sahihi, kuwekwa stempu na kutumwa kwa njia ya posta, au kwa njia zifaazo za mawasiliano ya simu au mawasiliano ya ki-elektroniki zilizingatiwa na kutekelezwa au kutumwa kuambatana na kifungu nambari 127(d)
- (f) Mtu yeyote au taasisi akikosa kupokea ilani yoyote iliyotolewa kuambatana na kifungu nambari 129 hataweza kwa vyovyote vile kubadili shughuli au vitendo vya kampuni kuambatana na ilani iliyotolewa."

## 12. Mikutano ya Halmashauri kwa njia ya Video na Simu za Mkutano

**KWAMBA** kifungu kifuatacho kiongezwe mara moja baada ya kifungu nambari 99:-

- 99A (a) "Mikutano ya Halmashauri yaweza kufanywa mahali popote katika Jamhuri au nje ya Jamhuri palipopangwa kwenye ilani ya mkutano, au ikiwa hapakutajwa katika ilani au bila ilani, pamepangwa au kuchaguliwa kwa uamuzi wa Halmashauri.
- (b) Wanachama wa Halmashauri wanaweza kushiriki katika mkutano kwa kutumia simu za mkutano, picha za mawasiliano ya elektroniki za video, au vifaa vingine vya mawasiliano. Kushiriki kwenye mkutano kwa kutumia simu za mkutano kuambatana na kifungu hiki kunaashiria kuwepo kwa mtu kwenye mkutano ilimradi wanachama wote wanaoshiriki katika mkutano wanaweza kuelewana vyema. Kushiriki kwenye mkutano kwa kutumia picha za mawasiliano ya elektroniki za video au vifaa vingine vya mawasiliano (mbali na simu za mkutano) kuambatana na kifungu hiki kunaashiria kuwepo kwa mtu kwenye mkutano ikiwa yote yafuatayo yatazingatiwa:
- (i) Kila mwanachama anayeshiriki kwenye mkutano anaweza kuwasiliana na wanachama wengine kwa wakati mmoja.
  - (ii) Kila mwanachama ana vifaa vya kumwezesha kushiriki kwenye maswala ya mkutano, kutoa ushauri, kuchangiza, kupendekeza au kupinga jambo lolote ili hatua maalum kuchukuliwa na kampuni.
  - (iii) Kampuni kukubali na kutekeleza njia za ukaguzi ifuatavyo:
    - (a) Mtu anayeshiriki kwenye mkutano ni mkurugenzi au mtu mwingine yeyote anayestahili kushiriki katika mkutano wa Halmashauri.
    - (b) Hatua zote au kura za Halmashauri zinachukuliwa au kupigwa na wakurugenzi pekee na wala sio watu wasio wakurugenzi."

## 13. Hati za Mgao wa Faida na malipo ya Mgao wa Faida kwa njia ya ki-elektroniki

**KWAMBA** kifungu nambari 117 cha sheria za kampuni kirekebishwe kwa kuondoa kifungu cha sasa nambari 117 na kukubaliwa kwa kifungu kipya kifuatacho nambari 117:

"Mgao wowote wa faida, manufaa au malipo mengine ya jumla kwa mwenye hisa waweza kulipwa kwa:

- (a) Hundi au hati ama
- (b) Malipo ya ki-elektroniki

Yatakatyotumwa kwa njia ya ki-elektroniki ama posta hadi kwa mwenye hisa au wenye hisa wa pamoja kwa yule ambaye jina lake ni la kwanza kwenye sajili kuambatana na hisa zao. Kila malipo ya ki-elektroniki au hundi au hati, isipokuwa iwe ni kwa maagizo yaliyotolewa na mwenye hisa italipwa kwenye akaunti au inavyoamrisha na mwenye hisa au kwenye mwenye hisa wa pamoja ambaye jina lake ni la kwanza kwenye sajili kuambatana na hisa zao na itatumwa kwa shauri lake au lao. Mtu yeyote au wawili au zaidi wanaomiliki hisa kwa pamoja wanaweza kutoa risiti kwa mgao wa faida au pesa nyingine walipwazo kwa hisa zao kama wamiliki wa pamoja wa hisa."

# ILANI YA MKUTANO MKUU

## 14. Ufafanuzi wa jina “Malipo ya ki-elektroniki”

**KWAMBA** maelezo yaliyoko yaongezwe kwa ratibu ya maana ya maneno kwenye kipengele cha vifungu vya sheria kama ifuatavyo.

Malipo ya ki-elektroniki - “Malipo yoyote kwa kutumia mfumo wa pamoja wa ki-elektroniki uliobuniwa na mhudumu wa mtandao wowote wa simu za rununu na benki au taasisi yoyote ya kifedha ambayo malipo ya mgao wa faida hutekelezwa na kampuni kwa njia ya ki-elektroniki na kutolewa na wenye hisa kama pesa halisi.”

## 15. Hisa za Bakshishi

(i) “**KWAMBA** kwa idhini ya Halmashauri ya Masoko ya Mtaji na Soko la Hisa la Nairobi kukubali kuorodhesha hisa mpya za kawaida za benki za jumla ya shilingi 370,585,315/- kikiwa ni kiasi cha hisa za akaunti ya benki ambacho ni mtaji pamoja na kiasi cha shilingi 29,414,685/- kutokana na mapato ya akaunti ya akiba ili pesa zote zijumuishwe katika kutoa malipo kamili kwa kila hisa ya kawaida ya shilingi 5/- kwenye mtaji wa benki, hisa hizo mpya zigawiwe kama malipo kamili miongoni mwa watu waliosajiliwa kama wenye hisa wa hisa za kawaida katika mtaji wa benki wakati wa kufungwa kwa shughuli hizo tarehe 9 Aprili, 2010 kwa kiwango cha hisa mbili za kawaida kwa kila hisa tano za shilingi 5/- zinazomilikiwa na wanachama mtawalia, hisa hizo mpya zilizolipwa kikamilifu zichukuliwe kwa usawa kwa viwango vyote vya hisa za kawaida zilizo.

(ii) “**KWAMBA** hakuna mwenye hisa yeyote atakayepewa akisami yaani baki ya hisa zipewazo wenye hisa ila kwamba hisa zote mpya zinazowakilisha akisami zipewe Wakurugenzi na wadhamini kwa masharti kwamba wataziua na kuwasilisha hesabu kwa wenye hisa wanaostahili kupata hisa hizo.

“Wakurugenzi wa Benki waruhusiwe kutekeleza na kukamilisha maswala yote yanayotarajiwa kushughulikiwa kwa kutimiza maazimio haya.”

## C. Kutekeleza shughuli nyingine zozote za mkutano mkuu wa kila mwaka ambazo ilani imetolewa

### Kwa amri ya Halmashauri

Leonard G Kamweti  
Katibu wa Kampuni  
National Bank Building  
18 Harambee Avenue, Nairobi  
10 Machi, 2010

Mwanachama anayestahili kuhudhuria na kupiga kura kwenye mkutano uliotajwa hapo juu anaweza kumteua wakala kuhudhuria na kupiga kura kwa niaba yake. Wakala ahitaji kuwa mwanachama wa kampuni. Fomu ya wakala yapatikana kwenye ripoti hii. Wenye hisa watakaoshindwa kuhudhuria mkutano mkuu wa kila mwaka wanaomba kuikamilisha na kuirejesha katika ofisi iliyosajiliwa wa Benki Jumatano tarehe 16 Juni 2010 kabla ya saa nne asubuhi. Fomu ya kumruhusu mwenye hisa kuingia mkutanoni yapatikana kwenye ukurasa huo huo wa fomu ya wakala.

## VIFUNGU VYA KUONDOLEWA

Hati za mgao wa faida	(117) Mgao wowote wa faida, manufaa au pesa nyingine zinazolipwa kama pesa taslimu kwa mwenye hisa zaweza kulipwa kwa hundi au hati kwa njia ya posta kwenye anuani ya mwenye hisa iliyosajiliwa au wenye hisa wa pamoja kwa yule ambaye jina lake ni la kwanza kwenye sajili ya hisa kuambatana na hisa zao. Kila hundi au hati isipokuwa iwe ni kwa maagizo ya mwenye hisa, italipwa kama ilivyoamrisha na mwenye hisa, au kwa wenye hisa wa pamoja kwa amri ya yule ambaye jina lake ni la kwanza kwenye sajili kuambatana na hisa zao na itatumwa kwa shauri lake au lao. Mtu yeyote au wawili au zaidi wanaomiliki hisa kwa pamoja wanaweza kutoa risiti kwa mgao wowote wa faida au pesa nyingine zozote zinazolipwa kwa hisa zao.
Nakala kutumiwa Wanachama	(125) Nakala ya kila taarifa ya hesabu za pesa iliyopelekwa wanachama iwasilishwe kwenye mkutano mkuu wa kampuni pamoja na nakala za taarifa za Wakurugenzi na Wakaguzi na kila stakabadhi inayohitajika kisheria kuwa pamoja na hizo katika muda usiopungua siku ishirini na moja kabla ya tarehe ya mkutano, kutumwa kwa kila mwanachama na kila mwenye hisa wa kampuni na wamiliki wa hati za fedha za kampuni.
Kutolewa kwa Ilani	(127) Ilani yoyote au stakabadhi nyingine inaweza kutolewa na kampuni kwa mwanachama yeyote au mkurugenzi ama kwa mtu binafsi au kwa kuituma kwa njia ya posta kwenye bahasha yenye stempu kwa mwanachama au mkurugenzi kwenye anuani yake kama ilivyo kwenye sajili ya hisa au rekodi nyingine za kampuni iwapo anuani kama hiyo itakuwa ya humu nchini au nje ya Kenya au kwa njia ya telegram, telex au faxi. Kwa wenye hisa wa pamoja, ilani zote zitatolewa kwa mwenye hisa wa pamoja ambaye jina lake ni la kwanza kwenye sajili na ilani iliyotolewa inatosha kwa wenye hisa wote wa pamoja.
Ilani kwa njia ya Posta	(129) Pale ambapo ilani au stakabadhi nyingine imetumwa kwa njia ya posta itaazimiwa kuwa imetolewa siku ya tatu baada ya siku iliyotumwa kwa njia ya posta. Katika kuthibitisha kutolewa au kupelekwa, inatosha kuthibitisha kwamba bahasha yenye ilani au stakabadhi ama bahasha inayopelekwa nje ina anuani sahihi na kuwekwa kwenye posta kama barua yenye stempu. Pale ambapo ilani imepelekwa kwa njia ya telegram, telex au faxi itaazimiwa kuwa imetolewa siku moja baada ya siku iliyotumwa. Kwa minajili ya kifungu hiki “siku” inaamniwa siku nzima ya kazi, isipokuwa Jumamosi, Jumapili na siku za kitaifa za mapumziko.



Boost your business with NBK's

Inua  
Biashara  
ACCOUNT

 National Bank

THE BANK WHERE YOU BELONG



## CHAIRMAN'S STATEMENT

I am delighted to present to our Shareholders the Annual Report and Financial Statements of National Bank of Kenya Limited for the year ended 31 December 2009.

The trading results for the year 2009 show a significant improvement in the Bank's performance, compared to last year, despite the difficult economic conditions.

The improved performance is derived from an overall increase in business activities and recovery of old debts during the year. The total assets of the Bank grew by 20% and profitability by 20% as well. The number of the Bank's outlets increased from 38 to 41 following the opening of branches in Kiambu and Eastleigh, and an Agency at St. Paul's University, Limuru.

### THE ECONOMY

After a difficult year 2008, in which the economy grew by 1.7% there was slow recovery in year 2009 when the economy grew by 2.5%. The slow growth was largely due to severe drought, increase in food and oil prices and continued recession in the developed economies. According to reports by the Central Bank of Kenya and the Kenya National Bureau of Statistics the economy was depressed by poor performance of the key sectors which included agriculture, manufacturing and transport. However, a number of stimulus initiatives and monetary policy actions remained supportive of economic recovery. The Central Bank of Kenya increased market liquidity which resulted into lower interbank lending rates. Treasury Bills rates also declined significantly during the year.

According to the new computation method based on geometric mean, overall inflation stood at 5.3% as at December 2009. In December 2008 the inflation rate was 17.8% computed on the basis of the earlier method based on arithmetic mean.

Despite the relatively weak economy, the Kenya Shilling held firmly against the major international currencies with marginal appreciation against most of them.

### BANKING SECTOR

The Banking sector continued to record growth in assets and profitability, albeit at a lower rate than in the previous year. A number of institutions witnessed stagnation of their profits in the first and second quarters of the year, a situation which improved in the third and fourth quarters.

The uncertainty about speedy economic recovery also saw many banks reduce their expansion drive and therefore opened fewer outlets than last year.

### RESULTS FOR THE YEAR 2009

The Bank's improved performance resulted in a 20% increase in pre-tax profit to Sh 2.2 billion in 2009 from Sh 1.8 billion in 2008. Net profit increased by 18% to Sh 1.46 billion from Sh 1.24 billion in 2008.

Bank's operating income increased by 13% in 2009 to Sh 5.7 billion, while operating expenses increased by 18% to Sh 3.4 billion.

Provisioning against non-performing loans has continued to reduce and was this time Sh 144 million compared to Sh 362 million last year. The marked reduction is a reflection of the commendable effort made to improve the quality of the Bank's advances portfolio.

Total assets of the Bank grew by 20% from Sh 42.7 billion in December 2008 to Sh 51.4 billion in 2009. Customer deposits increased by 22.5% from Sh 34.3 billion to Sh 42.0 billion during the same period. Net advances increased by 47% from Sh 9.0 billion to Sh 13.2 billion in December 2009. Investments in Government securities increased by 13% to Sh 26.6 billion during the same period.

As a result of the good performance in year 2009, the Bank eliminated the revenue reserve account deficit, which stood at Sh. 1,374.0 million at the close of year 2008, leaving a surplus of Sh. 53.5 million. This turnaround is a milestone in the Bank's 2008 – 2010 plan period. Elimination of the deficit now paves the way for payment of dividends from future profits. However, after the elimination of the deficit, the surplus was not sufficient to pay a meaningful dividend for the year 2009.

### CORPORATE GOVERNANCE

The Board of Directors is responsible for the good governance of the Bank and is accountable to the Shareholders for ensuring that the company complies with the law and the highest standards of corporate governance and business ethics. The Directors attach great importance to the need to conduct the business of the Bank in accordance with generally accepted corporate governance principles.

The Board is responsible for the long term growth and profitability of the Bank. The Directors maintain full and effective control over strategic, financial, operational and compliance issues of the Bank, and provide guidance to Management.

### Board Meetings

The Board holds regular meetings and on occasions, special meetings when need arises. Scheduled meetings review monthly performance against targets as well as monitoring of business and operational issues. The Central Bank of Kenya inspection report and the auditors' reports are also reviewed and appropriate action taken on their recommendations.

# CHAIRMAN'S STATEMENT

During the year, the Board held 18 ordinary and special meetings. Details of attendance of the meetings by non-executive directors are as follows: -

NAME OF DIRECTOR	NUMBER OF MEETINGS
M E G Muhindi	18
A C Juma	16
P W D Ngumi	18
J N Riria	12
F L Atwoli	09
NSSF	17
P S Treasury	18

## Board Evaluation

In compliance with the requirement of the Central Bank of Kenya's prudential guidelines and also as part of good corporate governance practice, the Board carried out a peer evaluation exercise for the year 2009. The results were submitted to the Central Bank of Kenya. All the directors scored a consolidated rating above average on individual basis.

## Composition Of The Board

Seven out of the ten members of the Board including the Chairman of the Board are non-executive directors. Of these, the Permanent Secretary to the Treasury and National Social Security Fund are institutional directors in the Board. All the other five non-executive directors are considered by the Board to be independent and free from any business, interest or other relationship that could influence the exercise of their personal independent judgement.

## Board Committees

The Board has five standing Committees which meet regularly under the terms of reference set by the Board. The Committees make recommendations to the Board on matters falling under their mandate. The five Committees are Audit & Risk, Credit Finance & ICT, Staff, Tender and Operations & Marketing Committees. The Audit & Risk Committee assists the Board in discharging its supervisory and good corporate governance responsibilities. These include among others the Bank's relationship with, and the independence of the external auditors, the reliability of the financial statements, external communication and maintenance of an effective risk management framework including compliance and internal controls.

## Communication With Shareholders

The Bank is committed to ensuring that shareholders and the financial markets are provided with full and timely information about its performance. This is achieved by the distribution of the Bank's annual report, the release of its quarterly and annual results in the media and any other pertinent disclosures. The Bank therefore complies with its obligations as contained in the Nairobi Stock Exchange Rules and Capital Market Authority Act.

The Media is also used whenever there are other significant developments to report on.

## Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the year are disclosed in the notes to the financial statements.

Since the last Annual General Meeting of the Company, no director has received or become entitled to receive any benefit other than the directors' fees and allowances and amounts received under employment contracts for executive directors.

Loans and advances made to directors in common with other customers are also disclosed in the financial report.

## BONUS SHARE ISSUE

On behalf of the Board I am pleased to propose to the Shareholders the conversion of Sh 370.6 million standing to the credit of the Bank's share premium account and a further Sh 29.4 million from the Bank's revenue reserve into share capital, totalling Sh 400.0 million, and issue bonus shares at a rate of 2 ordinary shares for every 5 such shares held. The new shares shall rank pari passu in all respects with the existing ordinary shares. The issuance of the shares will be subject to the approval of the Capital Markets Authority.

## FUTURE OUTLOOK

The economic environment is expected to generally improve in 2010 supported by improved macroeconomic conditions, positive fiscal stimulus initiatives, higher rainfall and the continued recovery of the global economy.

Early projections indicate that the economy is likely to pick up and attain a growth rate of up to 4.5% in 2010. The banking sector is expected to be more stable and resilient to global trends.

The Bank is keen to take advantage of the expected positive growth of the economy to expand its network in locations where it considers its presence to be strategic for business growth. The Bank therefore plans to open more outlets in the current year.

## APPRECIATION

May I take this opportunity to convey my appreciation to the Board, Management and Staff of the Bank for their tireless and splendid efforts that have seen our Bank attain record performance in 2009.

On behalf of the Board and Management I wish to thank our Shareholders, Customers and Communities in which we operate for their continued trust, support and confidence in the Bank.

**M E G MUHINDI**  
CHAIRMAN

# TAARIFA YA MWENYEKITI

Ni furaha yangu kuu kuwasilisha kwa Wenye-hisa wetu Taarifa ya kila Mwaka na Taarifa za Kifedha za National Bank of Kenya Limited kwa kipindi cha mwaka kilichomalizikia tarehe 31 Desemba 2009.

Matokeo ya shughuli za Benki mwaka wa 2009 yanaonyesha kiwango cha kuridhisha kufuatia kuimarika kwa shughuli za Benki hii, ikilinganishwa na mwaka uliopita, licha ya hali ngumu za kiuchumi.

Kuimarika kwa shughuli hizo kulitokana na ongezeko la shughuli za kibiashara na kulipwa kwa madeni ya zamani katika mwaka huo. Jumla ya mali za Benki ziliongezeka kwa asilimia 20 na faida kwa asilimia 20 vile vile. Vituo vya Benki viliongezeka kutoka 38 hadi 41 kufuatia kufunguliwa kwa matawi katika sehemu za Kiambu na Eastleigh na kituo cha Benki katika chuo kikuu cha St. Paul's, Limuru.

## UCHUMI

Baada ya mwaka mgumu wa 2008, ambapo uchumi uliongezeka kwa asilimia 1.7, ufufuzi wake ulifanyika pole pole mwaka wa 2009 na kukua kwa asilimia 2.5. Kukua pole pole kwa uchumi kulitokana na hali mbaya ya ukame, ongezeko la bei za vyakula na mafuta na kuendelea kudidimia kwa chumi za mataifa yaliyostawi. Kulingana na taarifa za Benki Kuu ya Kenya na Halmashauri ya Taifa ya Takwimu, uchumi ulididimia kufuatia kuzorota kwa sekta muhimu zikiwemo kilimo, uingenezaji bidhaa na uchukuzi. Hata hivyo, juhudi kadhaa za kuukwama uchumi na sera kuhusu fedha ziliendelea kuunga mkono hatua za ufufuzi wa uchumi. Benki Kuu ya Kenya iliongeza soko la mtiririko wa pesa lililoweza kupunguzwa kwa viwango vya riba vya uombaji mikopo kati ya benki. Viwango vya Hati za dhamana za serikali pia vilipungua kwa kiasi kikubwa mwaka huo.

Kulingana na mfumo mpya wa sasa wa hesabu za kiuchumi, kiwango cha jumla cha gharama ya maisha kilikuwa asilimia 5.3 kufikia mwezi Desemba mwaka wa 2009. Mnamo mwezi wa Desemba mwaka 2008 kiwango cha gharama ya maisha kilikuwa asilimia 17.8 kwa mfumo wa awali wa hesabu za kiuchumi.

Licha ya kudorora kwa uchumi, shilingi ya Kenya ilikuwa thabiti dhidi ya sarafu kuu za kimataifa, huku thamani yake ikiendelea kupanda kwa kiwango cha kuridhisha dhidi ya sarafu nyingi.

## SEKTA YA BENKI

Sekta ya Benki iliendelea kupata ongezeko katika mali na faida, ingawa kwa kiwango cha chini kuliko mwaka uliopita. Taasisi kadhaa zilishuhudia kukwama kwa faida zao katika robo ya kwanza na ya pili ya mwaka, hali ambayo iliimarika katika robo ya tatu na ya nne ya mwaka.

Hali isiyobashirika ya ufufuzi wa haraka wa uchumi pia ilisababisha benki nyingi kupunguza shughuli zao za upanuzi na hivyo basi kufungua vituo vichache kuliko mwaka uliopita.

## MATOKEO YA MWAKA WA 2009

Shughuli zilizoimarika za Benki ziliwezesha kupatikana kwa ongezeko la asilimia 20 la faida kabla ya kutozwa ushuru hadi Sh bilioni 2.2 mwaka wa 2009 ikilinganishwa na Sh bilioni 1.8 mwaka wa 2008. Faida ya kampuni iliongezeka kwa asilimia 18 hadi Sh bilioni 1.46 kutoka Sh bilioni 1.24 mwaka wa 2008.

Mapato ya huduma za Benki yaliongezeka kwa asilimia 13 mwaka wa 2009 hadi Sh bilioni 5.7, ilhali matumizi ya huduma za benki yaliongezeka kwa asilimia 18 hadi Sh bilioni 3.4.

Maandalizi ya kukabiliana na mikopo isiyolipwa yameendelea kupungua na wakati huu gharama yake ni Sh milioni 144 ikilinganishwa na Sh milioni 362 mwaka uliopita. Kupungua huko kunadhihirisha juhudi kabambe zilizofanywa kuimarisha ubora wa mikopo ya Benki.

Mali za Benki kwa ujumla ziliongezeka kwa asilimia 20 kutoka Sh bilioni 42.7 mwezi Desemba mwaka 2008 hadi Sh bilioni 51.4

mwaka wa 2009. Akiba za wateja ziliongezeka kwa asilimia 22.5 kutoka Sh bilioni 34.3 hadi Sh bilioni 42.0 katika kipindi hicho hicho. Rubuni za mwisho ziliongezeka kwa asilimia 47 kutoka Sh bilioni 9.0 hadi Sh bilioni 13.2 mwezi Desemba mwaka wa 2009. Uwekezaji kwenye Hati za dhamana za Serikali uliongezeka kwa asilimia 13 hadi Sh bilioni 26.6 katika kipindi hicho hicho.

Kutokana na matokeo mema ya mwaka wa 2009, Benki hii iliondoa nakisi ya akaunti ya mapato iliyokuwa Sh milioni 1,374.0 wakati wa kumalizika kwa mwaka wa 2008, na kuacha Sh milioni 53.5 za ziada. Hatua hii ilikuwa muhimu kwa mpango wa Benki wa mwaka 2008-2010. Kuondolewa kwa nakisi sasa kumetoa fursa ya kulipwa kwa migao ya faida katika faida za siku zijazo. Hata hivyo baada ya kuondolewa kwa nakisi, pesa za ziada hazikutosha kulipa mgao bora wa faida kwa mwaka wa 2009.

## USIMAMIZI WA KAMPUNI

Halmashauri ya Wakurugenzi inahusika na usimamizi bora wa Benki na unawajibika kwa Wenye-hisa kwa kuhakikisha kuwa kampuni inazingatia sheria na viwango vya juu sana vya usimamizi wa kampuni na maadili ya shughuli zake. Wakurugenzi wanazingatia umuhimu kuhusu haja ya kuendesha shughuli za Benki kuambatana na kanuni za usimamizi wa kampuni zinazokubalika.

Halmashauri inawajibika na ukuaji wa muda mrefu na faida ya Benki. Wakurugenzi wanadumisha uthibiti kikamilifu kuhusu mipango maalum, maswala ya kifedha, huduma na uzingatiji sheria na kanuni za Benki na kutoa mwongozo kwa Wasimamizi.

## Mikutano Ya Halmashauri

Halmashauri hufanya mikutano mara kwa mara na mara nyingine, mikutano maalum kunapokuwa na haja ya kufanya hivyo. Mikutano iliyopangwa huchunguza matokeo ya kila mwezi dhidi ya malengo yaliyonuiwa na vile vile kuchunguza maswala ya shughuli za kampuni na huduma. Taarifa ya ukaguzi ya Benki Kuu ya Kenya na ile ya ukaguzi wa hesabu pia huchunguzwa na hatua zifaazo kutekelezwa baada ya kupendekezwa.

Mnamo mwaka huo, Halmashauri ilifanya mikutano 18 ya kawaida na maalum. Maelezo zaidi ya waliohudhuria mikutano hiyo miongoni mwa wakurugenzi wasiokuwa wafanyakazi ni kama ifuatavyo:-

JINA LA MKURUGENZI	IDADI YA MIKUTANO ALIYOHUDHURIA
M E G Muhindi	18
A C Juma	16
P W D Ngumi	18
J N Riria	12
F L Atwoli	09
NSSF	17
P S Treasury	18

## Ukadiriaji Wa Halmashauri

Katika kuzingatia mahitaji ya Benki Kuu ya Kenya kuhusu mwongozo bora na pia kama sehemu ya usimamizi bora wa kampuni, Halmashauri ilitekeleza shughuli ya utathmini wa maendeleo kwa mwaka wa 2009. Matokeo yaliwasilishwa kwa Benki Kuu ya Kenya. Wakurugenzi wote walikadiriwa na wakafaulu kufikia kigezo kilichojumlishwa ambacho ni cha juu ya kile cha wastani kwa kila mmoja.

# TAARIFA YA MWENYEKITI

## Muundo Wa Halmashauri

Saba kati ya wanachama kumi wa Halmashauri akiwemo Mwenyekiti wa Halmashauri ni wakurugenzi wasiokuwa wafanyikazi wa kampuni. Kati ya hawa, Katibu katika Wizara ya Fedha na Hazina ya Malipo ya Uzeeni NSSF ni wakurugenzi wa taasisi katika Halmashauri. Wakurugenzi wengine watano wasiokuwa wafanyikazi wanachukuliwa na Halmashauri kuwa watu huru na wako huru wasijihusishe na shughuli yoyote, maslahi au uhusiano mwingine wowote unaoweza kuwa na ushawishi kwa uhuru wao.

## Kamati Za Halmashauri

Halmashauri ina kamati tano zinazokutana kila mara chini ya masharti yaliyowekwa na Halmashauri hiyo. Kamati hizo hutoa mapendekezo kwa Halmashauri kuhusu maswala yaliyo chini ya mamlaka zao. Kamati hizo tano ni ile ya Ukaguzi na Tahadhari, Mikopo, Fedha na Teknolojia, Wafanyikazi, Zabuni na Utendakazi na Masoko. Kamati ya ukaguzi na Tahadhari huisaidia Halmashauri katika kutekeleza majukumu ya uangalizi na usimamizi bora wa kampuni. Majukumu haya ni pamoja na uhusiano wa benki na wakaguzi huru kutoka nje, taarifa za kifedha za kutegemewa, mawasiliano ya nje na kudumishwa kwa utaratibu wa usimamizi bora wa hasara ya biashara ukiwemo uzingatiji kanuni na kuthibiti uchunguzi wa ndani.

## Mawasiliano Na Wenye-hisa

Benki hii imejitolea kuhakikisha kwamba Wenye-hisa na masoko ya kifedha wanapokea habari kikamilifu na kwa wakati ufaao kuhusu matokeo yake. Hali hii huafikiwa kwa ugawaji wa taarifa ya Benki ya kila mwaka, kutolewa kwa taarifa ya robo mwaka na ya kila mwaka kwa vyombo vya habari na njia nyingine za mawasiliano. Benki hivyo basi huzingatia majukumu yake yote kama inavyohitajika kwenye sheria za Soko la Hisa la Nairobi na Halmashauri ya Masoko ya Mtaji.

Vyombo vya habari pia hutumiwa kunapokuwa na matukio mengine muhimu ya kuelezea.

## Marupurupu Ya Wakurugenzi Na Mikopo

Kiasi cha marupurupu kinacholipwa Wakurugenzi kwa huduma wanazotoa katika mwaka mzima huelezewa kwenye taarifa za kifedha.

Tangu mkutano mkuu wa mwaka uliopita wa kampuni, hakuna Mkurugenzi aliyepokea au kuwa na haki ya kupokea marupurupu yoyote isipokuwa malipo ya wakurugenzi na marupurupu mengine na pesa wanazopokea chini ya kandarasi za ajira kwa wakurugenzi watendaji.

Mikopo na karadha wanayopewa wakurugenzi ambayo pia hupewa wateja wengine huelezewa katika ripoti ya kifedha.

## HISA ZA BAKSHISHI

Kwa niaba ya Halmashauri nina furaha kupendekeza kwa Wenye-hisa kubadilishwa kwa Sh milioni 370.6 kwenye akaunti ya akiba ya hisa za Benki na Sh milioni 29.4 zaidi za akiba ya mapato ya Benki kwenye mtaji wa hisa, wa jumla ya Sh milioni 400.0 na kutoa hisa za bakshishi kwa kiwango cha hisa 2 za kawaida kwa kila hisa 5 zinazomilikiwa. Hisa hizo mpya zitakuwa za kiwango sawa kwa viwango vyote vya hisa za kawaida zinazomilikiwa. Utoaji wa hisa hizo utahitaji idhini ya Halmashauri ya Masoko ya Mtaji.

## MTAZAMO WA SIKU ZIJAZO

Mazingira ya kiuchumi yanatarajiwa kuimarika mwaka wa 2010 kwa kuungwa mkono na shughuli kubwa za kiuchumi, juhudi zifaazo za ukwamuzi wa uchumi, viwango vya juu vya mvua na kuendelea kufufuka kwa uchumi wa dunia.

Dalili za mapema zaonyesha kuwa uchumi huenda ukaimarika na kufikia kiwango cha ukuaji cha asilimia 4.5 mwaka wa 2010. Sekta ya benki inatarajiwa kuwa thabiti zaidi na stahimilivu kwa hali zozote za ulimwengu.

Benki hii inanuia kuchukua fursa ya matarajio mema ya ukuaji wa uchumi kupanua mtandao wake katika maeneo inayoyachukulia kuwa muhimu kwa ukuaji wa biashara yake. Benki hii hivyo basi ina mipango ya kufungua vituo zaidi mwaka huu.

## SHUKURANI

Napenda kuchukua nafasi hii kutoa shukurani zangu kwa Halmashauri, Wasimamizi na Wafanyikazi wa Benki kwa juhudi zao kubwa na kufanya kazi bila kuchoka kuiwezesha Benki yetu kupata matokeo bora mwaka wa 2009.

Kwa niaba ya Halmashauri na Wasimamizi, nina washukuru Wenye-hisa wetu, Wateja na Jamii tunayoihudumia kwa kuendelea kututhamini, kutuunga mkono na kuwa na imani na Benki hii.

## MEG MUHINDI MWENYEKITI



# CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility (CSR) is enshrined in the Bank's mission statement and is considered to be an integral part of our business activities. The communities where the Bank operates are therefore considered important stakeholders in the way we conduct our business. In the year 2009 the Bank was involved in various CSR initiatives aimed at impacting positively on the lives of the respective communities where it operates.

The Bank's core CSR activities have focused on healthcare, sports, education, environment and vulnerable groups.

## Health

Health care is one of the CSR activities the Bank has given high priority. The Bank has continued to support the efforts made by the Country's main referral hospital, Kenyatta National Hospital to provide quality health care to an ever increasing number of patients. During the year, the Bank made a donation of 20 patient wheelchairs in addition to a cash donation of Sh. 1.7 million for the refurbishment of the Pediatrics oncology ward with a capacity of 40 patients and a mothers' hostel with a capacity of 160.

## Sports

In recognition of the need to identify and nurture athletic talent, the Bank entered into a sponsorship agreement with Athletics Kenya (AK) for the support of Youth Athletics programme for an amount of Sh. 16.1 million. The success of this sponsorship was extremely rewarding in that the country's teams were very successful in the international events that took place in 2009.

## Education

The Bank continued to support various schools in their efforts to achieve both academic and sporting excellence through donation of trophies and other forms of assistance. Notable beneficiaries include Kivunja Primary School in Molo which has a high population of Internally Displaced person's children, Muthurwa and Murema Primary Schools in Nairobi.

## Vulnerable groups

During the year under review the Bank undertook a number of initiatives aimed at uplifting the lives of the vulnerable members of our society and especially the children. To this end, the Bank financed a project to install electricity and provide water to the Soul Mercy Children's home in Nairobi which also serves as a fully integrated primary and Secondary school.

In response to the effects of the severe drought that struck most parts of the country, the Bank donated several bags of maize to the people of Mutomo in Kitui.

The Staff of the Bank's Limuru branch identified a needy Home for disabled girls – Limuru Cheshire Home and successfully spearheaded a fund raising Charity Walk to construct a kitchen. The home offers refuge and opportunities to girls with various disabilities to prepare them for life challenges.

## Environment

The Bank continues to support initiatives aimed at conserving and protecting the environment. During the Year under review, the staff of the Bank from various branches countrywide participated in tree planting and cleaning up activities.



Managing Director Reuben Marambii presents wheelchairs to Dr. Jotham Micheni, Director Kenyatta National Hospital



Archbishop Emeritus Ndingi Mwana'a Nzeki officially opens a Kitchen at the Limuru Cheshire Home, Managing Director Reuben Marambii Looks on.



Managing Director Reuben Marambii commissions a water tank at the Soul Mercy Children's Home, Mrs. Mary Mutonga the director of the home looks on while the children clap in jubilation.

# CORPORATE INFORMATION | HABARI ZA KAMPUNI

## DIRECTORS

### Non-executive

M E G Muhindi - Chairman  
A C Juma - Deputy Chairman  
PS Treasury  
National Social Security Fund (NSSF)  
Dr J N Riria  
F L Atwoli  
P W D Ngumi

### Executive

R M Marambii - Managing Director  
I M Mworira - Finance Director  
A N Ismail - HumanResource  
& Administration Director

## REGISTERED OFFICE

National Bank Building  
Harambee Avenue  
P O Box 72866 City Square  
00200 Nairobi

## AUDITORS

Deloitte & Touche  
Certified Public Accountants (Kenya)  
"Kirungii" Ring Road Westlands  
P O Box 40092 GPO  
00100 Nairobi

## BOARD COMMITTEES

### STAFF COMMITTEE

P W D Ngumi\*  
PS Treasury  
Dr J N Riria  
NSSF

### AUDIT & RISK COMMITTEE

P W D Ngumi\*  
A C Juma  
NSSF  
PS Treasury

### CREDIT, FINANCE, INFORMATION & TECHNOLOGY COMMITTEE

A C Juma\*  
Dr J N Riria  
NSSF  
PS Treasury  
P W D Ngumi

### TENDER COMMITTEE

A C Juma \*  
F L Atwoli  
NSSF  
M E G Muhindi

### OPERATIONS AND MARKETING COMMITTEE

Dr J N Riria\*  
A C Juma  
NSSF  
P W D Ngumi

\* Chairman Of Committee

## COMPANY SECRETARY

L G Kamweti  
Certified Public Secretary(Kenya)  
Harambee Avenue  
P O Box 72866 City Square  
00200 Nairobi

# REPORT OF THE DIRECTORS | RIPOTI YA WAKURUGENZI

The directors present their report together with the audited financial statements for the year ended 31 December 2009.

## ACTIVITIES

The principal activity of the bank, which is licensed under the Banking Act, is the provision of banking, financial and related services.

## RESULTS

	Sh'000
Profit before taxation	2,159,441
Taxation charge	(696,486)
Profit for the year	<u>1,462,955</u>

## DIVIDEND

The directors do not recommend the payment of a dividend for the year ended 31 December 2009.

## BONUS SHARE ISSUE

Subject to regulatory approvals and that of the shareholders, the directors recommend to the shareholders at the forthcoming Annual General Meeting the conversion of Sh 370,585,315 outstanding to the credit of the bank's share premium account and Sh 29,415,685 from the bank's accumulated revenue reserves into share capital and issue bonus shares at a rate of 2 ordinary share for every 5 such shares held. The new bonus shares shall rank pari passu in all respects with the existing ordinary shares.

## DIRECTORS

The present members of the board are as shown on page 2 to 3. In accordance with Articles 90 and 92 of the Articles of Association, PS Treasury retires by rotation and, being eligible, offers himself for re-election.

A.C Juma, a director who retires in accordance with articles 90 and 92 of the company's articles of association and who is over the age of 70 years, offers himself to be re-elected as a director of the company for a further period of one year.

## AUDITORS

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

## ON BEHALF OF THE BOARD

L G Kamweti  
Secretary

Nairobi  
10 March 2010

Wakurugenzi wanawasilisha ripoti yao pamoja na hesabu zilizokaguliwa za mwaka uliomalizika tarehe 31 Desemba 2009

## SHUGHULI

Shughuli kuu ya benki, kulingana na leseni chini ya Sheria za Benki, nikutoa huduma za uwekaji na ukopeshaji pesa pamoja na huduma nyengine ziambatanazo.

## MATOKEO

	Sh'000
Faida kabla ya kodi	2,159,441
Kodi iliyototzwa	(696,486)
Faida halisi ya mwaka	<u>1,462,955</u>

## MGAO

Wakurugenzi hawapendekezi malipo ya mgao wa faida kwa mwaka uliomalizika tarehe 31 Desemba 2009.

## HISA ZA BAKSHISHI

Kufuatia kukubaliwa kisheria na wenye hisa, wakurugenzi wanapendekeza kwa wenye hisa kwenye mkutano Mkuu ujao wa kila Mwaka kubadilishwa kwa Sh 370,585,315 za akiba ya akaunti ya hisa za benki na Sh 29,415,685 za mapato ya akiba ya benki kuwa mtaji wa hisa na kutolewa kwa hisa za bakshishi kwa kiwango cha hisa mbili za kawaida kwa kila hisa 5 zinazomilikiwa. Hisa hizo mpya za bakshishi zitachukuliwa kwa usawa kwa viwango vyote vya hisa za kawaida zilizoko.

## WAKURUGENZI

Wakurugenzi wa sasa wameonyeshwa katika kurasa la 2 hadi 3. Kulingana na vifungu nambari 90 na 92 vya Sheria za Kampuni, Katibu wa wizara ya fedha anayestaafu kwa zamu na kuwa anastahili anajiwasilisha kuchaguliwa tena.

A C Juma, mkurugenzi anayestaafu kuambatanana na vifungu nambari 90 na 92 vya Sheria za Kampuni na ambaye ana zaidi ya miaka 70, anajiwasilisha kuchaguliwa tena kama mkurugenzi wa kampuni kwa kipindi kingine cha mwaka mmoja.

## WAKAGUZI

Wakaguzi Deloitte & Touche wameonyesha nia yao, kuendelea kufanya kazi hii kulingana na sehemu 159(2) za Sheria za Kampuni na pia sehemu 24(1) za Sheria za Benki.

## KWA NIABA YA HALMASHAURI

L G Kamweti  
Katibu wa Kampuni

Nairobi  
10 Machi 2010

# STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

# TAARIFA YA MAJUKUMU YA WAKURUGENZI

Sheria za Makampuni za Kenya zinahitaji wakurugenzi kutayarisha taarifa ya hesabu kila mwaka, ambazo zitaonyesha ukweli na hali halisi ya benki katika kipindi hicho cha mwaka wa hesabu na matokeo ya utendaji kazi ya benki mwaka huo. Pia, inahitaji wakurugenzi kuhakikisha kwamba benki inahifadhi vitabu vya hesabu sawa sawa ambavyo vinaonyesha kikamilifu wakati wowote hali ya hesabu za benki zilivyo. Wanajukumu pia la kutunza rasilimali ya benki.

Wakurugenzi ndio wenye jukumu la uandalizi na utoaji fasaha wa hesabu hizi za fedha kulingana na mbinu za kimataifa za utoaji habari za fedha na kama inavyohitajika na Sheria za Makampuni za Kenya. Jukumu hili linahusu upambaji, utekelezaji na utoaji mwafaka wa tarakimu za hesabu ambazo ziko huru na ukosefu mkubwa wa kielelezo, ikiwa ni kwa sababu za wizi ama makosa, kuchagua na kutumia mienendo mwafaka ya kanuni za hesabu na kufanya makisio yafaayo katika hali hiyo.

Wakurugenzi wanakubali jukumu la taarifa ya hesabu za mwaka, ambazo zimetengenezwa kutumia sera kanuni za uhasibu na kudhaminiwa na kukadiriwa kwa makini na uangilifu, kulingana na kanuni za uhasibu ulimwenguni na mahitaji ya Sheria za Makampuni za Kenya. Wakurugenzi wana maoni kwamba taarifa za hesabu zinatoa ukweli na haki ya hali na mali ya benki na matokeo yake ya utendakazi. Pia wakurugenzi wanakubali jukumu la kuhifadhi tarakimu za hesabu zitakazo tegemewa katika utayarishaji wa taarifa ya hesabu, pamoja na kanuni zitakazochunguza na kulinda mali.

Hakuna jambo lolote ambalo limewafikia wakurugenzi kuonyesha kwamba benki haitaendelea na shughuli zake kwa muda wa miezi kumi na mbili kutoka tarehe ya taarifa hii.

M E G Muhindi  
Chairman/Mwenyekiti

R M Marambii  
Managing Director/Mkurugenzi Mkuu

10 March 2010

# INDEPENDENT AUDITORS' REPORT | TO THE MEMBERS OF NATIONAL BANK OF KENYA LIMITED

## Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Kenya Limited, set out on pages 20 to 60 which comprise the statement of financial position as at 31 December 2009, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' Responsibility for the Financial Statements

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

## Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity'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 2009 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 company, so far as appears from our examination of those books; and
- iii. The bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.

## DELOITTE & TOUCHE

Certified Public Accountants (Kenya)

10 March, 2010  
Nairobi

# RIPOTI YA WAKAGUZI HURU | KWA WANACHAMA WA NATIONAL BANK OF KENYA LIMITED

## Ripoti Taarifa Kifedha

Tumezikagua taarifa za hesabu za National Bank of Kenya Limited kwenye kurasa la 20 hadi 60 ambazo zinaambatanisha arifa ya kufikia 31 Desemba 2009, na arifa ya mapato ya mwaka uliomalizika, pamoja na muhtasari wa kanuni za hesabu an maelezo ambayo yalikuwa muhimu.

## Jukumu La Wakurugenzi

Wakurugenzi ndio wenye jukumu la uandalizi na utoaji fasaha wa hesabu hizi za fedha kulingana na mbinu za kimataifa za utoaji habari za fedha na kanuni za Sheria za Makampuni za Kenya. Jukumu hili linahusu: upangaji, utekelezaji, an uzatitishaji wa mienendo ya utendakazi kuhusu utengenezaji na utoaji mwafaka wa tarakimu za hesabu ambazo ziko huru na upotovu mkubwa wa kielelezo, ikiwa ni kwa sababu ya wizi au makosa, kuchagua na kutumia mienendo mwafaka ya kanuni za hesabu na kufanya makisio yafaayo katika hali hiyo.

## Jukumu Ya Wakaguzi

Jukumu letu kuu ni kuyaweka wazi maoni yetu kuhusu taarifa za fedha kulingana na ukaguzi wetu. Tuliendesha ukaguzi wetu wa kifedha kulingana na Viwango vya Kimataifa vya Ukaguzi wa Kifedha. Viwango hivyo vinahitaji kwamba tufuate kanuni ya kimaadili na kupanga na kutekeleza ukaguzi ili kupata hakikisho bora kuhusu taarifa za fedha kuwa hazina maelezo ya kutatanisha. Ukaguzi huo wa kifedha unahusisha mifumo bora ya utendakazi ili ushahidi kamili wa ukaguzi kuhusu kiasi cha fedha na maelezo thabiti katika taarifa za fedha. Utaratibu uliochaguliwa unategemea pakubwa maamuzi yetu ambayo ni pamoja na ukaguzi wa athari za maelezo ya kutatanisha katika taarifa ya kifedha, ama iwe ni kwa sababu ya ulaghai ama makosa ya kimategu. Wakati wa kutengeneza uchanganuzi huo wa kiathari, tuliangalia vidhibiti vya ndani ambavyo ni muhimu kwa matayarisho na uwasilishaji wa sawa wa taarifa za fedha ili kuunda utaratibu wa ukaguzi wa kifedha ambao unafaa kulingana na hali halisi ilivyo, lakini sio kwa madhumuni ya kueleza maoni kuhusu vidhibiti vya ndani vya shirika. Ukaguzi huo wa kifedha khadhalika unahusisha kutathmini ubora wa sera za uhasibu zilizotumika na makadirio ya uhasibu ambayo yametengenezwa na wakurugenzi, pamoja na kutathmini uwasilishaji wa jumla wa taarifa ya fedha.

Tunaamini ya kwamba ushahidi wa ukaguzi wa kifedha ambao tumepata unatosha na unafaa kutoa msingi kamili wa maoni yetu ya ukaguzi huu wa kifedha.

## Maoni

Kwa maoni yetu, taarifa za hesabu za Benki, zinatoa mandhari halisi ya shughuli za Benki kufikia 31 Desemba 2009 na za faida na pesa taslimu kwa mwaka uliomalizika tarehe hiyo kulingana na viwango vya kimataifa vya uhasibu na Sheria za Makampuni za Kenya.

## Ripoti Ya Mahitaji Mengine Ya Kisheria

Kama tunavyohitajika na Sheria za Makampuni za Kenya tunaripoti kulingana na ukaguzi wetu kwamba:

- i. Tumepeata habari zote na maelezo ambayo kulingana na uwezo wetu na imani, yalikuwa muhimu kwa madhumuni ya ukaguzi wetu;
- ii. Kwa maoni yetu, vitabu sawa vya uhasibu vimewekwa na Benki kama inavyoonyeshwa na uchunguzi wetu wa vitabu hivyo; na
- iii. Maelezo kamili ya mahesabu ya Benki yanaambatanwa sambamba na vitabu vya uhasibu.

# STATEMENT OF COMPREHENSIVE INCOME |

FOR THE YEAR ENDED  
31 DECEMBER 2009

	Note	2009 Sh'000	2008 Sh'000
INTEREST INCOME	4	4,485,009	3,782,459
INTEREST EXPENSE	5	(1,152,616)	(821,031)
NET INTEREST INCOME		3,332,393	2,961,428
Fee and commission income		1,358,516	1,232,983
Fee and commission expense		(5,067)	(3,756)
NET FEE AND COMMISSION INCOME	6	1,353,449	1,229,227
Gains on foreign exchange dealings	7	297,384	354,403
Other operating income	8	753,412	517,787
Operating expenses	9	(3,433,677)	(2,904,568)
Impairment losses on loans and advances	16(c)	(143,520)	(361,712)
PROFIT BEFORE TAXATION		2,159,441	1,796,565
TAXATION	11	(696,486)	(555,955)
PROFIT FOR THE YEAR		1,462,955	1,240,610
OTHER COMPREHENSIVE INCOME			
Gain on revaluation of property (net)		236,892	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,699,847	1,240,610
EARNINGS PER SHARE - basic & diluted	12	Sh 5.61	Sh 4.50

# STATEMENT OF FINANCIAL POSITION | AS AT 31 DECEMBER 2009

	Note	2009 Sh'000	2008 Sh'000
<b>ASSETS</b>			
Cash and balances with Central Bank of Kenya	13	7,888,863	3,373,118
Government securities	14	26,609,661	23,502,736
Deposits and balances due from banking institutions	15	1,154,271	2,955,757
Loans and advances to customers (net)	16	13,156,455	8,950,145
Other assets	17	382,696	2,219,678
Other investments	18	52,509	36,714
Investment in subsidiary companies	19	19,963	19,963
Property and equipment	20	2,071,001	1,594,944
Operating lease prepayments	21	11,911	12,059
Intangible assets	22	57,078	30,586
<b>TOTAL ASSETS</b>		<b>51,404,408</b>	<b>42,695,700</b>
<b>LIABILITIES</b>			
Customer deposits	23	41,995,446	34,277,654
Deposits and balances due to banking institutions	24	50,290	69,325
Other liabilities	25	1,105,412	1,601,186
Taxation payable	11(c)	114,944	291,767
Due to a subsidiary company	26	21,976	21,976
Borrowed funds	27	-	27,499
Unclaimed dividends	28	10,524	108,990
Deferred tax liability	29	198,124	89,458
<b>TOTAL LIABILITIES</b>		<b>43,496,716</b>	<b>36,487,855</b>
<b>CAPITAL RESOURCES</b>			
Share capital	30	6,675,000	6,675,000
Share premium		370,585	370,585
Revaluation surplus		682,641	454,679
Accumulated revenue reserve / (deficit)		53,563	(1,374,030)
Statutory reserve		125,903	81,611
<b>SHAREHOLDERS' FUNDS</b>		<b>7,907,692</b>	<b>6,207,845</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS</b>		<b>51,404,408</b>	<b>42,695,700</b>

The financial statements on pages 20 to 60 were approved by the board of directors on 10 March 2010 and were signed on its behalf by:

M E G Muhindi **Chairman**  
 P W D Ngumi **Director**  
 R M Marambii **Managing Director**  
 L G Kamweti **Company Secretary**

# STATEMENT OF CHANGES IN EQUITY |

FOR THE YEAR ENDED  
31 DECEMBER 2009

	Share Capital	Share Premium	Revaluation Surplus	Accumulated revenue reserve/ (deficit)	Statutory reserve	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
<b>At 1 January 2008</b>	6,675,000	370,585	469,549	(2,603,421)	55,522	4,967,235
Transfer of excess depreciation	-	-	(21,243)	21,243	-	-
Deferred tax adjustment on transfer of excess depreciation	-	-	6,373	(6,373)	-	-
Transfer from statutory reserve	-	-	-	(26,089)	26,089	-
Profit for the year	-	-	-	1,240,610	-	1,240,610
<b>At 31 December 2008</b>	6,675,000	370,585	454,679	(1,374,030)	81,611	6,207,845
<b>At 1 January 2009</b>	6,675,000	370,585	454,679	(1,374,030)	81,611	6,207,845
Profit for the year	-	-	-	1,462,955	-	1,462,955
Other comprehensive income ( note 20)	-	-	236,892	-	-	236,892
<b>Total comprehensive income</b>	-	-	236,892	1,462,955	-	1,699,847
Transfer of excess depreciation	-	-	(12,759)	12,759	-	-
Deferred tax adjustment on transfer of excess depreciation	-	-	3,829	(3,829)	-	-
Transfer to statutory reserve	-	-	-	(44,292)	44,292	-
<b>At 31 December 2009</b>	6,675,000	370,585	682,641	53,563	125,903	7,907,692

The revaluation surplus is not distributable and represents the surplus arising from the revaluation of property.

The statutory reserve is not distributable and represents the excess of loan provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39.



# STATEMENT OF CASHFLOWS |

FOR THE YEAR ENDED  
31 DECEMBER 2009

	Note	2009 Sh'000	2008 Sh'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash generated from / (used in) operations	31(a)	6,027,612	(2,535,179)
Taxation paid	11(c)	(864,152)	(411,703)
<b>Net cash generated from/(used in) operating activities</b>		<b>5,163,460</b>	<b>(2,946,882)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of property and equipment	20	(389,397)	(675,943)
Purchase of intangible assets	21	(54,873)	(23,445)
Purchase of other investments		-	(6,384)
Proceeds from disposal of property and equipment		3,976	2,875
Proceeds from disposal of assets held for sale		-	14,551
<b>Net cash used in investing activities</b>		<b>(440,294)</b>	<b>(688,346)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Dividends paid	28	(98,466)	(74)
Loans repaid	31(b)	(27,499)	(49,548)
<b>Net cash used in financing activities</b>		<b>(125,965)</b>	<b>(49,622)</b>
<b>INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<b>4,597,201</b>	<b>(3,684,850)</b>
<b>CASH AND CASH EQUIVALENTS AT 1 JANUARY</b>		<b>4,631,739</b>	<b>8,316,589</b>
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	31(c)	<b>9,228,940</b>	<b>4,631,739</b>

## 1 ACCOUNTING POLICIES

### Statement of Compliance with International Financial Reporting Standards

The financial statements have been prepared in accordance with International Financial Reporting Standards. The principal accounting policies adopted are set out below:

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

#### (a) Standards, amendments and interpretations effective on or after 1 January 2009

The following standards, amendments and interpretations, which became effective in 2009 are relevant to the bank:

#### IFRS 7 Improving disclosures about financial instruments

The IASB published amendments to IFRS 7 in March 2009. The amendment requires enhanced disclosures about fair value measurements and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. The adoption of the amendment results in additional disclosures but does not have an impact on the financial position or the comprehensive income of the bank.

#### IAS 1 Presentation of financial statements

A revised version of IAS 1 was issued in September 2007. It prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result, the bank presents in the statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the statement of comprehensive income. According to the amendment of IAS 1 in January 2008, each component of equity, including each item of other comprehensive income, should be reconciled between carrying amount at the beginning and the end of the period. The adoption does not have any impact on retained earnings.

The bank also elected to use the titles per revised IAS 1 of 'statement of financial position' and 'statement of cashflows' to describe the balance sheet and cashflow statements respectively.

#### IFRS 8 Operating Segments

IFRS 8, "Operating Segments", which replaces IAS 14, "Segment reporting", was issued in November 2006 and is effective for annual periods beginning on or after 1 January 2009. The new standard is based on the management approach and the entity's internal reporting of segment information to the entity's chief operating decision maker. The new standard will enable investors to assess the entity's business performance from the same perspective used by the management in making decisions about operating matters.

The bank has only one operating segment which is the entire entity and as such has not revised its operating and reportable segments as a result of this standard.

The following standards and interpretations became effective in 2009, but are not relevant for the bank's operations:

- IAS 23 Borrowing costs
- IAS 32 and IAS 1 Puttable financial instruments and obligations arising on liquidation
- IFRS 2 Share-based payment – Vesting conditions and cancellations

- IFRS 8 Operating segments
- IFRIC 13 Customer loyalty programmes
- IFRIC 16 Hedges of a net investment in a foreign operation

#### (b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the bank's accounting periods beginning on or after 1 July 2009.

#### IFRS 3, 'Business combinations'

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice, on an acquisition-by-acquisition basis, to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply IFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

#### IAS 27, 'Consolidated and separate financial statements'

The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost; any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group will apply IAS 27 (revised) prospectively to transactions with non-controlling interests from 1 January 2010. In the future, this guidance will also tend to produce higher volatility in equity and/or earnings in connection with the acquisition of interests by the Group.

#### IAS 39, 'Financial instruments: Recognition and measurement – Eligible hedged items'

The amendment 'Eligible hedged items' was issued in July 2008. It provides guidance for two situations. On the designation of a one-sided risk in a hedged item, IAS 39 concludes that a purchased option designated in its entirety as the hedging instrument of a one-sided risk will not be perfectly effective. The designation of inflation as a hedged risk or portion is not permitted unless in particular situations. This will not give rise to any changes to the Group's financial statements.

#### IAS 39, Related party disclosures

The amendments were issued on 4 November 2009. The revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by government (referred to as government related entities) and clarifies the definition of a related party. The revised standard is effective for accounting periods beginning on or after 1 January 2011.

#### IFRIC 17, 'Distribution of non-cash assets to owners'

1. IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value

## 1. ACCOUNTING POLICIES continued

of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

### IFRIC 18, 'Transfers of assets from customers'

IFRIC 18 was issued in January 2009. It clarifies how to account for transfers of items of property, plant and equipment by entities that receive such transfers from their customers. The interpretation also applies to agreements in which an entity receives cash from a customer when that amount of cash must be used only to construct or acquire an item of property, plant and equipment, and the entity must then use that item to provide the customer with ongoing access to supply of goods and/or services. The Group is not impacted by applying IFRIC 18.

### IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'

IFRIC Interpretation 19 was issued on 26 November 2009 and is effective for annual periods beginning on or after 1 July 2010 with earlier application permitted. The interpretation clarifies the requirements of International Financial Reporting Standards (IFRSs) when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially.

### IFRS 9, 'Financial instruments part 1: Classification and measurement'

IFRS 9 was issued in November 2009 and replaces those parts of IAS 39 relating to the classification and measurement of financial assets. Key features are as follows:

Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only 'basic loan features'). All other debt instruments are to be measured at fair value through profit or loss.

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognize unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.

### Basis of preparation

The financial statements have been prepared under the historical cost convention modified to include the revaluation

of certain properties and investments.

### Consolidation

Consolidated financial statements have not been prepared as the subsidiary companies are dormant and the amounts involved are not material. Consolidated financial statements would therefore be of no real value to the shareholders of the bank.

### Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as fair value through profit and loss, are recognized within interest income and interest expense in the profit or loss 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 asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

Interest income includes interest on loans and advances, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

### Fees and commissions

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.

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.

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

### Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable.

### Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and accumulated impairment losses.

Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

The bank's policy is to professionally revalue property at

## 1. ACCOUNTING POLICIES continued

least once every five years. The last valuation was carried out as at 31 December 2009.

### Depreciation

Freehold land is not depreciated.

Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual instalments over their estimated useful lives. The annual rates in use are:

- Buildings on long leasehold and freehold land - 2%
- Buildings on short leasehold land - Over the unexpired period of the lease Computers - 25%
- Motor vehicles - 20%
- Equipment, furniture and fittings - 12.5%

Short leasehold land refers to leases whose lease period does not exceed 50 years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

### Leasehold land

Payments to acquire leasehold interest in land are treated as operating lease prepayments and amortised over the period of the lease.

### Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the bank and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.

Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 4 years.

### Taxation

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

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

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized.

### Foreign currencies

Assets and liabilities expressed in foreign currencies are translated into Kenya shillings at the rates of exchange ruling at the balance sheet date. Transactions during the year are translated at the rates ruling at the dates of the transactions. Gains or losses on exchange are dealt with in the profit or loss.

### Offsetting

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

### 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.

### Retirement benefit costs

The bank operates both a defined contribution and a defined benefits scheme for its employees. The assets of these schemes are held in separate trustee administered funds. The schemes are funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules.

The bank also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The bank's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Sh 200 per employee per month.

The bank's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

### Provision for employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the balance sheet date.

Certain employees of the bank are entitled to service gratuity on resignation or termination of employment based on the salary at the time of such resignation or termination of services. The service gratuity is provided for in the financial statements as it accrues to each employee.

### Financial instruments

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

### Government securities

Government securities comprise treasury bills and treasury bonds which are debt securities issued by the Government of Kenya. These are classified as held to maturity and are stated at amortised cost.

### Other investments

Other investments comprise quoted and unquoted equity instruments. Unquoted investments are classified as available for sale and are stated at cost less impairment loss where applicable. Quoted investments are classified as fair value through profit or loss and are stated at their fair value determined by the published price in the stock exchange markets they are traded in.

## 1. ACCOUNTING POLICIES continued

### Financial assets

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

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

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

### Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances are recognized when cash is advanced to borrowers. They are categorized as originated loans and carried at amortised cost.

### Held to maturity

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

### Available-for-sale financial assets

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

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

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Where fair value cannot be reliably measured, the unquoted investment is carried at cost. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive incomes and accumulated in the revaluation surplus. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the bank's right to receive payment is established.

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

### Impairment and uncollectability of financial assets

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

If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is included in profit or loss for the period.

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

The bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are then collectively assessed for impairment together with financial assets with similar risk characteristics.

Objective evidence that financial assets are impaired can include observable data that comes to the attention of the bank about the following loss events:

- Significant financial difficulty of the borrower
- default or delinquency by a borrower,
- restructuring of a loan or advance by the bank on terms that the bank would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

### (c) Assets carried at amortised cost

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

## 1. ACCOUNTING POLICIES continued

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

### (d) Assets carried at fair value

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

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

### (e) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

In subsequent years, the renegotiated terms apply in determining whether the asset is considered to be past due.

### Financial liabilities

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

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

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

### Repurchase agreement transactions

Securities purchased from the Central Bank of Kenya under agreements to resell ("reverse repo's"), are disclosed as balances with the Central Bank of Kenya as they are held to maturity after which they are repurchased and are not negotiable/discounted during the tenure. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective yield method.

### 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

Amounts due from lessees under finance leases are recorded as receivables at the amount of the bank's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the bank's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

### 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.

### 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.

### Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the bank acts in a fiduciary capacity such as nominee, trustee or agent.

### Cash and cash equivalents

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

### Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

### Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

The entity's business is not organised on the basis of differences in related products and services or differences in geographical areas of operation.

### Comparatives

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

## 2 CAPITAL MANAGEMENT

### Regulatory capital

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

The bank's objectives when managing capital are:

- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders.
- To maintain a strong capital base to support the current and future development needs of the business.
- To comply with the capital requirements set by the Central Bank of Kenya (CBK).

Capital adequacy and use of regulatory capital are monitored by management employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to:

- Hold the minimum level of regulatory capital of Sh 350 million by 31 December 2009. This minimum level is expected to increase gradually to Sh 1 billion by 2012.
- Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%.
- Maintain a core capital of not less than 8% of total deposit liabilities.
- Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions 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 25% revaluation surplus which have received prior CBK approval, qualifying subordinated liabilities and collective impairment allowances.

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.

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

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

	2009 Sh'000	2008 Sh'000
<b>Tier 1 capital</b>		
Ordinary share capital	6,675,000	6,675,000
Share premium	370,585	370,585
Retained earnings	53,563	(1,374,030)
	<u>7,099,148</u>	<u>5,671,555</u>
<b>Tier 2 capital</b>		
Revaluation surplus	170,660	113,670
Statutory reserves	125,903	81,611
	<u>296,563</u>	<u>195,281</u>
<b>Total regulatory capital</b>	<u><u>7,395,711</u></u>	<u><u>5,866,836</u></u>
<b>Risk weighted assets</b>		
On- balance sheet	14,368,024	12,032,719
Off- balance sheet	3,008,897	2,667,034
	<u><u>17,376,921</u></u>	<u><u>14,669,753</u></u>

## 2. CAPITAL MANAGEMENT continued

### Capital ratios

Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum-12%)

Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum-8%)

	2009 Sh'000	2008 Sh'000
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum-12%)	42.6%	39.9%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum-8%)	40.9%	38.6%

### Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Bank Risk and Bank Credit, and is subject to review by the Bank Credit, Finance, Information & Technology Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives are also taken into account. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

## 3. 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. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These are dealt with below:

### Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

### Held -to-maturity investments

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

### Property and equipment

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



# NOTES TO THE FINANCIAL STATEMENTS | FOR THE YEAR ENDED 31 DECEMBER 2009

(Continued)

	2009 Sh'000	2008 Sh'000
<b>4. INTEREST INCOME</b>		
Loans and advances	1,621,114	1,092,375
Deposits and balances due from banking institutions	49,795	139,324
Government securities-held to maturity	2,814,100	2,550,760
	<u>4,485,009</u>	<u>3,782,459</u>
<b>5. INTEREST EXPENSE</b>		
(a) On deposits:		
Fixed and short term deposits	881,764	464,520
Savings accounts	127,820	112,964
Demand deposits	122,481	219,482
	<u>1,132,065</u>	<u>796,966</u>
(b) On borrowed funds:		
Repurchase agreement with Central Bank of Kenya	6,306	1,901
Placements from banks and financial institutions	14,245	22,164
	<u>20,551</u>	<u>24,065</u>
	<u>1,152,616</u>	<u>821,031</u>
<b>6. FEES AND COMMISSION</b>		
(a) INCOME		
Letters of credit	13,059	1,251
Foreign currency transactions fees and commissions	14,834	22,150
Local currency transactions fees and commissions	1,081,014	990,421
Ledger fees	249,609	219,161
	<u>1,358,516</u>	<u>1,232,983</u>
(b) EXPENSE		
Letters of credit	(5,067)	(3,756)
	<u>1,353,449</u>	<u>1,229,227</u>
<b>7. GAINS ON FOREIGN EXCHANGE DEALINGS</b>		

Gains on foreign currency dealings arose from dealings in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

# NOTES TO THE FINANCIAL STATEMENTS | FOR THE YEAR ENDED 31 DECEMBER 2009

(Continued)

	2009 Sh'000	2008 Sh'000
<b>8 OTHER OPERATING INCOME</b>		
Bad debts recovered	627,629	368,421
Rental income	39,668	40,231
Gain on disposal of property and equipment	3,976	8,711
Miscellaneous income	59,420	67,291
Write back of unclaimed customer balances and pay orders	6,926	24,800
Gain on revaluation of other investment	15,793	8,333
	753,412	517,787
<b>9. OPERATING EXPENSES</b>		
Staff costs (Note 10)	1,986,720	1,693,849
Directors' emoluments		
- fees	9,960	9,905
- other (executive remuneration)	39,748	39,892
Depreciation (note 20)	203,854	170,356
Amortisation of operating lease prepayments (note 21)	148	148
Amortisation of intangible assets (note 22)	28,381	30,895
Repairs and maintenance	115,035	127,025
Security	89,278	82,640
Telephone and postage	100,063	79,730
Operating lease rentals	78,377	58,769
Rates and insurance	63,803	54,447
Contribution to Deposit Protection Fund	50,780	49,360
Software fees	65,058	44,587
Training & research	23,109	27,289
Legal and other professional fees	26,529	15,738
Auditors' remuneration	7,050	6,825
Banking licence and fee	7,207	6,357
Loss on revaluation of other investments	-	2,348
Tax recoverable written off	6,769	-
Other operating expenses	492,690	404,408
Deficit on revaluation of property	39,118	-
	3,433,677	2,904,568
<b>10. STAFF COSTS</b>		
Salaries and wages	1,659,865	1,420,759
Pension costs		
- defined benefit scheme	1,277	997
- defined contribution scheme	205,385	165,066
National Social Security Fund Contributions	3,361	2,774
Other staff costs	116,832	104,253
	1,986,720	1,693,849

**11. TAXATION**

**(a) Taxation charge**

Current taxation:

Current taxation based on the chargeable profit for the year

Prior year under provision

Deferred taxation:

Current year

Prior year under provision

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

Accounting profit before taxation

Tax at the applicable rate of 30%

Tax effect of expenses not deductible for tax

Tax effect of income not taxable

Prior year (under)/over provision

-Current taxation

-Deferred taxation

**(c) Taxation payable**

**At 1 January**

Charge for the year (note 11(a))

Paid in the year

Taxation recoverable written off

**At 31 December**

Amount charged directly to other comprehensive income

	2009 Sh'000	2008 Sh'000
	680,560	579,626
	-	7,694
	<u>680,560</u>	<u>587,320</u>
	19,426	(23,346)
	(3,500)	(8,019)
	<u>15,926</u>	<u>(31,365)</u>
	<u>696,486</u>	<u>555,955</u>
	2,159,441	1,796,565
	<u>647,832</u>	<u>538,969</u>
	57,433	23,515
	(5,279)	(6,204)
	-	7,694
	<u>(3,500)</u>	<u>(8,019)</u>
	<u>696,486</u>	<u>555,955</u>
	(291,767)	(116,150)
	(680,560)	(587,320)
	864,152	411,703
	(6,769)	-
	<u>(114,944)</u>	<u>(291,767)</u>
	92,740	-

## 12. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to shareholders by the number of ordinary shares in issue during the year.

	2009	2008
<b>Earnings</b>		
Earnings (Sh '000)	1,462,955	1,240,610
6% preference share notional dividend (Sh'000)	(340,500)	(340,500)
Earnings attributable to ordinary shareholders(Sh'000)	1,122,455	900,110
<b>Number of shares</b>		
Number of ordinary shares ('000)	200,000	200,000
Earnings per share-Basic (Sh)		
Ordinary shares	5.61	4.50
Preference shares	0.30	0.30

The holders of the non-cumulative preference shares are entitled to a non-cumulative dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the preference share capital, if the directors declare a dividend on ordinary shares. For the purposes of calculating the earnings per share, the net profit has been allocated to ordinary shares and preference shares to the extent that each instrument shares in the earnings as if all the net profit for the year had been distributed.

There were no potentially dilutive instruments outstanding at the balance sheet date.

## 13. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2009 Sh'000	2008 Sh'000
Cash on hand	1,470,378	1,446,300
Balances with Central Bank of Kenya	4,590,877	299,007
Cash ratio requirement	1,827,608	1,627,811
	<b>7,888,863</b>	<b>3,373,118</b>

## 14. GOVERNMENT SECURITIES

### Held to maturity:

At amortised cost

### Treasury bills

Maturing within 91 days of the date of acquisition

Less: unearned discount

Maturing after 91 days of the date of acquisition

Less: unearned discount

2,400,000	-
(24,194)	-
<b>2,375,806</b>	<b>-</b>
3,070,000	2,400,000
(51,993)	(25,521)
<b>3,018,007</b>	<b>2,374,479</b>

**14. GOVERNMENT SECURITIES (Continued)**

**Treasury bonds- (long term non-negotiable bonds)**

(a) Interest bearing:

Maturing within 1 year

Maturing between 1 and 3 years

Maturing between 3 and 10 years

Maturing after 10 years

(b) Non interest bearing:

At discounted present value

Zero coupon bond-maturing within 1 year

Zero coupon bond maturing between 1 and 2 years

	2009 Sh'000	2008 Sh'000
	4,031,667	-
	-	4,031,667
	10,102,083	10,102,083
	6,072,500	6,072,500
	<u>20,206,250</u>	<u>20,206,250</u>
	498,139	-
	511,459	922,007
	<u>1,009,598</u>	<u>922,007</u>
	<u>21,215,848</u>	<u>21,128,257</u>
	<u>26,609,661</u>	<u>23,502,736</u>

The Government of Kenya issued the bank with a long term non-negotiable treasury bonds amounting to Sh 20 billion on 1 June 2007 in part settlement of its debt with the bank. In January 2008, the Government of Kenya cleared the balance of debt outstanding as at 31 December 2007 with a zero coupon non- negotiable bond of Sh1.062 billion.

The weighted average effective interest rate on treasury bills at 31 December 2009 was 7.71% (2008 – 7.69%) and the rate for interest earning treasury bonds at 31 December 2009 was 12.22% (2008- 12.38%).

**15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS**

Deposits due from banking institutions:

Foreign currency deposits

Balances due from banking institutions:

Local currency

Foreign currency

	2009 Sh'000	2008 Sh'000
	346,855	1,257,036
	166,677	1,283,073
	640,739	415,648
	<u>1,154,271</u>	<u>2,955,757</u>
	842,169	2,955,757
	312,102	-
	<u>1,154,271</u>	<u>2,955,757</u>

Maturity analysis of deposits and balances due from banking institutions:

Maturity within 91 days after placement

Maturity 91 days after placement

The effective interest rate on deposits due from banking institutions at 31 December 2009 was 1.56% (2008 – 2.79%).

Included in deposits due from banking institutions is an amount of Sh 330,875,784 (2008-Sh 666,566,579) held under lien as collateral for letters of credit and guarantees issued to the bank's customers.

(Continued)

**16. LOANS AND ADVANCES TO CUSTOMERS**

	2009 Sh'000	2008 Sh'000
(a) Overdrafts	2,596,608	2,944,827
Mortgages	2,334,910	1,045,502
Loans	9,119,287	6,395,695
	<hr/>	<hr/>
Gross loans and advances	14,050,805	10,386,024
Provision for impaired loans and advances:		
-Individually assessed	(888,577)	(1,428,242)
-Collectively assessed	(5,773)	(7,637)
	<hr/>	<hr/>
	(894,350)	(1,435,879)
	<hr/>	<hr/>
	13,156,455	8,950,145

Included in net advances of Sh 13,156,455,000 (2008 – Sh 8,950,145,000) are loans and advances amounting to Sh 379,782,000 (2008 – Sh 542,083,000), net of specific provisions, which have been classified as non-performing (impaired).

Included in loans and advances to customers are staff loans amounting to Sh 1,782,075,000 (2008 – Sh 1,514,634,000).

The effective interest rate on loans and advances was 15% as at 31 December 2009 (2008-16%).

	2009 Sh'000	2008 Sh'000
(b) ANALYSIS OF GROSS ADVANCES BY MATURITY		
Maturing:		
Within one year	5,632,172	2,632,021
One year to three years	2,924,514	2,618,647
Three to five years	3,159,209	1,869,396
Over five years	2,334,910	3,265,960
	<hr/>	<hr/>
	14,050,805	10,386,024
	<hr/>	<hr/>
(c) PROVISION FOR LOANS AND ADVANCES		
At 1 January	1,435,879	2,919,443
Provisions during the year	143,520	361,712
Recoveries during the year	(21,303)	(2,151)
Bad debts written off during the period	(663,746)	(1,843,125)
	<hr/>	<hr/>
At 31 December	894,350	1,435,879

	2009 Sh'000	2008 Sh'000
<b>17. OTHER ASSETS</b>		
Inter bank clearing items	46,792	2,037,378
Rent and service charge receivable	9,171	14,498
Other receivables	326,733	167,802
	382,696	2,219,678
<b>18. OTHER INVESTMENTS</b>		
<b>Unquoted</b>		
Available for sale		
At cost:		
IDB Capital Limited	1,501	1,501
African Export Import Bank (US\$ 10,000)	7,615	7,615
	9,116	9,116
<b>Quoted</b>		
Fair value through profit or loss		
At market value:		
VISA International	38,292	23,562
Safaricom Limited	5,101	4,036
	43,393	27,598
	52,509	36,714

Visa International shares were allotted to the bank at no cost by virtue of the bank's membership to the Visa International network of users and are quoted at the New York Stock Exchange.

Safaricom shares are quoted at the Nairobi Stock Exchange.

## 19. INVESTMENT IN SUBSIDIARY COMPANIES

	2009 Sh'000	2008 Sh'000
At cost:		
Natbank Trustee and Investment Services Limited, 100% owned	19,963	19,963
Kenya National Capital Corporation Limited	-	-
NBK Insurance Agency Limited 100% owned	-	-
	19,963	19,963

The subsidiary companies have not been consolidated as they are dormant and did not trade during the year. Kenya National Capital Corporation Limited does not have any assets while Natbank Trustee and Investment Services Limited's only asset is a deposit of Sh 21,976,000 with National Bank of Kenya. NBK Insurance Agency Limited was formed during the year and did not trade. Non-consolidation has no material impact on assets and profit for the year.

# NOTES TO THE FINANCIAL STATEMENTS | FOR THE YEAR ENDED 31 DECEMBER 2009

(Continued)

20	PROPERTY AND EQUIPMENT	Buildings on long and short leasehold land	Motor vehicles equipment furniture and fittings	Computers	Capital work in progress	leasehold Improvements	Total	
	Freehold land and buildings Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	
<b>COST OR VALUATION</b>								
	At 1 January 2008	121,688	729,838	419,397	449,329	63,362	-	1,783,614
	Additions	19,745	150,642	195,875	136,116	54,978	118,587	675,943
	Disposals	-	-	(4,646)	(132)	-	-	(4,778)
	<b>At 31 December 2008</b>	<b>141,433</b>	<b>880,480</b>	<b>610,626</b>	<b>585,313</b>	<b>118,340</b>	<b>118,587</b>	<b>2,454,779</b>
Comprising:								
	Cost	21,433	169,630	610,626	585,313	118,340	118,587	1,623,929
	Valuation – 2004	120,000	710,850	-	-	-	-	830,850
	<b>At 31 December 2008</b>	<b>141,433</b>	<b>880,480</b>	<b>610,626</b>	<b>585,313</b>	<b>118,340</b>	<b>118,587</b>	<b>2,454,779</b>
	At 1 January 2009	141,433	880,480	610,626	585,313	118,340	118,587	2,454,779
	Additions	-	5,428	71,740	73,530	147,778	90,921	389,397
	Disposals	-	-	(12,521)	(128)	-	-	(12,649)
	Surplus on revaluation	46,952	194,825	-	-	-	-	241,777
	Deficit on revaluation	(385)	(38,733)	-	-	-	-	(39,118)
	<b>At 31 December 2009</b>	<b>188,000</b>	<b>1,042,000</b>	<b>669,845</b>	<b>658,715</b>	<b>266,118</b>	<b>209,508</b>	<b>3,034,186</b>
Comprising:								
	Cost	-	-	669,845	658,715	266,118	209,508	1,804,186
	Valuation – 2009	188,000	1,042,000	-	-	-	-	1,230,000
	<b>At 31 December 2009</b>	<b>188,000</b>	<b>1,042,000</b>	<b>669,845</b>	<b>658,715</b>	<b>266,118</b>	<b>209,508</b>	<b>3,034,186</b>
<b>DEPRECIATION</b>								
	At 1 January 2008	4,968	43,293	232,727	410,481	-	-	691,469
	Charge for the year	2,059	17,670	71,351	55,559	-	23,717	170,356
	Disposal	-	-	(1,858)	(132)	-	-	(1,990)
	<b>At 31 December 2008</b>	<b>7,027</b>	<b>60,963</b>	<b>302,220</b>	<b>465,908</b>	<b>-</b>	<b>23,717</b>	<b>859,835</b>
	At 1 January 2009	7,027	60,963	302,220	465,908	-	23,717	859,835
	Charge for the year	2,059	17,806	78,659	63,428	-	41,902	203,854
	Disposal	-	-	(12,521)	(128)	-	-	(12,649)
	Written back on revaluation	(9,086)	(78,769)	-	-	-	-	(87,855)
	<b>At 31 December 2009</b>	<b>-</b>	<b>-</b>	<b>368,358</b>	<b>529,208</b>	<b>-</b>	<b>65,619</b>	<b>963,185</b>



## 20 PROPERTY AND EQUIPMENT (continued)

	Freehold land and buildings Sh'000	Buildings on long and short leasehold land Sh'000	Motor vehicles equipment furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	leasehold Improvements Sh'000	Total Sh'000
NET BOOK VALUE							
At 31 December 2009	188,000	1,042,000	301,487	129,507	266,118	143,889	2,071,001
At 31 December 2008	134,406	819,517	308,406	119,405	118,340	94,870	1,594,944
NET BOOK VALUE (Cost basis)							
At 31 December 2009	67,578	443,188	301,487	129,507	266,118	143,889	1,351,767
At 31 December 2008	39,644	373,238	308,406	119,405	118,340	94,870	1,053,903

Included in computers, motor vehicles, equipment, furniture and fittings are assets with a cost of Sh 486,229,121 (2008 – Sh 457,104,952) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 134,598,584 (2008 – Sh 103,498,530).

The capital work in progress relates mainly to ongoing construction of a business continuity centre.

The bank's properties were revalued as at 31 December 2009 by independent valuers, Metrocosmo Limited, registered valuers and estate agents. Valuations were made on the basis of open market value for existing use. The book values of the properties were adjusted to the revaluation. Any increase arising on the revaluation was recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset were recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit and loss.

The net revaluation surplus of Sh 236,892,000 has been recognised in other comprehensive income. This comprises the surplus on revaluation of Sh 329,632,000 less the deferred tax thereon of Sh 92,740,000.

## 21 OPERATING LEASE PREPAYMENTS

	2009 Sh'000	2008 Sh'000
COST		
At 1 January and 31 December	14,663	14,663
AMORTISATION		
At 1 January	2,604	2,456
Charge for the year	148	148
At 31 December	2,752	2,604
NET BOOK VALUE		
At 31 December	11,911	12,059

The operating lease prepayment relates to leasehold land. The leasehold land was valued as at 31 December 2009 by independent valuers, Metrocosmo Limited, registered valuers and estate agents on the basis of open market value for existing use at Sh 504,400,000.

**22 INTANGIBLE ASSETS**

	Computer software	
	2009 Sh'000	2008 Sh'000
<b>COST</b>		
At 1 January	271,541	248,096
Additions	54,873	23,445
At 31 December	<u>326,414</u>	<u>271,541</u>
<b>AMORTISATION</b>		
At 1 January	240,955	210,060
Charge for the year	28,381	30,895
At 31 December	<u>269,336</u>	<u>240,955</u>
<b>NET BOOK VALUE</b>		
At 31 December	<u>57,078</u>	<u>30,586</u>

Included in intangible assets are assets with a cost of Sh 212,889,640 (2008 – Sh 212,889,640) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 53,222,410 (2008 – Sh 53,222,410).

**23 CUSTOMER DEPOSITS**

	2009 Sh'000	2008 Sh'000
Fixed deposit accounts	12,907,173	7,127,418
Savings accounts	10,365,601	9,252,360
Current and demand accounts	17,892,969	17,116,517
Foreign currency deposits	829,703	781,359
	<u>41,995,446</u>	<u>34,277,654</u>
<b>MATURITY ANALYSIS OF CUSTOMER DEPOSITS</b>		
(a) From Government and parastatals:		
Payable within 90 days	20,437,363	18,331,326
Payable after 90 days and within one year	214,517	248,964
	<u>20,651,880</u>	<u>18,580,290</u>
(b) From Private Sector and individuals:		
Payable within 90 days	19,479,366	14,827,031
Payable after 90 days and within one year	1,864,200	870,333
	<u>21,343,566</u>	<u>15,697,364</u>
At 31 December	<u>41,995,446</u>	<u>34,277,654</u>

The effective interest rate on interest bearing customer deposits was 3.10% (2008 – 2.31%).

# NOTES TO THE FINANCIAL STATEMENTS | FOR THE YEAR ENDED 31 DECEMBER 2009

(Continued)

24	<b>DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS</b>	2009 Sh'000	2008 Sh'000
	Deposits due to banking and financial institutions	312	1,627
	Balances due to banking and financial institutions	49,978	67,698
		<u>50,290</u>	<u>69,325</u>

The effective interest rate on deposits due to banking institutions at 31 December 2009 was 6.08% (2008 – 4.83%). The deposits are payable within 90 days of the balance sheet date.

25	<b>OTHER LIABILITIES</b>	2009 Sh'000	2008 Sh'000
	Bills payable	190,503	429,539
	Other liabilities	914,909	1,171,647
		<u>1,105,412</u>	<u>1,601,186</u>
26	<b>DUE TO A SUBSIDIARY COMPANY</b>		
	Natbank Trustee and Investment Services Limited	<u>21,976</u>	<u>21,976</u>

The balance relates to non-interest bearing amounts held with the bank.

27	<b>BORROWED FUNDS</b>		
	Loans:		
	East African Development Bank	-	27,221
	Interest payable	-	278
		<u>-</u>	<u>27,499</u>
	Maturity analysis		
	Payable:		
	Within one year	<u>-</u>	<u>27,499</u>

The loan from East African Development (EADB) was fully paid by June 2009. The outstanding balance as at 31 December 2008 was US\$ 350,000. The effective interest rate for the loan was Sh 8.45% (2008 – 8.45%). The loan was taken to finance the bank's Information Communication and Technology (ICT) project.

28	<b>UNCLAIMED DIVIDENDS</b>	2009 Sh'000	2008 Sh'000
	At 1 January	108,990	109,564
	Dividends paid:		
	Amount offset against Government initiated advances	-	(500)
	Dividends paid	(98,466)	(74)
	At 31 December	<u>10,524</u>	<u>108,990</u>

Unclaimed dividends relates to dividends declared in past years by the bank but not collected by the shareholders or their representatives.

(Continued)

**29 DEFERRED TAX LIABILITY**

The net deferred income tax asset is attributable to the following items:

Liabilities:

Revaluation surplus

Unrealised exchange gains

Assets:

Accelerated capital allowances

Gratuity provision

Unrealised exchange losses

General provisions

Movement on the deferred tax account is as follows:

At 1 January

Prior year under provision –note 11(a)

Profit or loss charge / (credit) - note 11(a)

Deferred tax on revaluation surplus

At 31 December

**30 SHARE CAPITAL**

Authorised

600,000,000 Ordinary shares of Sh 5 each

1,200,000,000 Preference shares of Sh 5 each

Issued and fully paid

200,000,000 Ordinary shares of Sh 5 each

1,135,000,000 Preference shares of Sh 5 each

	2009 Sh'000	2008 Sh'000
	270,151	179,224
	-	3,113
	<u>270,151</u>	<u>182,337</u>
	(52,697)	(46,867)
	(1,877)	(132)
	-	(1,591)
	(17,453)	(44,289)
	<u>(72,027)</u>	<u>(92,879)</u>
	<u>198,124</u>	<u>89,458</u>
	89,458	120,823
	(3,500)	(8,019)
	<u>85,958</u>	<u>112,804</u>
	19,426	(23,346)
	92,740	-
	<u>198,124</u>	<u>89,458</u>
	3,000,000	3,000,000
	6,000,000	6,000,000
	<u>9,000,000</u>	<u>9,000,000</u>
	1,000,000	1,000,000
	5,675,000	5,675,000
	<u>6,675,000</u>	<u>6,675,000</u>

The following special rights and privileges are attached to the preference shares:

- The preference shares are not redeemable
- The holders of such non-cumulative preference shares shall be entitled to receive out of the profits of the bank as a first charge a non-cumulative preferential dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the Preference Shares held by them respectively if the directors declare a dividend on the distributable profits.
- Whenever the profits of the bank in respect of any year shall be more than sufficient to pay the preferential dividend aforesaid to

**30 SHARE CAPITAL continued**

- the close of such year, the holders of the preference shares shall be entitled to participate in the surplus pari passu with the holders of the ordinary shares provided that such participation shall be non-cumulative.
- (d) In the event of the bank being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first place in repaying the holders of the said preference shares, and of any other shares entitled to rank pari passu with them, the full amount paid up thereon, and, subject as aforesaid, such surplus assets shall belong to and be divided among the other members of the company.
- (e) The holders of the preference shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the bank.
- (f) The preference shares aforesaid shall be issued to such persons and on such terms and conditions as the board may think fit.

**31 NOTES TO THE CASH FLOW STATEMENT**

- (a) Reconciliation of profit before taxation to cash generated from/(used in) operations

	2009 Sh'000	2008 Sh'000
Profit before taxation	2,159,441	1,796,565
Adjustments for:		
Depreciation	203,854	170,356
Amortisation of intangible assets	28,381	30,895
Amortization of operating lease prepayments	148	148
Exchange loss on borrowed funds	-	10,620
Gain on disposal of equipment	(3,976)	(8,711)
Taxation recoverable written off	6,769	-
Miscellaneous income-Other investments in Visa International	-	(15,229)
Gain on revaluation of other investments	(15,795)	(8,333)
Loss on revaluation of other investments	-	2,348
Loss on revaluation of property	39,118	-
Profit before working capital changes	2,417,940	1,978,659
Increase in cash ratio requirements	(199,797)	(390,311)
Increase in Government securities	(731,119)	(3,296,486)
Increase in loans and advances to customers	(4,206,310)	(1,106,730)
Decrease in other assets	1,836,982	333,454
Increase/(decrease) in customer deposits	7,717,792	(444,026)
(Decrease)/increase in other liabilities	(495,774)	390,261
Increase in deposits and balances due from financial institutions	(312,102)	-
Cash generated from/ (used in) operations	6,027,612	(2,535,179)
(b) Analysis of changes in borrowed funds		
At 1 January	27,499	66,427
Repayments	(27,499)	(49,548)
Exchange loss/(gain)	-	10,620
At 31 December	-	27,499

## 31 NOTES TO THE CASH FLOW STATEMENT continued

- (c) Analysis of the balances of cash and cash equivalents
- Cash on hand
  - Balances with Central Bank of Kenya
  - Treasury bills – maturing within 90 days
  - Deposits and balances due from banking institutions
  - Deposits and balances due to banking institutions

2009 Sh'000	2008 Sh'000
1,470,378	1,446,300
4,590,877	299,007
2,375,806	-
842,169	2,955,757
(50,290)	(69,325)
<b>9,228,940</b>	<b>4,631,739</b>

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 dates of the advance.

- (d) Analysis of non- cash transactions
- Dividends paid- offset against advances receivables
  - Other investments-shares in Visa International allotted at no cost

2009 Sh'000	2008 Sh'000
-	500
-	15,229
<b>-</b>	<b>15,729</b>

## 32 FINANCIAL RISK MANAGEMENT

### Introduction and overview

The bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the bank's business, and the operational risks are an inevitable consequence of being in business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance. The most important types of risk include:

- Credit risk
- Liquidity risk
- Market risk- includes currency, interest rate and price risk

### Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The board has established a Board Audit and Risk Committee and a risk department to assist in the discharge of this responsibility. The board has also established the Credit, Finance, Information & Technology Committee, the Tender Committee and Operations and Marketing Committees which are responsible for developing and monitoring risk management in their respective areas. These committees comprise of non executive members and report regularly to the Board of Directors.

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 bank's Audit and Risk 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 and Risk Committee is assisted in these functions by internal audit and the risk departments. 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.

## 32 FINANCIAL RISK MANAGEMENT *continued*

The risk department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

### i. 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.

#### Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit, Finance, Information & Technology Committee. A separate credit department, reporting to the Credit, Finance, Information & Technology 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 Credit Officers. Larger facilities require approval by the Credit Finance, Information & Technology Committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. The Credit department 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 exposure to counterparties, geographies and industries (for loans and advances), 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 eight 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 the Credit, Finance, Information & Technology Committee.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department 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.

#### Maximum exposure to credit risk before collateral held or other credit enhancements

The table below represents the maximum credit risk exposure to the bank at 31 December 2009 and 2008, without taking into account any collateral held or other credit enhancements attached.

	2009 Shs'000	2008 Shs'000
<b>On- balance sheet items</b>		
a) Government securities	26,609,661	23,502,736

## 32 FINANCIAL RISK MANAGEMENT continued

### i) Credit risk continued

	2009 Shs'000	2008 Shs'000
b) Deposits and balances due from banking institutions		
– Local	166,661	1,283,073
– Foreign	987,610	1,672,684
	<u>1,154,271</u>	<u>2,955,757</u>
c) Loans and advances to customers:		
Loans to individuals:		
– Overdrafts	331,433	743,183
– Credit cards	52,112	48,809
– Term loans	8,511,227	4,852,454
– Mortgages	2,334,910	1,441,912
	<u>11,229,682</u>	<u>7,086,358</u>
Loans to corporate entities:		
– Overdrafts	2,205,881	2,610,218
– Credit cards	7,183	7,182
– Term loans	608,059	682,266
	<u>2,821,123</u>	<u>3,299,666</u>
Gross loans and advances	<u>14,050,805</u>	<u>10,386,024</u>
d) Other assets		
– Inter bank clearing items	46,792	2,037,378
<b>Total on balance sheet items</b>	<u><b>41,861,529</b></u>	<u><b>38,881,895</b></u>

The bank does not perceive any significant credit risk on the following financial assets:

- Investments in Government securities and Central Bank of Kenya.
- Off balance sheet items

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the bank has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks with high credit ratings.

#### Classification of loans and advances

The table below represents the maximum credit risk exposure to the bank at 31 December, after taking into account credit enhancements attached.

#### 2009

Loans and advances to customers	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	12,590,020	-	12,590,020	96
Past due but not impaired	192,426	(5,773)	186,653	1
Impaired	1,268,359	(888,577)	379,782	3
	<u>14,050,805</u>	<u>(894,350)</u>	<u>13,156,455</u>	<u>100</u>



## 32 FINANCIAL RISK MANAGEMENT continued

### i) Credit risk continued

2008

Neither past due nor impaired	8,161,549	-	8,161,549	91
Past due but not impaired	254,150	(7,637)	246,513	3
Impaired	1,970,325	(1,428,242)	542,083	6
	<u>10,386,024</u>	<u>(1,435,879)</u>	<u>8,950,145</u>	<u>100</u>

Each business unit is required to implement bank credit policies and procedures, with credit approval authorities delegated from the bank Credit, Finance, Information & Technology Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the bank Credit, Finance, Information & Technology Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and bank credit processes are undertaken by the Internal Audit department.

#### Impaired loans

Impaired loans and securities are loans and securities for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the bank's internal credit risk grading system as required by the regulator.

According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non performing.

#### Past due but not impaired loans

Loans and advances 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. Loans under this category are no more than 90 days overdue.

Loans and advances that are neither past due nor impaired

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

#### Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring. There were no loans with renegotiated terms as at the end of the year.

#### Allowances for impairment

The bank establishes 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 individually significant exposures, and a collective loan loss allowance established for banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

#### Write-off policy

The bank writes off a loan / security balance (and any related allowances for impairment losses) when the Credit department

## 32. FINANCIAL RISK MANAGEMENT continued

### i) Credit risk continued

determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower 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.

#### Collateral held

The bank holds collateral against loans and advances to customers in the form of cash, 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 2009 or 2008.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

#### Loans and advances to customers

	2009 Shs'000	2008 Shs'000
<b>Against individually impaired</b>		
Property	1,681,416	1,496,036
<b>Against collectively impaired</b>		
Property	700,000	464,219
Other	-	27,860
<b>Against past due but not impaired</b>		
Property	142,200	63,802
Other	-	-
<b>Against neither past due nor impaired</b>		
Property	9,734,666	10,038,454
Other	368,659	602,465
<b>Total</b>	<b>12,626,941</b>	<b>12,692,836</b>

#### Concentrations of risk

The bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

#### (a) Advances to customers- gross

	2009 Sh'000	%	2008 Sh'000	%
Agriculture	708,346	5.0	1,086,958	10.5
Manufacturing	520,215	3.7	378,745	3.6
Wholesale and retail trade	1,926,935	13.7	1,301,026	12.5
Transport and communications	410,367	2.9	244,377	2.4
Mining and quarrying	61,668	0.4	64,051	0.6
Building and construction	826,527	5.9	908,271	8.7
Foreign trade	41,129	0.3	31,135	0.3
Business services	1,429,581	10.2	1,045,586	10.1
Real estate	2,141,218	15.3	1,860,637	17.9
Social Community and personal Services	2,270,491	16.2	1,577,156	15.2
Others	3,714,328	26.4	1,888,082	18.2
<b>Total</b>	<b>14,050,805</b>	<b>100.0</b>	<b>10,386,024</b>	<b>100.0</b>

## 32. FINANCIAL RISK MANAGEMENT continued

### i) Credit risk continued

	2009		2008	
	Sh'000	%	Sh'000	%
(b) Off balance sheet items (letters of credit and guarantees)				
Social community and personal services	13,304	0.4	2,780	0.1
Business services	150,928	4.6	69,279	2.3
Wholesale and retail	638,713	19.5	173,613	5.8
Transport and communication	659,246	20.1	1,241,836	41.6
Manufacturing	1,434,511	43.7	1,107,306	37.0
Other	389,627	11.7	394,143	13.2
	<u>3,286,329</u>	<u>100.0</u>	<u>2,988,957</u>	<u>100.0</u>

#### 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 company 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 the bank's risk function.

#### ii. Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities-

##### 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.

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.

##### 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 deposits and balances due to banking institutions and customer deposits at the reporting date and during the reporting period were as follows:

	2009	2008
<b>At 31 December</b>	35%	31%
Average for the period	32%	30%
Maximum for the period	45%	39%
Minimum for the period	21%	21%
Statutory minimum requirement	20%	20%

32. FINANCIAL RISK MANAGEMENT continued

ii) Liquidity risk (continued)

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

2009	Carrying amount					Total
	Sh'000	Up to 1 month	1-3 months	3-12 months	Over 5 years	
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
<b>FINANCIAL LIABILITIES</b>						
Customer deposits	41,995,446	30,290,859	9,727,301	2,118,234	-	42,136,394
Deposits and balances due to banking institutions	50,290	48,600	1,707	-	-	50,307
Due to a subsidiary company	21,976	-	-	-	21,976	21,976
<b>Total financial liabilities</b>	<b>42,067,712</b>	<b>30,339,459</b>	<b>9,729,008</b>	<b>2,118,234</b>	<b>-</b>	<b>42,208,677</b>
<b>FINANCIAL ASSETS</b>						
Cash and balances with Central Bank of Kenya	7,888,863	7,415,042	389,092	84,729	-	7,888,863
Government securities	26,609,661	500,000	1,900,000	5,148,754	22,673,651	57,348,138
Deposits and balances due from banking institutions	1,154,271	1,098,240	-	56,155	-	1,154,395
Loans and advances to customers (net)	13,156,455	1,257,402	328,485	4,548,814	9,549,720	17,758,111
Other assets-Inter bank clearing items	46,792	46,792	-	-	-	46,792
<b>Total financial assets</b>	<b>48,856,042</b>	<b>10,317,476</b>	<b>2,617,577</b>	<b>9,838,452</b>	<b>32,223,371</b>	<b>84,196,299</b>
<b>NET LIQUIDITY GAP</b>	<b>6,788,330</b>	<b>(20,021,983)</b>	<b>(7,111,431)</b>	<b>7,720,218</b>	<b>32,223,371</b>	<b>41,987,622</b>
<b>2008</b>						
Total financial liabilities	34,396,454	26,858,386	6,407,981	1,179,893	-	34,468,236
Total financial assets	40,819,134	9,057,514	3,144,319	2,253,291	22,646,990	62,571,544
<b>NET LIQUIDITY GAP</b>	<b>6,422,680</b>	<b>(17,800,872)</b>	<b>(3,263,662)</b>	<b>1,073,398</b>	<b>22,646,990</b>	<b>25,447,454</b>

**32. FINANCIAL RISK MANAGEMENT continued****ii) Liquidity risk (continued)**

The previous table shows the undiscounted cash flows on the bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

**iii. 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**

Overall responsibility for management of market risk rests with a management committee of the bank, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

**a) Interest rate risk**

The bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the bank's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the bank's base lending rate. The base rate is adjusted from time to time to reflect the cost of funds.

ALCO closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

32. FINANCIAL RISK MANAGEMENT continued

a) Interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table are the bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items.

(All figures in thousand shillings)

2009	1 month less		3 months less than 3		6 months less than 6		1 year less		3 years less than 5		over 5 years		Non-interest bearing	Total
	month	3 months	months	months	year	years	years	years	years	years	years			
<b>FINANCIAL ASSETS</b>														
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	-	-	-	-	-	7,888,863	7,888,863
Government securities	499,030	1,876,776	3,224,257	4,000,000	-	5,000,000	11,000,000	1,009,598	26,609,661				1,009,598	26,609,661
Deposits and balances due from banking institutions	457,232	-	-	56,092	-	-	-	640,947	1,154,271				640,947	1,154,271
Loans and advances to customers (net)	1,241,879	316,612	1,364,665	2,924,514	3,033,814	1,595,146							-	13,156,455
<b>Total financial assets</b>	<b>2,198,141</b>	<b>2,193,388</b>	<b>4,588,922</b>	<b>6,924,514</b>	<b>8,033,814</b>	<b>12,595,146</b>	<b>9,539,408</b>	<b>48,809,250</b>						
<b>FINANCIAL LIABILITIES</b>														
Customer deposits	11,606,697	9,654,889	1,499,287	579,429	-	-	-	18,655,144	41,995,446					
Deposits and balances due to banking institutions	48,600	1,690	-	-	-	-	-	-	50,290					
Due to a subsidiary company	-	-	-	-	-	-	-	21,976	21,976					
<b>Total financial liabilities</b>	<b>11,655,297</b>	<b>9,656,579</b>	<b>1,499,287</b>	<b>579,429</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18,677,120</b>	<b>42,067,712</b>					
<b>INTEREST RATE SENSITIVITY GAP</b>	<b>(9,457,156)</b>	<b>(7,463,191)</b>	<b>3,089,635</b>	<b>6,924,514</b>	<b>8,033,514</b>	<b>12,595,146</b>	<b>(9,137,712)</b>	<b>6,741,538</b>						
<b>2008</b>														
Total financial assets	11,642,086	2,065,542	311,245	52,110	4,000,000	5,000,000	11,000,000	4,710,773	38,781,756					
Total financial liabilities	9,288,862	6,369,302	784,747	337,768	-	-	-	17,615,775	34,396,454					
<b>INTEREST RATE SENSITIVITY GAP</b>	<b>2,353,224</b>	<b>(4,303,760)</b>	<b>(473,502)</b>	<b>(285,658)</b>	<b>4,000,000</b>	<b>5,000,000</b>	<b>11,000,000</b>	<b>(12,905,002)</b>	<b>4,385,302</b>					

## 32. FINANCIAL RISK MANAGEMENT (Continued)

### a) Interest rate risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank.

*Interest rate risks – Increase/decrease of 5 % in Net Interest Margin*

The interest rate risks sensitivity analysis is based on the following assumptions.

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

The table below sets out the impact on future net interest income of an incremental 5% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2009.

	Amount at 31-Dec-09 Sh'000	Scenario 1 5% increase in net interest margin Sh'000	Scenario 2 5% decrease in net interest margin Sh'000
Profit Before Tax	2,159,441	2,231,241	2,087,641
Adjusted Core Capital	7,099,148	7,149,408	7,048,888
Adjusted Total Capital	7,395,711	7,445,971	7,345,451
Risk Weighted Assets (RWA)	17,376,921	17,376,921	17,376,921
Adjusted Core Capital to RWA	40.9%	41.1%	40.6%
Adjusted total Capital to RWA	42.6%	42.8%	42.3%

Assuming no management actions, a series of such rises would increase/decrease net interest income for 2009 by Sh 71,800,000. Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.2%, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.3% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

### b) Foreign exchange risk

The bank operates wholly within Kenya and its assets and liabilities are carried in local currency. The bank maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The bank is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The exchange rates used for translating the major foreign currency balances at the year end were as follows:

	2009 Sh	2008 Sh
US Dollar	75.80	77.78
GB Pound	121.83	112.26
EURO	108.88	109.48

32 FINANCIAL RISK MANAGEMENT (Continued)

b) Foreign exchange risk (continued)

The table below summarises the bank's exposure to foreign currency exchange rate risk as at balance sheet date:

ASSETS	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	OTHER Sh'000	TOTAL Sh'000
Cash and balances with Central Bank of Kenya	7,244,055	561,329	11,140	69,837	2,502	7,888,863
Government securities	26,609,661	-	-	-	-	26,609,661
Deposits and balances due from banking institutions	166,677	799,078	39,444	83,859	65,213	1,154,271
Loans and advances to customers (net)	13,083,878	72,538	6	33	-	13,156,455
Other assets-Inter bank clearing items	46,792	-	-	-	-	46,792
<b>Total financial assets</b>	<b>47,151,063</b>	<b>1,432,945</b>	<b>50,590</b>	<b>153,729</b>	<b>67,715</b>	<b>48,856,042</b>
<b>FINANCIAL LIABILITIES</b>						
Customer deposits	41,131,908	802,000	8,997	52,541	-	41,995,446
Deposits and balances due to banking institutions	31,507	18,783	-	-	-	50,290
Due to a subsidiary company	21,976	-	-	-	-	21,976
<b>Total financial liabilities</b>	<b>41,185,391</b>	<b>820,783</b>	<b>8,997</b>	<b>52,541</b>	<b>-</b>	<b>42,067,712</b>
<b>NET BALANCE SHEET POSITION</b>	<b>5,965,672</b>	<b>612,162</b>	<b>41,593</b>	<b>101,189</b>	<b>67,715</b>	<b>6,788,331</b>
<b>NET OFF BALANCE SHEET POSITION</b>	<b>3,251,663</b>	<b>146,000</b>	<b>37,201</b>	<b>(400,259)</b>	<b>67,715</b>	<b>3,102,320</b>
<b>As at 31 December 2008</b>						
Total financial assets	38,846,994	1,630,619	32,157	264,841	44,523	40,819,134
Total financial Liabilities	33,584,721	767,163	14,569	30,001	-	34,396,454
<b>NET BALANCE SHEET POSITION</b>	<b>5,262,273</b>	<b>863,456</b>	<b>17,588</b>	<b>234,840</b>	<b>44,523</b>	<b>6,422,680</b>
<b>NET OFF BALANCE SHEET POSITION</b>	<b>1,700,376</b>	<b>390,334</b>	<b>7,977</b>	<b>(217,932)</b>	<b>44,523</b>	<b>1,925,278</b>



## 32 FINANCIAL RISK MANAGEMENT (Continued)

### b) Foreign exchange risk (continued)

*Foreign exchange risk – Appreciation/depreciation of Sh against other currencies 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 Kenya Shillings.
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which the bank's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2009.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount 31-Dec-09 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% depreciation Sh'000
Profit Before Tax	2,159,441	2,066,829	2,252,053
Adjusted Core Capital	7,099,148	7,034,320	7,163,976
Adjusted Total Capital	7,395,711	7,330,883	7,460,539
Risk Weighted Assets (RWA)	17,376,921	17,357,169	17,396,673
Adjusted Core Capital to RWA	40.9%	40.5%	41.2%
Adjusted total Capital to RWA	42.6%	42.2%	42.9%

Assuming no management actions, a series of such appreciation/depreciation would decrease/increase net interest income for 2009 by Sh 92,612,000. Also a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.4%, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.3% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

### iv) Fair value of financial assets and liabilities

Financial instruments measured at fair value

#### a) Determination of fair value and fair values hierarchy

IFRS 7 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 (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability 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:

## 32. FINANCIAL RISK MANAGEMENT (Continued)

### iv) Fair value of financial assets and liabilities

At 31 December 2009

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	TOTAL Sh'000
Financial Assets				
Equity investments	43,393	-	-	43,393

At 31 December 2008

Financial Assets				
Equity investments	27,598	-	-	27,598

There were no transfers between levels 1, 2 and 3 during the year.

### b) Financial instruments not measured at fair value

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

## 33. CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

### a) Contingent liabilities

In common with other banks, the bank conducts business involving acceptances, guarantees, performances and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2009 Sh'000	2008 Sh'000
Letters of credit	955,879	935,506
Letters of guarantee	2,330,450	2,053,451
Pending lawsuit	-	10,184
	<u>3,286,329</u>	<u>2,999,141</u>

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

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

The pending lawsuit relate to expected claim by a customer against the bank for a cancelled loan contract. The amount claimed has not been provided in the financial statements as, in the opinion of the directors, the amount is not material.

Concentrations of letters of credit and guarantees are covered under note 32.

### b) Capital commitments

Commitments at the year end for which no provision has been made in these financial statements:

	2009 Sh'000	2008 Sh'000
Authorised and contracted for	43,198	134,324
Authorised but not contracted for	<u>2,951,470</u>	<u>1,913,559</u>

## 33 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS continued

### c) Operating lease arrangements

The bank as a lessor

Rental income earned during the year was Sh 39,668,000 (2008 – Sh 40,231,000). At the balance sheet date, the bank had contracted with tenants for the following future lease receivables:

	2009 Sh'000	2008 Sh'000
Within one year	38,373	2,355
In the second to fifth year inclusive	125,111	53,425
After five years	23,957	49,679
	187,441	105,459

Leases are negotiated for an average term of 5 years and rentals are reviewed annually. The leases are cancellable with a penalty. Tenants are required to pay full rent for the quarter in which termination of lease notice is given.

The bank as a lessee

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

	2009 Sh'000	2008 Sh'000
Within one year	58,900	839
In second to fifth year inclusive	244,833	27,423
After five years	52,751	69,810
	356,484	98,072

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

## 34 RETIREMENT BENEFIT OBLIGATIONS

The bank makes contributions to a defined contribution pension scheme and a defined contribution provident fund in respect of eligible non unionisable and unionisable employees respectively. It also contributes to the statutory defined pension scheme, the National Social Security Fund. Contributions to the company plans are determined by the rules of the plan and totalled Sh 206,662,000 (2008 – Sh 166,063,000) in the year. Contributions to the statutory scheme are determined by local statute and are currently set at Sh 200 per employee per month. For the year ended 31 December 2009, the company contributed Sh 3,361,000 (2008 – Sh 2,774,000) to the statutory scheme.

Previously, the bank had been operating a defined benefit scheme. This was converted to a defined contribution scheme on 1 July 2004. As at the conversion date, six members declined to convert and elected to remain in the Defined Benefit Scheme. However, in 2006, five out of the six members who had initially declined conversion accepted to convert, leaving only one member in the defined benefit scheme. As at 31 December, the accrued benefits in respect of the Defined Benefit Scheme were Sh 7,533,223 (2008 – Sh 6,256,357).

Except for the one member under the defined benefit scheme mentioned above, the bank's liability in the pension scheme is limited to the extent of its unpaid contributions to the scheme.

The scheme's funds are jointly managed by Genesis Kenya Investment Management Limited and AIG Goba Investment Company (EA) Limited

## 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 and companies associated to directors. Advances to customers at 31 December 2009 include advances and loans to companies associated to directors.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

Details of related party balances are as follows:

	2009 Sh'000	2008 Sh'000
(a) Advances to customers:		
Directors (note 35(d))	4,418	5,526
Government parastatals	43,398	573,887
Local authorities	51,916	132,791
Employees	1,778,718	1,509,108
	1,878,450	2,221,312
(b) Customer deposits:		
Directors (note 35(d))	32,308	23,140
Natbank Trustee & Investment services Limited	21,976	21,976
National Bank of Kenya Staff Retirement Benefit Scheme	-	56,264
Central Government	10,570,747	9,949,531
Government parastatals	10,112,033	8,511,136
Local authorities	89,538	119,623
	20,826,602	18,681,670
(c) Contributions to the statutory defined contribution pension scheme, the National Social Security Fund	3,361	2,774

(d) The volumes of related party transactions with directors during the year and the outstanding amounts at the year end are as follows:

	Directors	
	2009 Sh'000	2008 Sh'000
<b>Loans and advances:</b>		
At 1 January	5,526	2,270
Advanced during the year	5,561	1,492
Transferred from staff ledger	-	4,943
Interest charged	229	148

**35. RELATED PARTY TRANSACTIONS continued**

	2009 Sh'000	2008 Sh'000
Repayments during the year	(6,898)	(3,327)
At 31 December	4,418	5,526
<b>Deposits:</b>		
At 1 January	23,140	4,183
Received during the year	42,805	86,055
Withdrawn during the year	(33,637)	(67,098)
At 31 December	32,308	23,140

**Key management compensation**

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

	2009 Sh'000	2008 Sh'000
Salaries and other short-term employment benefits	79,368	73,359
Pension and gratuity	13,440	14,779
	92,808	88,138
<b>Directors' remuneration</b>		
Fees for services as a director	9,960	9,905
Other emoluments (included in key management compensation above)	39,748	39,892
	49,708	49,797

**Government advances**

The movement in Government related advances is as follows:

At 1 January	-	1,062,500
Repaid in the year- Treasury bonds issued	-	(1,062,000)
Amount offset against dividends payable to Government	-	(500)
At 31 December	-	-

During the year 2008 the Government of Kenya settled the balance of government advances outstanding as at 31 December 2007 with non-negotiable zero coupon bonds amounting to Sh 1,062,000,000.

**36 FIDUCIARY ACTIVITIES**

The bank holds asset security documents on behalf of customers with a value of Sh 2,010,017,266 (2008 – Sh 2,076,019,947).

Most of these securities are held by the custody services department. The assets held comprise deposits with financial institutions, government securities, and quoted and unquoted securities.

**37 ASSETS PLEDGED AS SECURITY**

Deposits due from foreign banks amounting to Sh 330,875,784 (Sh 2008-Sh 666,566,579) were under lien as collateral for the letters of credit and guarantees issued to the bank's customers.

**38 INCORPORATION**

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

**39 CURRENCY**

These financial statements are presented in Kenya Shillings thousands (Sh'000).



Whatever your profession, we have a low maintenance account that suits your needs.

  
**WAGE  
ACCOUNT**  
The ideal account for wage earners.



National Bank

THE BANK WHERE YOU BELONG

# TOP TWENTY SHAREHOLDERS

NAME OF SHAREHOLDER	NO. OF ORDINARY SHARES HELD	% OF TOTAL
1. N.S.S.F BOARD OF TRUSTEES	96,105,519	48.05
2. THE PERMANENT SECRETARY TO THE TREASURY	45,000,000	22.50
3. GIDJOY INVESTMENTS LIMITED	1,586,900	0.79
4. PAUL WANDERI NDUNGU	1,257,900	0.63
5. BARCLAYS (KENYA) NOMINEES LIMITED A/C 9098AJ	675,000	0.34
6. ENG EPHRAIM MWANGI MAINA	652,305	0.33
7. THE JUBILEE INSURANCE COMPANY OF KENYA LIMITED	588,281	0.29
8. BARCLAYS (KENYA) NOMINEES LTD A/C 9660	444,600	0.22
9. MUMBU HOLDINGS LIMITED	378,475	0.19
10. BARCLAYS (K) NOMINEES LTD NON RESIDENT A/C 9489	260,300	0.13
11. INSURANCE COMPANY OF EAST AFRICA LIMITED - POOLED	248,600	0.12
12. BARCLAYS (KENYA) NOMINEES LTD NON- RESIDENT A/C 9222AA	236,500	0.12
13. NILESH VELJI SHAH	231,300	0.12
14. APA INSURANCE LIMITED	204,800	0.10
15. BARCLAYS (KENYA) NOMINEES LTD A/C 9675	200,000	0.10
16. SANJAI & UMESH RAIKUNDALIA	200,000	0.10
17. JOHN PETER MBUE MWANGI	200,000	0.10
18. CARBACID INVESTMENT LIMITED	169,100	0.08
19. ONESMEUS MWANGI GICHUIRI	162,575	0.08
20. NIC CUSTODIAL SERVICES A/C 012	157,000	0.08
21. OTHERS	51,040,845	25.52
<b>TOTAL SHAREHOLDING</b>	<b>200,000,000</b>	<b>100.00</b>



# NATIONAL BANK PRODUCTS AND SERVICES

National Bank offers a wide range of financial services to the retail and corporate business segments through its branch network in Kenya and correspondent banks. Our services include:

## A. DEPOSIT AND OTHER ACCOUNTS

- Current Account
- National Saver Account
- Student Account
- Pinnacle Account
- Vision Account (for children)
- Call Deposits
- Fixed Deposit
- Foreign Currency Account
- Taifa Account
- Al-mumin Account
- Al-mumin Chequeing Account
- Wages Account
- Uchuzi SME transactional current account
- Super Chama Account

## B. FACILITIES

- Safe Custody
- Local Visa Credit Card
- International Visa Credit Card
- Visa Electron Debit Card

## C. ADVANCES

- Loan facilities
- Overdraft Facilities
- Personal Loans to salaried customers
- Asset Finance
- Mortgage facilities
- NBK Study Loan
- Salary advance facilities

## D. UNIQUE CREDIT FACILITIES

- Loans to Tea farmers
- Loans to Sugar Cane farmers
- Loans to Small and Medium Enterprises
- Loan facilities to contractual seed farmers
- Clearing facility
- Super Chama Loan
- LPO Financing

## E. TRADE FINANCE

- Remittance services – Foreign and Local
- Collection of Bills
- Letters of Credit
- Bankers Guarantees and Indemnities
- Foreign Currency Transactions

## F. TREASURY SERVICES

- Money Market Operations
- Buying and Selling of Treasury Bills for customers

## G. OTHER FINANCIAL SERVICES

- Standing Instructions
- Bank Cheques and Drafts
- Bankers' Opinion
- Electronic Payroll Transfers
- S.W.I.F.T. and Cash Connect Money Transfers
- Shares Registry Services
- Custodial Services
- Collection VAT countrywide
- 24 hours ATM services (AutoCash)
- Telephone Banking Services (SIM-ple Banking)
- Collection of Customs Duties
- Internet Banking
- Bancassurance
- Trusteeship services

# BRANCH NETWORK

## Head Office

### National Bank Building

Harambee Avenue  
P.O. Box, 72866, City Square, Nrb 00200  
Tel: 020-2828000/0711-038000  
Fax: 020-222304/020-311444  
E-Mail: info@nationalbank.co.ke

## Card Centre

P.O. Box, 72866, City Square, Nrb00200  
Tel: 020-334690/2226471  
Fax: 020-213987  
E-Mail: cardcentre@nationalbank.co.ke

## BRANCHES:

### 1 Awendo Branch

P.O. Box, 200, Sare Awendo, 40405  
Tel: 020-8029205  
Mobile: 0736-494993;0737-339603;0725-118548  
Fax: 020-2336319  
E-Mail: awendo@nationalbank.co.ke

### 2 Bungoma Branch

P.O. Box, 25, Bungoma, 50200  
Tel: 055-30621/25/3588255  
Mobile: 0738-227177;0712-098660  
Fax: 055-30498  
E-Mail: bungoma@nationalbank.co.ke

### 3 Busia Branch

P.O. Box, 264, Busia, 50400  
Tel: 055-22111/055-22173  
Mobile: 020-3588258  
Fax: 055-22368  
E-Mail: busia@nationalbank.co.ke

### 4 Eastleigh Branch

P.O. Box, 16131, Nairobi, 00610  
Tel: 020-6768133/6768134/6768130  
Mobile: 0727-123247  
Fax: 020-6768132  
E-Mail: eastleigh@nationalbank.co.ke

### 5 Eldoret Branch

P.O. Box, 3111, Eldoret, 30100  
Tel: 053-2062545/46/47  
Mobile: 0734-575590/0713-790791  
Fax: 053-2032387  
E-Mail: eldoret@nationalbank.co.ke

### 5 Moi University Agency

P.O. Box, 3111, Eldoret, 30100  
Tel: 053-43082  
Fax: 053-43016  
E-Mail: eldoretagency@nationalbank.co.ke

### 7 Eldoret International Airport Agency

P.O. Box, 3111, Eldoret, 30100  
Tel: 020-2418947/2418949  
Mobile: 0717-669313;0731-072290  
Fax: 020-2418959  
E-Mail: eldoretairport@nationalbank.co.ke

### 8 Embu Branch

P.O. Box, 2290, Embu, 60100  
Tel: 068-31801/2/3;020-2444147/6  
Mobile: 0720-151990  
Fax: 068-31785  
E-Mail: embu@nationalbank.co.ke

### 9 Harambee Avenue Branch

P.O. Box, 41862, Nairobi, 00100  
Tel: 020-2828000  
Mobile: 0711-038000/0711-038000  
Fax: 020-2248487  
E-Mail: NationalBankmail.co.ke

### 10 Inland Container Depot Agency

Tel: 020-3588240  
P.O. Box, 41862, Nairobi, 00100

### 11 Times Tower sub-branch

P.O. Box, 41862, Nairobi, 00100  
Tel: 020-2828000, 020-2213084

### 12 Hill Branch

P.O. Box, 45219, Nairobi, 00100  
Tel: 020-2720151/52/2722211/2722332  
Mobile: 0734-600772/600889  
/0722-201370/201380  
Fax: 020-2725512  
E-Mail: hill@nationalbank.co.ke

### 13 Hospital Branch

P.O. Box, 30763, Nairobi, 00100  
Tel: 020-2724815/4608/2719123/1181  
Mobile: 0726-610097;0734-272121  
Fax: 020-2716248  
E-Mail: hospital@nationalbank.co.ke

### 14 J.K.I.A

P.O. Box, 30763, Nairobi, 00100  
Tel: 020-827286/822261  
Fax: 020-827254

### 15 Wilson Airport Nairobi Agency

P.O. Box, 30763, Nairobi, 00100  
Tel: 020-607383/4, 020-2130128/9  
Fax: 020-601065  
E-Mail: wilson@nationalbank.co.ke

### 16 Kakamega Branch

P.O. Box, 1773, Kakamega  
Tel: 50100,056-30401/5; 31407  
Mobile: 0731-056655; 0717-478112  
Fax: 056-31417  
E-Mail: kakamega@nationalbank.co.ke

### 17 Kapsabet Branch

P.O. Box, 34, Kapsabet, 30300  
Tel: 053-52125/59  
Mobile: 0721-212917;  
0737-400451;020-2336672/82  
Fax: 053-52284  
E-Mail: Kapsabet@nationalbank.co.ke

### 18 Karatina Branch

P.O. Box, 1490, Karatina, 10101  
Tel: 061-72792;020-21301105  
Mobile: 0727-828364;0734-691763  
Fax: 061-72886  
E-Mail: karatinabranch@nationalbank.co.ke

### 19 Kenyatta Branch

P.O. Box, 30645, Nairobi, 00100  
Tel: 020-340880/7/8  
Mobile: 0722-205253/4;0733-618664/3  
Fax: 020-2230294  
E-Mail: kenyatta@nationalbank.co.ke

### 20 Kiambu Branch

P.O. Box, 2090, Kiambu, 00900  
Tel: 020-2471333/322;066-2022000/3/1  
Fax: 066-2022000  
E-Mail: kiambu@nationalbank.co.ke

### 21 Kisii Branch

P.O. Box, 2435, Kisii, 40200  
Tel: 058-31920/30/30671/31944/31917/31121  
Mobile: 0715-181600;0737-444798  
Fax: 058-30302  
E-Mail: kisii@nationalbank.co.ke

### 22 Kisumu Branch

P.O. Box, 1152, Kisumu, 40100  
Tel: 057-2024389/90/2024391  
Mobile: 0713-777290; 0733-338150  
Fax: 057-2025031  
E-Mail: Kisumu@nationalbank.co.ke

### 23 Kitale Branch

P.O. Box, 1192, Kitale, 30200  
Tel: 054-3027/8/9/31  
Mobile: 0737-891940; 0714-4977289;  
020-2140837/30116  
Fax: 054-30832  
E-Mail: kitale@nationalbank.co.ke

### 24 Moi's Bridge Agency

P.O. Box, 1192, Kitale, 30200  
Tel: 020-2445564/2021233  
Mobile: 0735-244519;0725-170162  
Fax: 020-2445566  
E-Mail: moisbridge@nationalbank.co.ke

### 25 Kitui Branch

P.O. Box, 166, Kitui, 90200  
Tel: 044-4422043/044-4422443/044-4422305  
Fax: 044-4422916  
E-Mail: kitui@nationalbank.co.ke

### 26 Mutomo Agency

P.O. Box, 177, Mutomo, 90201  
Tel: 020-2445560/8009688  
Fax: 020-2445565  
E-Mail: mutomo@nationalbank.co.ke

### 27 Limuru Branch

P.O. Box, 240, Limuru, 00217  
Tel: 020-8044454/8044453  
Mobile: 0715-101424;0737-524277  
Fax: 020-3588247  
E-Mail: limuru@nationalbank.co.ke

### 28 St. Pauls University Agency

P.O. Box, 240, Limuru, 00217  
Tel: 020-8044494

### 29 Meru Branch

P.O. Box, 1774, Meru, 60200  
Tel: 064-32558/32031/32/32202/32560  
Mobile: 020-2130150/2130151;0738-525456  
Fax: 064-30541  
E-Mail: meru@nationalbank.co.ke

### 30 Kianjai Agency

P.O. Box, 1774, Meru, 60200  
Tel: 020-3588249/44563498  
Mobile: 0726-481111  
Fax: 020-2445567  
E-Mail: kianjai@nationalbank.co.ke

### 31 Molo Branch

P.O. Box, 68, Molo  
Tel: 20106, 051-721292/721081  
Mobile: 0726-610095;0734-272271  
Fax: 051-721234;051-721554  
E-Mail: molo@nationalbank.co.ke

### 32 Nakuru Branch

P.O. Box, 1013, Nakuru, 20100  
Tel: 051-2215243/4/2211795/6/7  
Mobile: 020-2130117;0720-034822; 0712-962559  
Fax: 051-2211478  
E-Mail: nakuru@nationalbank.co.ke

### 33 Narok Branch

P.O. Box, 348, Narok, 20500  
Tel: 050-22438/9/22440  
Mobile: 020-2130144; 020-2130146  
E-Mail: narok@nationalbank.co.ke

### 34 Nkrumah Branch

P.O. Box, 90363, Mombasa, 80100  
Tel: 041-2311736/2311150/2225383/2315107  
Mobile: 0716-777317;0736-777317  
Fax: 041-2313828  
E-Mail: nkrumah@nationalbank.co.ke

### 35 Nyeri Branch

P.O. Box, 1629, Nyeri, 10100  
Tel: 061-2030738/2030724/824  
Fax: 061-2034391  
E-Mail: nyeri@nationalbank.co.ke

### 36 Ongata Rongai

P.O. Box, 590, Ongata Rongai, 00511  
Tel: 020-2528359/60;045-3124570/68  
Fax: 020-2528361  
E-Mail: ongatarongai@nationalbank.co.ke

### 37 Portway Branch

P.O. Box, 87770, Portway, 80100  
Tel: 041-2229708/9;020-2335745  
Mobile: 0722-205351/2;0733-600933/4  
Fax: 041-2229806  
E-Mail: portway@nationalbank.co.ke

### 38 Portway Moi International Airport Agency

P.O. Box, 87770, Portway, 80100  
Tel: 041-3434240; 020-2335741/2  
Mobile: 041-2222099; 020-2335743  
Fax: 020-2354402  
E-Mail: moiairport@nationalbank.co.ke

### 39 Port Agency Kilindini

P.O. Box, 87770, Portway, 80100  
Tel: 041-2222099; 020-2335743  
Mobile: 020-2354401  
E-Mail: portagency@nationalbank.co.ke

### 40 Ruiru Branch

P.O. Box, 93, Ruiru, 0232  
Tel: 067-5854226/5855010  
Mobile: 0726-610096  
Fax: 067-5855105  
E-Mail: ruiru@nationalbank.co.ke

### 41 Kenyatta University Agency

P.O. Box, 93, Ruiru, 0232  
Tel: 020-8710632



Transact your business more conveniently  
with our easy to process cheques!

**Rahisisha Biashara na**

**U**CHUUZISMEACCOUNT



National Bank

THE BANK WHERE YOU BELONG

# Ingia Chama Uinuke!



**SUPER CHAMA**

*ACCOUNT*

**Ya wenye bidii**



**National Bank**

THE BANK WHERE YOU BELONG

# PROXY FORM

Shareholder's Member / CDSC No. \_\_\_\_\_

The Company Secretary  
National Bank of Kenya Limited  
Harambee Avenue  
P.O. Box 72866 00200  
NAIROBI

## PROXY

I/We \_\_\_\_\_ The Company Secretary  
of (address) \_\_\_\_\_ being a member/members of National Bank of Kenya  
Limited, hereby appoint:- \_\_\_\_\_ of (address) \_\_\_\_\_  
\_\_\_\_\_ and failing him, the Chairman of the meeting to be my / our proxy, to vote on my / our behalf at  
the 41st Annual General Meeting of the Bank to be held on Friday 18 June 2010 at 10.00 a.m. or at any adjournment thereof.  
As witness my / our hand/hands is/are set this .....Day of.....(month) 2010.

Signed \_\_\_\_\_

### NOTE:

1. A proxy need not be a member.
2. In the case of a corporate body the proxy must be under its Common Seal.
3. This proxy must be delivered to the Bank's registered office not later than 10.00 a.m. on Wednesday, 16th June, 2010.

---

### Shareholder Admission Letter

Please complete this form and note that it must be produced at the Annual General Meeting by you or your proxy for admission.

Name \_\_\_\_\_

Signature \_\_\_\_\_

Shareholder's Member / CDSC Number \_\_\_\_\_

41st Annual General Meeting of National Bank of Kenya Limited to be held at KICC Tsavo Ballroom, Nairobi on Friday, 18 June, 2010 at 10.00 a.m.

# FOMU YA WAKALA

Nambari ya Mwenyehisa/CDSC No. \_\_\_\_\_

Katibu wa Kampuni  
National Bank of Kenya Limited  
Harambee Avenue  
P.O. Box 72866-00200  
NAIROBI

## WAKALA

Mimi/Sisi \_\_\_\_\_  
wa (anuani) \_\_\_\_\_ nikiwa/tukiwa mwanachama/wanachama wa  
National Bank of Kenya Limited, nateua/twateua:- \_\_\_\_\_  
Wa (anuani) \_\_\_\_\_ na akikosa, Mwenyekiti wa mkutano atakuwa wakala wangu/  
wetu, ili kupiga kura kwa niaba yangu/yetu wakati wa Mkutano Mkuu wa arobaini na moja wa kila Mwaka wa Benki utakaofanywa Ijumaa, tarehe  
18, Juni 2010 saa nne (10.00am) za asubuhi ama siku yoyote ile iwapo mkutano utaahirishwa.  
Kama ushahidi ninatia/tunatia sahihi hii/hizi Siku ya ..... mwezi wa ..... 2010  
Sahihi \_\_\_\_\_

### KUMBUKA:

1. Wakala hahitaji kuwa mwanachama
2. Ikiwa ni shirika au kampuni fomu ya wakala lazima iwe imebandikwa muhuri wa kawaida.
3. Fomu ya wakala lazima iwasilishwe kwa ofisi ya Benki iliyosajiliwa Jumatano, tarehe 16 Juni, 2010 kabla ya saa nne (10.00am) asubuhi.

### Barua ya Mwenyehisa Kukubaliwa

Tafadhali kamilisha fomu hii na kumbuka kuwa ni lazima uiwasilishwe wewe mwenyewe au wakala wako wakati wa Mkutano Mkuu wa kila Mwaka ili kukubaliwa.

Jina \_\_\_\_\_

Sahihi \_\_\_\_\_

Nambari ya Mwenyehisa/CDSC No. \_\_\_\_\_

Mkutano Mkuu wa arobaini na moja wa kila Mwaka wa National Bank of Kenya Limited utafanywa katika Jumba la KICC kwenye ukumbi wa Tsavo Ballroom, Nairobi Ijumaa, tarehe 18 Juni, 2010 saa nne (10.00am) asubuhi.



National Bank Building, Harambee Avenue

P.O. Box 72866-00200-City Square, Nairobi / Tel: 020-2828000/ Fax: 020-311444/222304

E-Mail: [info@nationalbank.co.ke](mailto:info@nationalbank.co.ke) / [www.nationalbank.co.ke](http://www.nationalbank.co.ke)