BANK OF AFRICA **KENYA LIMITED**

2007 ANNUAL REPORT

BANK OF AFRICA KENYA

GROUPE BANK OF AFRICA

Table of contents

BANK OF AFRICA - KENYA

The first bank in the BANK OF AFRICA Group in the English-speaking zone, BOA-KENYA was set up in July 2004 after the Group's acquisition of a subsidiary of a French bank. This new entity marked the starting point for the BOA Group in East Africa.

The photography for this year's BANK OF AFRICA Group annual reports has taken the theme of nature, and illustrates the immense wealth of Africa's flora, fauna and landscapes, fashioned by the continent's extraordinary climatic, geological and biological diversity. It attempts, in these few images, to capture the wonderful variety of the land — a land which, when cultivated by men, gives the best of itself, in a thousand different ways depending on the region.

Group Banks and Subsidiaries in 2007

10 COMMERCIAL BANKS AND THEIR BRANCHES

BOA-BENIN	9 ◆	Cotonou	8 ▲	Azové, Abomey-Calavi, Bohicon, Dassa-Zoumé, Djougou, Parakou, Porto-Novo, Ouando (Porto-Novo).
BOA-BURKINA FASO	5 ◆	Ouagadougou	4 ▲	Bobo-Dioulasso, Fada, Koupéla, Pouytenga.
BOA-COTE D'IVOIRE	8 ◆	Abidjan	1 ▲	San Pedro.
BOA-KENYA	4 ◆	Nairobi	1 ▲	Mombasa.
BOA-MADAGASCAR	13 ◆	Antananarivo	41 ▲	Spread over the whole country.
BOA-MALI	6 ◆	Bamako	4 ▲	Kayes, Koulikoro, Koutiala, Sikasso.
			2 ▲	Morila (Sikasso), Sadiola (Kayes).
			1 ●	Paris.
BOA-NIGER	4 ◆	Niamey	4 ▲	Agadez, Dosso, Maradi, Tillaberi.
BOA-SENEGAL	6 ◆	Dakar	1 ▲	Touba.
BOA BANK-TANZANIA	4 ◆	Dar es Salaam		
BOA-UGANDA	5 ◆	Kampala	2 ▲	Jinja, Arua.
GIE GROUPE BANK OF AFRICA	●	Paris		

1 HOUSING FINANCE BANK

BANQUE DE L'HABITAT DU BENIN	1 ◆	Cotonou

3 LEASE FINANCE COMPANIES

EQUIPBAIL-BENIN	●	Cotonou
EQUIPBAIL-MADAGASCAR	●	Antananarivo
EQUIPBAIL-MALI	●	Bamako

1 FIRM OF STOCKBROKERS

ACTIBOURSE	●	Cotonou	1 ●	Abidjan: liaison office

2 INVESTMENT COMPANIES

AGORA	●	Abidjan
ATTICA	●	Cotonou

1 INFORMATION TECHNOLOGY SUBSIDIARY

AISSA	●	Cotonou

◆ Branches ▲ Regional branches ▲ Local branch ● Head office ● Representative office

Group strong points

Quality of customer service

Dynamism and

Financial solidity and cohesion

Expertise in financial engineering

A STRONG NETWORK

• Over 2,000 people, at your service.

• More than 130 dedicated operating and production sites in 11 countries, excluding affiliated partners.

• Major holding in several life insurance companies.

• A strategic banking partner, BMCE, Morocco's second-ranking private bank.

• Corporate partners, including:
Proparco, International Finance Corporation (IFC - World Bank Group), West African Development Bank (BOAD), Netherlands Development Finance Company (FMO), Aureos East Africa Fund LLC, and Belgium Investment Company for Developing Countries (BIO).

CONTINUOUS GROWTH FOR 25 YEARS

• Over 500,000 bank accounts.

• A fleet of Automated Teller Machines and Electronic Payment Terminals.

A WIDE AND VARIED OFFER

• Full range of banking and financial services.

• Attractive range of life insurance policies.

• Strong regional network.

UNIQUE EXPERIENCE IN AFRICA

• 25 years' experience in Africa.

availability of staff of the network

Diversity, with a wide range of financing solutions

GROUP TOTAL TURNOVER IN 2007

± 200 million €

Main Products of BOA - KENYA LTD

BOA ENGLISH SPEAKING NETWORK		BOA - KENYA LIMITED	
Accounts	Current Account	(Local & Foreign Currency)	●
	Remunerated Current Account		
Investment Products	Call Deposits Account		●
	Chama Account		●
	Children Savings Account	"Cool Kids Account"	●
	Family Savings Account		
	Ero Savings Account		
	Gold Plus Account		
	Investment Plan Account		●
	Ordinary Savings Account		●
	Premium Plus Fixed Deposit		●
	Schools Fees Account		
	Senior Citizen Fixed Deposit		
	SESAME Savings Account		
	Student Investment Teams		
	Term Deposit		●
Electronic Banking	BOA On Line		
	B-Web		●
	SESAME ATM Card	(Kenswitch and PesaPoint Networks)	●
Loans	2 in 1 loan		
	Bridging Overdraft		
	Instant Cash		
	Personal Loans		●
	Salary Advance		
	Schools Fees Loan		●
	Super Kikapu		
BOA Company Services	BOA-TANZANIA also offers a wide range of products and services to Corporates, SMEs, Organizations, Institutions, Professionals and Individuals.		●
Transfers and Changes	Foreign Exchange		●
	Moneygram		
	Travellers Cheques		●
	Western Union		●
Complementary Products & Services	Banker's Cheques		●

Annual Report 2007

Herd of elephants in front of Kilimanjaro,
Amboseli National Park.
© M & C Denis-Huaut

Comments from the Managing Director

Lobelia deckenii ssp keniensis, Mount Kenya © M & C Denis-Huaut

It is my pleasure to present the Annual Report and Statement of Audited Accounts of BANK OF AFRICA – KENYA (BOA-KENYA) for the year ended 31st December 2007.

Generally speaking the performance of the Kenyan economy in 2007 was good except in the last month of the year when the country that has since been a model in the East Africa Region presented to the local and international community a wrong image of its former self. The full impact of the happenings will be felt in the year 2008 but it is not the subject of these comments.

During the year, there were a number of favourable factors including affordable credit, a positive rating given by International Rating Agency, stable exchange rate and positive level of investment.

BOA-KENYA managed to end the year with a total balance sheet of more than KES 7.6 billion and a net result of KES 115. 8 million, out of it KES 42.3 million came from our two associates banks in Uganda and Tanzania. These figures represent a growth of 18% on our balance sheet and 120% on the net result.

In pursuing our expansion program, our strong shareholders managed to increase our nominal capital from KES 750 million to KES 950 million. This new level of capital helped the Group, among other things, to purchase 33% of the shares of an existing bank located in Tanzania (BOA BANK – TANZANIA Ltd, formerly Eurafrican Bank) as well as increase its shareholding up to 47.7% on the already existing associate company located in Uganda (BANK OF AFRICA – UGANDA).

Our net customer loans increased from KES 3.8 billion to KES 4.6 billion out of which a large amount was dedicated to both the Small and Medium Enterprises (SMEs) and Retail sectors as envisaged in our development program. Customer deposits reached a total amount of KES 5.5 billion to be compared to KES 4.9 billion at the end of 2006 and represented a growth of almost 12%.

The Bank continued to launch new products and services in Kenya like CHAMA Account for individuals, 2 Automated Teller Machines (ATMs) installed in two branches located in Nairobi, WESTERN UNION as Agent in Kenya like the other members of BOA Group.

The Bank continued to recruit new staff in order to cope with its network expansion program and intend to open 3 new branches in the country in 2008.

Philippe LEON-DUFOUR
Managing Director

Key Facts 2007

FEBRUARY

• Opening Ceremony of our 4th branch in Nairobi, (Uhuru Highway branch) which took place on 19th.
• Two ATM (Automated Teller Machines) were installed and commissioned in two of our branches, Westlands and Uhuru Highway.
• Launching of our CHAMA Account to cater for groups that pool money together for future investments.
• Started operating as a WESTERN UNION Agent in all our four branches.

MARCH

• Participation in the Groupe BANK OF AFRICA's meeting 2006 for the Directors of the network in Casablanca, Morocco.

MAY

• Increase of Capital from KES 750 to 950 Million by existing shareholders.
• Participation in the Groupe BANK OF AFRICA's meeting 2007 for the management of the network in Bamako, Mali.

JUNE

• Purchase of shares in EURAFRICAN-BANK, Tanzania of up to 33%. The bank later changed its name to BOA BANK – TANZANIA.
• Participation in BOA–UGANDA's first right issue which brings our ownership to 48.17%.

SEPTEMBER

• The bank participated in the Total Motor show for the first time with Asset finance being the main product being showcased.

Key Figures 2007

Nyati (Swahili). Syncerus caffer caffer, Southern Buffalo. © M & C Denis-Huaut

Activity

Deposits *	5,522,637
Loans *	4,579,097

Income

Operating income *	543,455
Operating expense *	416,737
Profit before tax *	157,811

Structure

Total assets *	7,657,010
Number of employees	77

* in KES'000

(EUR 1 = 91,41 KES)

Board of Directors

The directors who held office during the year and to the date of this report were:

- Paul DERREUMAUX, Chairman
- Alexandre RANDRIANASOLO
- Davinder SIKAND
- Francis SUEUR
- Georges ABALLO
- Philippe LEON-DUFOUR, Managing Director

Capital

Auditors

PricewaterhouseCoopers

BANK OF AFRICA – KENYA (BOA-KENYA) partnered with low income Schools to raise bio-diversity and environmental safety in Kibera slums, Mathare slums in Nairobi and Moi International Airport in Mombasa.

The already growing seedlings have been nurtured against pests by using natural methods as opposed to killing them, as it will contradict our bio-diversity activity and objective. We use snuff, which is sprinkled around the plants and other natural insect repellents.

- Replacement of trees that did not survive due to insect attacks
- Digging of holes, supply of manure, red soil and transportation.
- Sourcing of the required seedlings from Total Eco challenge community nurseries.
- BANK OF AFRICA Staff visits to the various sites for familiarization and interface contact with the children (our partners) and understanding of the main purpose of planting the trees as well as taking of photos.

Due to flooding and erosion in Kibera we focused on infiltration of rain-water by planting appropriate indigenous trees whose roots tend to go deep into the ground. Species for conservation and education due to their unique health and cultural properties were planted. In Mathare the major kind of trees planted were trees with a lot of foliage when they mature. This was mainly to reduce carbon emissions as a result of the use of stoves for cooking.

Types of tress planted in Moi International Airport.

The focus here was for safety reasons of people and Aircraft. It is important to plant trees that do not attract birds. Travellers palm, Golden palm, Christmas palm, Afzelia e.t.c, were planted. Also the Aracaria tree is great and can only be found in Nairobi Eco Challenge nurseries. Due to flooding in Mombasa during the rainy season two meter tall trees were planted, which had been nurtured in nurseries for over four years to get to that size.

Overall we have had above average success in the tree planting exercise and the students in the schools have been taking a keen interest in nurturing them, notwithstanding the interruption after the elections last year. The trees, if kept for a long period of time also serve to educate the children on the health values and environmental benefits.

BOA-KENYA also supports two street children in secondary school. These children were picked from a pool of needy children who excelled in primary school but were unable to pay their school fees.

Mr. James Gichuki, Head Office Branch manager being Given a plant by a Student to plant.

Mr. Abdullai Said, Mombasa Branch manager (left) planting a tree assisted by his colleague Mr. Tsuma Katende.

Report and Financial Statements

Plantation of tea, towards Kericho. © M & C Denis-Huaut

Directors' report

The directors submit their report together with the audited financial statements for the year ended 31 December 2007, which disclose the state of affairs of the bank.

PRINCIPAL ACTIVITIES

The bank is engaged in the business of banking and the provision of related services.

RESULTS AND DIVIDEND

The net profit for the year of Shs 115,869,000 (2006: 52,625,000) has been added to retained earnings. The directors recommend the approval of a first and final dividend, amounting to Shs 57 million (2006: Shs 30 million).

DIRECTORS

The directors who held office during the year and to the date of this report were:

Paul DERREUMAUX	Chairman
Alexandre RANDRIANASOLO	
Davinder SIKAND	
Francis SUEUR	
Georges ABALLO	
Philippe LEON-DUFOUR	Managing Director

AUDITOR

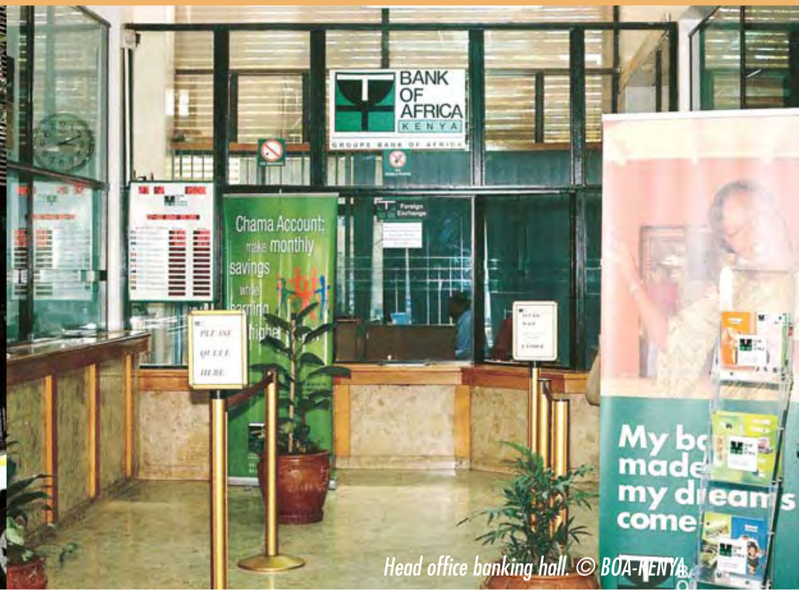
The bank's auditor, PricewaterhouseCoopers, have indicated their willingness to continue in office in accordance with the provisions of Section 159(2) of the Companies Act and Section 24(1) of the Banking Act (Cap 488).

By order of the Board

Ramesh VORA
SECRETARY

Report and Financial Statements

BOA-KENYA head office in Nairobi. © BOA-KENYA



Head office banking hall. © BOA-KENYA

Corporate governance

Corporate governance outlines the way companies are run and managed, the role of the Board of directors and a framework of internal controls. The Board of BANK OF AFRICA KENYA is keen in ensuring adoption of good corporate governance.

The Board

The Board is made up of the chairman, the CEO and four non-executive directors. All directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each director receives information about the Bank and is advised of the legal, regulatory and other obligations of a director.

The full Board meeting is held every quarter and Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Chief Executive Officer, is in charge of the day to day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual directors.

Board Meeting Membership & Attendance

	14 March 2007	7 May 2007	27 August 2007	3 December 2007
Paul DERREUMAUX	A	A	A	A
Alexandre RANDRIANASOLO	A	A	A	A
Davinder SIKAND	A	A	A	A
Francis SUEUR	A	A	A	A
Georges ABALLO	A	A	A	A
Philippe LEON-DUFOUR	A	A	A	A

A - Attended


Head office Branch. © BOA-KENYA


Head office. © BOA-KENYA

Board Audit & Risk Committee

The overall responsibility of the Board Audit and Risk Committee is to review the financial condition of the bank, its internal controls, performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommend appropriate remedial action. The committee will also review the various risks faced by the bank and the management of such risks.

Directors' remuneration

The remuneration of all directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in Note 27 of the financial statements.

Board Performance Evaluation

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance is done, and that of its committees and individual directors. The results of such an evaluation are to be provided to the Central Bank of Kenya.

Going concern

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Internal controls

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit department which is independent, reports to the Board Audit & Risk Committee and provides an independent confirmation that Group business standards, policies and procedures are being complied with.

Report and Financial Statements

River Road Branch, in Nairobi. © BOA-KENYA

Westlands Branch. © BOA-KENYA

The Companies Act requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss. It also requires the directors to ensure that the company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the company. They are also responsible for safeguarding the assets of the company.

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 the requirements of the Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its profit in accordance with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

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

Paul DERREUMAUX
Chairman

Philippe LEON-DUFOUR
Managing Director

14th March 2008

Uhuru Highway Branch, in Nairobi. © BOA-KENYA

Uhuru Highway Branch cashier serving clients. © BOA-KENYA

Report of the independent auditors

to the Members of BANK OF AFRICA - KENYA Ltd.

Report on the financial statements.

We have audited the accompanying financial statements of BANK OF AFRICA KENYA Limited set out on pages 20 to 56. These financial statements comprise the balance sheet at 31 December 2007, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditor's responsibility

Our responsibility is to express an independent opinion on the 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 our audit to obtain reasonable assurance that 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 the auditor's 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, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. 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 opinion.

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2007 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

The Kenyan Companies Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm 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;

iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

PricewaterhouseCoopers

14th March 2008
Nairobi

Financial Statements

Zebras.
© M & C Denis-Huaut

PROFIT AND LOSS ACCOUNT

	NOTES	2007	2006
		SHS'000	SHS'000
INTEREST INCOME	5	543,601	434,569
INTEREST EXPENSE	6	(209,145)	(185,054)
NET INTEREST INCOME		**334,456**	**249,515**
FEE AND COMMISSION INCOME		101,442	67,221
FEE AND COMMISSION EXPENSE		(11,228)	(8,791)
NET FEE AND COMMISSION INCOME		**90,214**	**58,430**
FOREIGN EXCHANGE INCOME		83,097	69,699
OTHER OPERATING INCOME		35,688	1,796
OPERATING INCOME		**543,455**	**379,440**
OPERATING EXPENSES	7	(416,737)	(357,602)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	14	(11,254)	(263)
NEGATIVE GOODWILL	28 (A)	-	32,359
SHARE OF PROFITS FROM ASSOCIATE	28 (B)	42,347	7,425
PROFIT BEFORE INCOME TAX		**157,811**	**61,359**
INCOME TAX EXPENSE	9	(41,942)	(8,734)
PROFIT FOR THE YEAR		**115,869**	**52,625**

BALANCE SHEET

	NOTES	AT 31 DECEMBER 2007	AT 31 DECEMBER 2006
		SHS'000	SHS'000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	11	447,667	732,239
GOVERNMENT SECURITIES HELD-TO-MATURITY	12(A)	459,097	255,050
GOVERNMENT SECURITIES - AVAILABLE-FOR-SALE	12(B)	321,523	-
PLACEMENTS WITH OTHER BANKS	13	838,226	1,126,470
AMOUNTS DUE FROM GROUP BANKS	27	86,991	75,015
INVESTMENT IN ASSOCIATE	28	358,880	162,889
LOANS AND ADVANCES TO CUSTOMERS	14	4,579,097	3,773,768
TAX RECOVERABLE		-	135
PROPERTY AND EQUIPMENT	15	94,966	85,352
INTANGIBLE ASSETS	16	32,973	44,676
PREPAID OPERATING LEASE RENTALS	29	5,203	5,288
OTHER ASSETS	18	432,387	227,207
TOTAL ASSETS		**7,657,010**	**6,488,089**
LIABILITIES			
CUSTOMER DEPOSITS	19	5,522,637	4,935,542
DEPOSITS FROM OTHER BANKS	20	414,508	197,676
AMOUNTS DUE TO GROUP BANKS	27	128,877	212,446
TAX PAYABLE		40,062	-
DIVIDENDS PAYABLE		3,375	-
DEFERRED INCOME TAX	17	4,211	3,063
OTHER LIABILITIES	21	280,433	160,931
TOTAL LIABILITIES		**6,394,103**	**5,509,658**
SHAREHOLDERS' EQUITY			
SHARE CAPITAL	22	950,000	750,000
REGULATORY RESERVE	24	48,042	39,395
REVALUATION RESERVE – AVAILABLE-FOR-SALE SECURITIES	23	(1,393)	-
RETAINED EARNINGS		209,258	159,036
PROPOSED DIVIDENDS	10	57,000	30,000
TOTAL SHAREHOLDERS' EQUITY		**1,262,907**	**978,431**
TOTAL EQUITY AND LIABILITIES		**7,657,010**	**6,488,089**

The financial statements on pages 20 to 56 were approved for issue by the board of directors on 14th March 2008 and signed on its behalf by:

Paul DERREUMAUX	**Philippe LEON-DUFOUR**	**Davinder SIKAND**	**Ramesh VORA**
Chairman	Managing Director	Director	Company Secretary

STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL SHS'000	REVALUATION RESERVE SHS'000	REGULATORY RESERVE SHS'000	RETAINED EARNINGS SHS'000	PROPOSED DIVIDEND SHS'000	TOTAL SHS'000
AT 1 JANUARY 2006		**500,000**	**-**	**33,500**	**142,306**	**-**	**675,806**
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSETS NET OF TAX	23	-	-	-	-	-	-
PROFIT FOR THE YEAR		-	-	-	52,625	-	52,625
TRANSFER TO REGULATORY RESERVE	24	-	-	5,895	(5,895)	-	-
DIVIDENDS:							
PROPOSED FINAL FOR 2006	10	-	-	-	(30,000)	30,000	-
ISSUE OF SHARES	22	250,000	-	-	-	-	250,000
AT 31 DECEMBER 2006		**750,000**	**-**	**39,395**	**159,036**	**30,000**	**978,431**
AT 1 JANUARY 2007		**750,000**	**-**	**39,395**	**159,036**	**30,000**	**978,431**
NET CHANGE IN AVAILABLE-FOR-SALE FINANCIAL ASSET NET OF TAX	23	-	(1,393)	-	-	-	(1,393)
PROFIT FOR THE YEAR	-		-		115,869		115,869
TRANSFER TO REGULATORY RESERVE	24	-	-	8,647	(8,647)		-
DIVIDENDS:							
PAID (FINAL FOR 2006)		-	-	-	-	(30,000)	(30,000)
PROPOSED FINAL FOR 2007	10	-	-		(57,000)	57,000	-
ISSUE OF SHARES	22	200,000	-	-	-	-	200,000
AT 31 DECEMBER 2007		**950,000**	**(1,393)**	**48,042**	**209,258**	**57,000**	**1,262,907**

CASH FLOW STATEMENT

	NOTES	2007	2006
		SHS'000	SHS'000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		548,843	431,804
INTEREST PAYMENTS		(208,079)	(180,311)
NET FEE AND COMMISSION RECEIPTS		90,214	58,430
OTHER INCOME RECEIVED		82,032	69,773
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(373,431)	(328,954)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**139,579**	**50,742**
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(818,630)	(734,830)
- CASH RESERVE REQUIREMENT		(26,243)	(24,092)
- OTHER ASSETS		(204,374)	(81,563)
- CUSTOMER DEPOSITS		587,471	810,376
- OTHER LIABILITIES		106,361	(22,596)
- TREASURY BILLS AND BONDS MATURING AFTER 91 DAYS		(255,869)	199,699
- GOVERNMENT SECURITIES – AVAILABLE-FOR-SALE		(285,009)	-
NET CASH FROM OPERATING ACTIVITIES		**(896,293)**	**146,994**
CASH FLOWS FROM INVESTING ACTIVITIES			
ACQUISITION OF ASSOCIATES		(153,644)	(123,105)
PURCHASE OF PROPERTY AND EQUIPMENT	15	(33,819)	(38,815)
PURCHASE OF INTANGIBLE ASSETS	16	(1,756)	(2,678)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		1,736	2,234
NET CASH USED IN INVESTING ACTIVITIES		**(187,483)**	**(162,364)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES		200,000	250,000
DIVIDENDS PAID		(26,625)	
NET CASH FROM FINANCING ACTIVITIES		173,375	250,000

CASH FLOW STATEMENT (CONTINUED)

	NOTES	2007	2006
		SHS'000	SHS'000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(770,822)**	**285,372**
CASH AND CASH EQUIVALENTS AT START OF YEAR	26	1,306,144	1,020,772
CASH AND CASH EQUIVALENTS AT END OF YEAR	**26**	**535,322**	**1,306,144**

Notes

Lesser Flamingo. © M & C Denis-Huaut

1 General information

BANK OF AFRICA KENYA LIMITED is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:

RE-INSURANCE PLAZA
TAIFA ROAD
P.O.BOX 69562
00400 NAIROBI

2 Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

(A) BASIS OF PREPARATION

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below. The financial statements are presented in Kenya Shillings (Shs), rounded to the nearest thousand.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions. It also requires management to exercise its judgement in the process of applying the bank's accounting policies. The areas involving a higher degree of judgement or complexity, or where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

Adoption of new and revised standards

In 2007 new and revised standards and interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards had no material effect on the company's accounting policies or disclosures.

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the company's capital and how it manages capital.
- IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. This standard does not have any impact on the classification or measurement of the Company's financial instruments.

Standards, interpretations and amendments to published standards that are not yet effective.

The following amendment to an existing standard and new standard will be mandatory for the company's accounting periods beginning on or after 1 January 2008, but which the company has not early adopted:

- IFRIC 11 – Group and Treasury Share Transactions – from 1 January 2008
- IFRIC 12 – Service Concession Arrangements – from 1 January 2008
- IFRS 8 – Operating Segments – from 1 January 2009
- IAS 23 – Borrowing Costs (revised) – from 1 January 2009.

The directors have assessed the relevance of these amendments and interpretations with respect to the company's operations and concluded that they are not relevant to the company.

(B) INTEREST INCOME AND EXPENSE

Interest income and expense are recognised in the profit and loss account for all interest bearing instruments measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

When loans and advances become doubtful of collection, they are written down to their recoverable amounts and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purpose of measuring the recoverable amount.

(C) FEES AND COMMISSION INCOME

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

(D) TRANSLATION OF FOREIGN CURRENCIES

The accounting records are maintained in the currency of the primary economic environment in which the bank operates, Kenya Shillings ("the functional currency"). Transactions in foreign currencies during the year are converted into the functional currency using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account.

(E) 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.

(i) 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 classifying eliminates or significantly reduces a measurement inconsistency. Derivatives are also categorised as held for trading.

(ii) 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.

(iii) 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. Were the bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale. Held-to-maturity investments are carried at amortised cost using, the effective interest method.

(iv) Available-for-sale

Available-for-sale (AFS) assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices. Available-for-sale financial assets are stated at fair value based on quoted bid prices. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised through equity in the fair value reserve, net of deferred tax.

When these investments are derecognised, the cumulative gain or loss previously directly recognised in equity is recognised in the income statement.

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity and available-for-sale are recognised on trade-date – the date on which the Company commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus, for all financial assets except those carried at fair value through profit or loss, transaction costs. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Company has transferred substantially all risks and rewards of ownership.

Loans, advances and receivables and held-to-maturity financial assets are carried at amortised cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. 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 and loss account in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in equity is recognised in the profit or loss account. However, interest calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the company's right to receive payment is established.

Fair values of quoted investments in active markets are based on current bid prices. Fair values for unlisted equity securities are estimated using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants. Equity securities for which fair values cannot be measured reliably are recognised at cost less impairment.

(F) IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Company about the following loss events:

a) significant financial difficulty of the borrower;

b) a breach of contract, such as default or delinquency in interest or principal repayments;

c) the Company granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Company would not otherwise consider;

d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

e) the disappearance of an active market for that financial asset because of financial difficulties; or

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The estimated period between a loss occurring and its identification is determined by management for each identified portfolio.

(i) Assets carried at amortised cost

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

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit and loss account. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the company may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the company's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors).

Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statements.

(ii) 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.

(G) PROPERTY AND EQUIPMENT

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets.

Depreciation is calculated on the straight line basis to write down their cost to their residual values over their estimated useful lives, as follows:

BUILDINGS	1.5%
FIXTURES, FITTINGS AND EQUIPMENT	20%
MOTOR VEHICLES	33.3%
LEASEHOLD IMPROVEMENT	10%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

(H) INTANGIBLE ASSETS

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of five years.

(I) INCOME TAX

Income tax expense is the aggregate of the charge to the profit and loss account in respect of current income tax and deferred income tax.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

Deferred income tax is provided in full, 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. However, if the deferred income tax arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(J) ACCOUNTING FOR LEASES

The bank carries leasehold land as prepaid operating lease, stated at cost less accumulated amortisation. Amortisation is calculated to write down the cost of the lease over the lease term.

(K) CASH AND CASH EQUIVALENTS

Prepaid Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank of Kenya, treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya.

(L) EMPLOYEE BENEFITS

(i) Retirement benefit obligations

The company operates a defined contribution post-employment benefit scheme for all its employees. The scheme is funded from contributions from both the company and employees. The company and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

The company's contributions to both these defined contribution schemes are charged to the profit and loss account in the year to which they fall due. The company has no further obligation once the contributions have been paid.

(ii) Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an expense accrual.

(M) DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit and loss account.

(N) BORROWINGS

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(O) 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.

(P) SALE AND REPURCHASE AGREEMENTS

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

(Q) SHARE CAPITAL

Ordinary shares are classified as equity.

(R) DIVIDENDS PAYABLE

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(S) ACCEPTANCES AND LETTERS OF CREDIT

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

(T) ASSOCIATES

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method.

(U) RELATED PARTIES

In the normal course of business, the Bank has entered into transactions with related parties. The transactions are usually at arms length.

3 Financial risk management

INTRODUCTION AND OVERVIEW

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

- CREDIT RISK
- LIQUIDITY RISK
- MARKET RISK

This note presents information about the Bank's exposure to each of the above risks, the bank's objectives, policies and processes for measuring and managing risk, and the bank's management of capital.

RISK MANAGEMENT FRAMEWORK

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's Audit Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. The Bank Audit Committee is assisted in these functions by Internal Audit, who undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(A) CREDIT RISK

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Bank Credit Committee. A separate Bank Credit department, reporting to the Bank Credit Committee, is responsible for oversight of the Bank's credit risk, including:

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to Bank Credit Committee or the Board of Directors as appropriate.

- Reviewing and assessing credit risk. Bank Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the branches concerned. Renewals and reviews of facilities are subject to the same review process.

- 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.

- Reviewing compliance of branches with agreed exposure limits, including those for selected industries, country risk and product types.

- Providing advice, guidance and specialist skills to branches to promote best practice throughout the Bank in the management of credit risk

Each branch is required to implement Bank's credit policies and procedures, with credit approval authorities delegated from the Bank Credit Committee. Each branch 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 Credit Committee approval.

Regular audits of branch and bank credit processes are undertaken by Internal Audit.

MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD

	2007	2006
	SHS'000	SHS'000
BALANCES WITH CENTRAL BANK OF KENYA	304,917	99,756
GOVERNMENT SECURITIES HELD-TO-MATURITY	459,097	255,050
GOVERNMENT SECURITIES - AVAILABLE-FOR-SALE	321,523	
PLACEMENTS WITH OTHER BANKS	838,226	1,126,470
AMOUNTS DUE FROM GROUP COMPANIES	86,991	75,015
LOANS AND ADVANCES TO CUSTOMERS	4,579,097	3,773,768
OTHER ASSETS	21,456	6,067
CREDIT RISK EXPOSURES RELATING TO OFF-BALANCE SHEET ITEMS:		
- ACCEPTANCES AND LETTERS OF CREDIT	496,705	279,955
- GUARANTEE AND PERFORMANCE BONDS	1,211,320	734,417
TOTAL	**8,319,332**	**6,350,498**

The above table represents a worse case scenario of credit risk exposure to the Company at 31 December 2007 and 2006, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

Loans and advances to customers, other than to major corporates and to individuals borrowing less than Shs 1 Million are secured by collateral in the form of charges over land and buildings and/or plant and machinery or corporate guarantees.

FINANCIAL ASSETS THAT ARE PAST DUE OR IMPAIRED

Loans and advances are summarised as follows:

	2007	2006
	SHS'000	SHS'000
NEITHER PAST DUE NOR IMPAIRED	4,366,595	3,689,944
PAST DUE BUT NOT IMPAIRED	146,646	83,625
IMPAIRED	104,367	29,015
GROSS	4,617,608	3,802,584
LESS: ALLOWANCE FOR IMPAIRMENT	38,511	28,816
NET	**4,579,097**	**3,773,768**

No other financial assets are either past due or impaired.

LOANS ADVANCES NEITHER PAST DUE NOR IMPAIRED

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Company:

	2007	2006
	SHS'000	SHS'000
STANDARD	4,366,595	3,689,944

LOANS AND ADVANCES PAST DUE BUT NOT IMPAIRED

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2007	2006
	SHS'000	SHS'000
PAST DUE UP TO 30 DAYS	104,638	74,741
PAST DUE 31 – 60 DAYS	7,743	8,884
PAST DUE 61 – 90 DAYS	34,265	-
TOTAL	**146,646**	**83,625**

LOANS AND ADVANCES INDIVIDUALLY IMPAIRED

	2007	2006
	SHS'000	SHS'000
INDIVIDUALLY ASSESSED IMPAIRED LOANS AND ADVANCES COMPRISING:		
- CORPORATE	83,267	28,553
- RETAIL	1,618	334
- SME	19,482	128
TOTAL	**104,367**	**29,015**
FAIR VALUE OF COLLATERAL	45,814	-

COLLATERAL REPOSSESSED

During the year, the bank took possession of the following:

NATURE OF ASSETS	2007	2006
	SHS'000	SHS'000
RESIDENTIAL PROPERTY	-	-
COMMERCIAL PROPERTY	-	-
OTHER	6,700	-
TOTAL	**6,700**	**-**

Repossessed properties are disposed of in the open market, at fair market value.

(B) CONCENTRATIONS OF RISK

Economic sector risk concentrations within the customer loan portfolios were as follows:

BY ECONOMIC SECTOR

	2007	2006
	SHS'000	SHS'000
WHOLESALE / RETAIL	1,573,570	1,526,206
MANUFACTURING	1,105,703	1,046,406
AGRICULTURE	557,670	455,030
CONSTRUCTION	337,618	246,219
TRANSPORT	308,640	133,603
INDIVIDUAL / PERSONAL	258,772	134,170
SERVICES	20,728	13,058
FINANCIAL INSTITUTIONS	101,635	12,062
TOURISM	102,275	73,089
COMMUNICATION	64,411	68,785
HOSPITALITY	28,297	21,273
OTHERS	158,289	72,683
TOTAL	**4,617,608**	**3,802,584**

BY TENOR

	2007	2006
	SHS'000	SHS'000
SHORT TERM CREDITS (< 1 YEAR)	3,119,515	3,035,881
MEDIUM TERM CREDITS (> 1 YEAR < 5 YRS)	1,217,408	704,234
LONG TERM CREDITS (> 5 YEARS)	89,324	61,709
BILLS/CHEQUES/ NOTES DISCOUNTED	191,360	760
TOTAL ON BALANCE SHEET EXPOSURE	**4,617,607**	**3,802,584**
ACCEPTANCES AND LETTERS OF CREDIT	496,705	302,912
GUARANTEE AND PERFORMANCE BONDS	1,211,320	734,417
TOTAL NON-FUNDED EXPOSURE	**1,708,025**	**1,037,329**
TOTAL EXPOSURE	**6,325,632**	**4,839,913**

(B) LIQUIDITY RISK

The Bank is exposed to liquidity risk if it encounters 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 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. The liquidity requirements of branches are met through short-term loans from Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the Assets and Liabilities Committee (ALCO). Daily reports cover the liquidity position of both the bank and branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

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.

The table below presents the cashflows payable and receivable by the company under financial assets and liabilities by remaining contractual maturities at the balance sheet date. All figures are in thousands of Kenya Shillings.

AT 31 DECEMBER 2007	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK OF KENYA	111,848	25,763	15,879	-	294,177	447,667
GOVERNMENT SECURITIES	-	-	235,347	-	223,750	459,097
PLACEMENTS WITH OTHER BANKS	838,226	-	-	-	-	838,226
AMOUNTS DUE FROM GROUP BANKS	86,991	-	-	-	-	86,991
GOVERNMENT SECURITIES - AFS	321,523	-	-	-	-	321,523
LOANS AND ADVANCES TO CUSTOMERS	1,809,639	131,452	1,753,126	871,696	51,695	4,617,608
OTHER FINANCIAL ASSETS	418,549	3,605	2,413	-	-	424,567
TOTAL FINANCIAL ASSETS	**3,586,776**	**160,820**	**2,006,765**	**871,696**	**569,622**	**7,195,679**
LIABILITIES & EQUITY						
CUSTOMER DEPOSITS	4,753,913	476,087	292,637	-	-	5,522,637
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	414,508	-	-	-	-	414,508
AMOUNTS DUE TO GROUP BANKS	98,339	30,538	-	-	-	128,877
OTHER FINANCIAL LIABILITIES	246,461	-	33,982	-	-	280,443
TOTAL FINANCIAL LIABILITIES	**5,513,221**	**506,625**	**326,619**	**-**	**-**	**6,346,465**

AT 31 DECEMBER 2006	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	TOTAL
ASSETS						
CASH AND BANK BALANCES WITH CENTRAL BANK OF KENYA	337,389	21,313	17,497	-	356,040	732,239
GOVERNMENT SECURITIES	-	50,476	204,574	-	-	255,050
PLACEMENTS WITH OTHER BANKS	1,117,294	9,176	-	-	-	1,126,470
AMOUNTS DUE FROM GROUP BANKS	4,097		70,918	-	-	75,015
LOANS AND ADVANCES TO CUSTOMERS	2,424,232	277,142	466,845	534,739	70,810	3,773,768
OTHER FINANCIAL ASSETS	212,951	3,213	2,075	-	-	218,239
TOTAL FINANCIAL ASSETS	**4,095,963**	**361,320**	**761,909**	**534,739**	**426,850**	**6,180,781**

LIABILITIES						
CUSTOMER DEPOSITS	4,224,871	391,345	319,326	-	-	4,935,542
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	196,507	-	1,169	-	-	197,676
AMOUNTS DUE TO GROUP COMPANIES	181,862	-	30,584	-	-	212,446
OTHER FINANCIAL LIABILITIES	94,584	-	34,790	31,557	-	160,931
TOTAL FINANCIAL LIABILITIES	**4,697,824**	**391,345**	**385,869**	**31,557**	**-**	**5,506,595**

(C) MARKET RISK

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads will affect the bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Overall authority for market risk is vested in ALCO. Bank Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

(i) Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2007. Included in the table are the Bank's financial instruments categorised by currency (all amounts expressed in thousands of Kenya Shillings):

AT 31 DECEMBER 2007	**USD**	**GBP**	**EURO**	**OTHER**	**TOTAL**
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	44,560	1,882	5,432	-	51,874
PLACEMENTS WITH OTHER BANKS	513,237	122,233	50,321	73,116	758,907
LOANS AND ADVANCES TO CUSTOMERS	1,159,303	16,330	317,985	549	1,494,167
AMOUNTS DUE FROM GROUP BANKS	32,314	-	51,158	3,519	86,991
OTHER ASSETS	40,102	251	339	-	40,692
TOTAL ASSETS	**1,789,516**	**140,696**	**425,235**	**77,184**	**2,432,631**

AT 31 DECEMBER 2007	USD	GBP	EURO	OTHER	TOTAL
LIABILITIES					
CUSTOMER DEPOSITS	1,870,381	139,210	314,200	67,504	2,391,295
DEPOSITS FROM OTHER BANKS	27,568	-	40,271	-	67,839
AMOUNTS DUE TO GROUP BANKS	17,095	-	103,574	-	120,669
OTHER LIABILITIES	134,829	229	33,266	4,203	172,527
TOTAL LIABILITIES	**2,049,873**	**139,439**	**491,311**	**71,707**	**2,752,330**
NET ON-BALANCE SHEET POSITION	**(260,357)**	**1,257**	**(66,076)**	**5,477**	**(319,699)**
NET OFF-BALANCE SHEET POSITION	**262,559**	**-**	**18,282**	**-**	**280,841**
OVERALL OPEN POSITION	**2,202**	**1,257**	**(47,794)**	**5,477**	**(38,858)**

AT 31 DECEMBER 2006	USD	GBP	EURO	OTHER	TOTAL
TOTAL ASSETS	1,935,146	291,292	499,753	7,282	2,733,473
TOTAL LIABILITIES	1,935,110	291,292	499,753	7,282	2,733,437
NET ON-BALANCE SHEET POSITION	**36**	**-**	**-**	**-**	**36**
NET OFF-BALANCE SHEET POSITION	**286,532**	**-**	**-**	**-**	**286,532**
OVERALL OPEN POSITION	**286,568**	**-**	**-**	**-**	**286,568**

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

At 31 December 2007, if the Shilling had strengthened/weakened by 5% against the major currencies with all other variables held constant, pre tax profit for the year would have been higher/lower by Shs 1,200,00 (2006: Shs 840,000) as illustrated below:

(ii) Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Mismatch positions are reviewed on a weekly basis.

The table below summarises the bank's 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 are in thousands of Kenya Shillings.

AT 31 DECEMBER 2007	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
ASSETS						
CASH AND BALANCES WITH CENTRAL BANK OF KENYA	-	-	-	-	447,667	447,667
GOVERNMENT SECURITIES HELD FOR MATURITY	-	-	235,347	221,443	2,307	459,097
PLACEMENT WITH OTHER BANKS	92,822	-	-	-	745,404	838,226
AMOUNTS DUE FROM GROUP BANKS	28,229	-	-	-	58,762	86,991
GOVERNMENT SECURITIES - AFS	321,523	-	-	-	-	321,523
LOANS AND ADVANCES TO CUSTOMERS	4,341,787	139,894	70,016	20,000	7,400	4,579,097
TOTAL FINANCIAL ASSETS	**4,784,361**	**139,894**	**305,363**	**241,443**	**1,261,540**	**6,732,601**
LIABILITIES & SHAREHOLDERS' FUNDS						
CUSTOMER DEPOSITS	2,518,198	656,956	396,935	-	1,950,548	5,522,637
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	406,841	-	-	-	7,667	414,508
AMOUNTS DUE TO GROUP BANKS	71,390	-	43,947	-	13,540	128,877
TOTAL FINANCIAL LIABILITIES	**2,996,429**	**656,956**	**440,882**	**-**	**1,971,755**	**6,066,022**
INTEREST SENSITIVITY GAP	**1,787,932**	**(517,062)**	**(135,519)**	**241,443**	**(710,215)**	**666,579**

AT 31 DECEMBER 2006	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	OVER 1 YEAR	NON-INTEREST BEARING	TOTAL
TOTAL ASSETS	4,186,802	168,178	393,933	486,393	890,125	6,125,431
TOTAL FINANCIAL LIABILITIES	3,319,776	391,346	350,709	-	1,283,833	5,345,664
TOTAL INTEREST SENSITIVITY GAP	**867,026**	**(223,168)**	**43,224**	**486,393**	**(393,708)**	**779,767**

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the company and its exposure to changes in interest rates and exchange rates.

As at 31 December 2007, a 10 basis points increase in interest rates would have resulted in an increase in pre tax profit of Shs 11 million (2006: Increase of Shs 9 million). As at 31 December 2007, a 8 basis points decrease in interest rates would have resulted in a decrease in pre tax profit of Shs 9 million (2006: Decrease of Shs 7 million).

D) FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The fair value of held-to-maturity investment securities at 31 December 2007 is estimated at Shs 440 million (2006: Shs 261 million) compared to their carrying value of Shs 459 million (2006: Shs 255 million).

The fair values of the bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above.

(E) CAPITAL MANAGEMENT

The Company's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented 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: (a) hold the minimum level of regulatory capital of Shs 250 million; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital) which includes share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of – and reflecting an estimate of the credit risk associated with – each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

	2007	2006
	SHS'000	SHS'000
TIER 1 CAPITAL		
SHARE CAPITAL	950,000	750,000
RETAINED EARNINGS	209,258	159,036
INVESTMENT IN ASSOCIATES	(358,880)	(123,105)
TOTAL	**800,378**	**785,931**
TIER 2 CAPITAL		
REVALUATION RESERVES (25%)	-	-
STATUTORY RESERVES	48,042	39,395
TOTAL CAPITAL	**848,420**	**825,326**

RISK- WEIGHTED ASSETS		
ON-BALANCE SHEET	5,226,717	4,254,434
OFF-BALANCE SHEET	660,894	399,437
TOTAL	**5,887,611**	**4,653,871**

	2007	2006
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES	13.49%	14.66%
- (CBK MINIMUM 8%)		
CORE CAPITAL /TOTAL RISK WEIGHTED ASSETS		
- (CBK MINIMUM 8%)	**13.59%**	**16.05%**
TOTAL CAPITAL /TOTAL RISK WEIGHTED ASSETS		
- (CBK MINIMUM 12%)	**14.41%**	**16.90%**

4 Critical accounting estimates and judgements in applying accounting policies

The bank makes 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.

(A) IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

(B) 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 maturing 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 a significant amount close to maturity – it will be required to classify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

5 Interest income

	2007	2006
	SHS'000	SHS'000
LOANS AND ADVANCES	439,211	348,031
GOVERNMENT SECURITIES	40,240	33,757
BALANCES WITH OTHER BANKING INSTITUTIONS	64,150	52,781
TOTAL	**543,601**	**434,569**

6 Interest expense

	2007	2006
	SHS'000	SHS'000
CUSTOMER DEPOSITS	188,874	166,444
DEPOSITS BY BANKS	20,271	18,610
TOTAL	**209,145**	**185,054**

7 Operating expenses

The following items are included within operating expenses:	2007	2006
	SHS'000	SHS'000
STAFF COSTS (NOTE 8)	183,714	154,590
DEPRECIATION (NOTE 15)	21,988	15,242
AMORTISATION OF INTANGIBLE ASSET (NOTE 16)	13,459	13,249
OPERATING LEASE RENTALS	23,290	17,022
AUDITORS' REMUNERATION	2,933	2,760
AMORTISATION OF PREPAID OPERATING LEASE RENTALS	85	85

8 Staff Costs

The following items are included within staff costs:

	2007	2006
	SHS'000	SHS'000
RETIREMENT BENEFIT COSTS:		
– DEFINED CONTRIBUTION SCHEME	6,686	169
– NATIONAL SOCIAL SECURITY FUND	4,407	143

9 Income tax expense

	2007	2006
	SHS'000	SHS'000
CURRENT INCOME TAX	40,197	-
DEFERRED INCOME TAX (NOTE 17)	1,745	8,734
TOTAL	**41,942**	**8,734**

The tax on the bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

PROFIT BEFORE INCOME TAX	**157,811**	**61,359**
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2006: 30%)	47,343	18,408
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(12,829)	(12,409)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	7,901	6,003
PRIOR YEAR OVER PROVISION OF DEFERRED TAX	(473)	(3,268)
INCOME TAX EXPENSE	**41,942**	**8,734**

10 Dividends per share

At the annual general meeting to be held on 14 March 2008, a final dividend in respect of the year ended 31 December 2007 amounting to a total of Shs 57 million is to be proposed (2006 – Shs 30 million).

Payment of dividends is subject to withholding tax at a rate of 5% for residents and 10% for non-resident shareholders.

Cash and balances with Central Bank of Kenya

	2007	2006
	SHS'000	SHS'000
CASH IN HAND	142,750	99,756
BALANCES WITH CENTRAL BANK OF KENYA	304,917	632,483
TOTAL	**447,667**	**732,239**

12 Investment securities

	2007	2006
	SHS'000	SHS'000
(A) HELD-TO-MATURITY		
TREASURY BILLS AND BONDS:		
MATURING WITHIN 91 DAYS OF THE DATE OF ACQUISITION	-	50,476
MATURING AFTER 91 DAYS OF THE DATE OF ACQUISITION	459,097	204,574
TOTAL	**459,097**	**255,050**
(B) AVAILABLE FOR SALE		
TREASURY BONDS	321,523	-

The movement in government securities available-for-sale may be summarised as follows:

	2007	2006
	SHS'000	SHS '000
AT START OF YEAR	**-**	
ADDITIONS	2,726,700	-
DISPOSALS (SALE AND REDEMPTION)	(2,403,187)	-
GAINS FROM CHANGES IN FAIR VALUE TAKEN TO EQUITY (NOTE 23)	(1,990)	-
AT END OF YEAR	**321,523**	**-**

Treasury bills and bonds are debt securities issued by the Republic of Kenya.

13 Placements with other banks

	2007	2006
	SHS'000	SHS'000
PLACEMENTS INCLUDED IN CASH AND CASH EQUIVALENTS	726,320	928,801
LOANS AND ADVANCES TO OTHER BANKS	111,906	197,669
TOTAL	**838,226**	**1,126,470**

14 Loans and advances to customers

OVERDRAFTS	2,538,336	2,317,268
PERSONAL LOANS	257,776	135,774
MORTGAGES	52,842	62,066
COMMERCIAL LOANS	1,578,099	1,258,234
DISCOUNTED BILLS	190,555	29,242
GROSS LOANS AND ADVANCES	**4,617,608**	**3,802,584**
Less: Provision for impairment of loans and advances		
- IDENTIFIED	(38,511)	(28,816)
- UNIDENTIFIED	-	-
TOTAL	**4,579,097**	**3,773,768**

Movements in provisions for impairment of loans and advances are as follows:

	IDENTIFIED PROVISION	**UNIDENTIFIED PROVISION**
	SHS'000	SHS'000
YEAR ENDED 31 DECEMBER 2006		
AT START OF THE YEAR	29,324	-
TRANSFER TO RETAINED EARNINGS	263	-
EXCHANGE DIFFERENCE	(771)	-
AT END OF YEAR	**28,816**	**-**
YEAR ENDED 31 DECEMBER 2007		
AT START OF YEAR	28,816	-
CHARGE FOR THE YEAR	11,254	-
EXCHANGE DIFFERENCE	(1,559)	-
AT END OF YEAR	**38,511**	**-**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2007 was Shs 65,856,000 (2006: Shs 199,000).

15 Property and equipment

	BUILDINGS	MOTOR VEHICLES	FIXTURES, FITTINGS AND EQUIPMENT	WORK IN PROGRESS	TOTAL
	SHS'000	SHS'000	SHS'000	SHS'000	SHS'000
AT 1 JANUARY 2006					
COST	12,000	5,272	58,276	-	75,548
ACCUMULATED DEPRECIATION	270	2,255	10,733	-	13,258
NET BOOK AMOUNT	**11,730**	**3,017**	**47,543**	**-**	**62,290**
YEAR ENDED 31 DECEMBER 2006					
OPENING NET BOOK AMOUNT	11,730	3,017	47,543	-	62,290
ADDITIONS	-	5,718	12,030	21,067	38,815
DISPOSALS	-		(511)	-	(511)
DEPRECIATION CHARGE	(180)	(3,014)	(12,048)	-	(15,242)
CLOSING NET BOOK AMOUNT	**11,550**	**5,721**	**47,014**	**21,067**	**85,352**
AT 31 DECEMBER 2006					
COST	12,000	10,990	69,795	21,067	113,852
ACCUMULATED DEPRECIATION	(4,500)	(5,269)	(22,781)	-	(28,500)
NET BOOK AMOUNT	**11,550**	**5,721**	**47,014**	**21,067**	**85,352**
YEAR ENDED 31 DECEMBER 2007					
OPENING NET BOOK AMOUNT	11,550	5,721	47,014	21,067	85,352
ADDITIONS	-	6,123	27,696	-	33,819
TRANSFERS	-	-	21,067	(21,067)	-
DISPOSALS	-	(2,165)	(53)	-	(2,218)
DEPRECIATION CHARGE	(180)	(2,809)	(18,999)	-	(21,988)
CLOSING NET BOOK AMOUNT	**11,370**	**6,870**	**76,725**	**-**	**94,966**
AT 31 DECEMBER 2007					
COST	12,000	14,948	118,505	-	145,453
ACCUMULATED DEPRECIATION	(630)	(8,078)	(41,780)	-	(50,488)
NET BOOK AMOUNT	**11,370**	**6,869**	**76,727**	**-**	**94,966**

16 Intangible assets

	2007	2006
	COMPUTER SOFTWARE LICENCES	COMPUTER SOFTWARE LICENCES
	SHS'000	SHS'000
YEAR ENDED 1 JANUARY		
OPENING NET BOOK AMOUNT	44,676	55,247
ADDITIONS	1,756	2,678
DISPOSALS	-	-
AMORTISATION	(13,459)	(13,249)
AT END OF YEAR	**32,973**	**44,676**
AT 31 DECEMBER		
COST	68,602	66,846
ACCUMULATED AMORTISATION	35,629	22,170
NET BOOK AMOUNT	**32,973**	**44,676**

17 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2006: 30%). The movement on the deferred income tax account is as follows:

	2007	2006
	SHS'000	SHS'000
AT START OF YEAR	**3,063**	**(5,671)**
INCOME STATEMENT CHARGE (NOTE 9)	1,745	8,734
DEFERRED INCOME TAX ON CHANGES IN FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	(597)	-
AT END OF YEAR	**4,211**	**3,063**

The deferred income tax asset, deferred income tax charge/(credit) in the profit and loss account, and deferred income tax charge/(credit) in equity are attributable to the following items:

	31.12.2006	CHARGED/ (CREDITED) TO P/L	CREDITED TO EQUITY	31.12.2007
	SHS'000	SHS'000	SHS'000	SHS'000
DEFERRED INCOME TAX LIABILITIES				
PROPERTY AND EQUIPMENT	5,471	3,752		9,223
DEFERRED INCOME TAX ASSETS				
PROVISIONS	(2,085)	(2,330)		(4,415)
FAIR VALUE OF AVAILABLE-FOR-SALE INVESTMENTS	-	-	(597)	(597)
TAX LOSSES	(323)	323	-	-
NET DEFERRED INCOME TAX ASSET	**3,063**	**1,745**	**(597)**	**4,211**

18 Other assets

	2007	2006
	SHS'000	SHS'000
UNCLEARED EFFECTS	397,882	212,154
DERIVATIVE AND OTHER ASSETS	34,505	15,053
TOTAL	**432,387**	**227,207**

19 Customer deposits

CURRENT AND DEMAND DEPOSITS	4,051,364	3,391,974
SAVINGS ACCOUNTS	143,098	102,906
FIXED DEPOSIT ACCOUNTS	1,328,175	1,440,662
TOTAL	**5,522,637**	**4,935,542**

20 Deposits from other banks

OVERNIGHT BORROWING	335,528	47
OTHER BALANCES DUE TO BANKS	78,980	197,629
TOTAL	**414,508**	**197,676**

21 Other liabilities

	2007	2006
	SHS'000	SHS'000
ITEMS IN TRANSIT	97,649	3,926
BILLS PAYABLE	95,428	87,370
DUE TO CALYON PARIS	33,982	66,347
OTHER	53,374	3,288
TOTAL	**280,433**	**160,931**

22 Share capital

	NUMBER OF SHARES	ORDINARY SHARES
	SHS'000	SHS'000
BALANCE AT 1 JANUARY 2007	**750,000**	**750,000**
BALANCE AT 1 JANUARY 2007	750,000	750,000
ISSUE OF SHARES	200,000	-
BALANCE AT 31 DECEMBER 2007	**950,000**	**750,000**

The total authorised number of ordinary shares is 950,000 with a par value of Shs 1,000 per share. In 2007, the bank issued an additional 200,000 shares and which were all fully paid for.

23 Revaluation reserve - available-for-sale securities

	2007	2006
	SHS'000	SHS'000
AT START OF YEAR	**-**	**-**
NET LOSSES FROM CHANGES IN FAIR VALUE	1,990	-
DEFERRED INCOME TAX	(597)	
AT END OF YEAR	**1,393**	**-**

24 Regulatory reserve

	2007	2006
	SHS'000	SHS'000
AT START OF YEAR	**39,395**	**33,500**
TRANSFER FROM RETAINED EARNINGS	8,647	5,895
AT END OF YEAR	**48,042**	**39,395**

The regulatory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Company's accounting policy.

25 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

CONTINGENT LIABILITIES	2007	2006
	SHS'000	SHS'000
ACCEPTANCES AND LETTERS OF CREDIT	496,705	279,955
GUARANTEE AND PERFORMANCE BONDS	1,211,320	734,417
TOTAL	**1,708,025**	**1,014,372**

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Guarantees are generally written by a 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.

OTHER COMMITMENTS	2007	2006
	SHS'000	SHS'000
FOREIGN EXCHANGE FORWARD CONTRACTS	564,545	376,578

Nature of commitments

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period.

The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. At the end of the year, the unutilised commitments amounted to Shs 1,998million (2006 - Shs 1,968 million).

Foreign exchange forward contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate.

26 Analysis of cash and cash equivalents as shown in the cash flow statement

	2007	2006
	SHS'000	SHS'000
CASH AND BALANCES WITH CENTRAL BANK OF KENYA (NOTE 11)	447,667	732,239
LESS: CASH RESERVE REQUIREMENT	(294,177)	(267,934)
GOVERNMENT SECURITIES (NOTE 12)	-	50,476
PLACEMENTS WITH OTHER BANKS (NOTE 13)	838,226	1,126,470
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NET)	(414,508)	(197,676)
AMOUNTS DUE TO GROUP BANKS (NET)	(41,886)	(137,431)
TOTAL	**535,322**	**1,306,144**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 6% of the average outstanding customer deposits over a cash reserve cycle period of one month.

27 Related party transactions

The bank is controlled by BOA GROUP incorporated in Luxembourg. There are other companies which are related to BANK OF AFRICA KENYA Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placings of foreign currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

	2007	2006
	SHS'000	SHS'000
AMOUNTS DUE FROM GROUP COMPANIES		
DUE FROM BOA GROUP	40	40
BANK OF AFRICA (BOA) MALI	-	224
BANK OF AFRICA (BOA) NIGER	-	122
BANK OF AFRICA (BOA) BENIN	-	29
TOTAL	**40**	**415**

These balances are included under other assets.

	2007	2006
	SHS'000	SHS'000
AMOUNTS DUE FROM GROUP BANKS		
BANK OF AFRICA (BOA) MADAGASCAR	-	70,918
BANK OF AFRICA (BOA) UGANDA	35,287	2,07
NATEXIS BANQUES	51,692	2,026
BOA BANK - TANZANIA	12	-
TOTAL	**86,991**	**75,015**
INTEREST INCOME EARNED ON THE ABOVE	4,083	5,242
LEDGER FEES EARNED ON THE ABOVE	18	13

AMOUNTS DUE TO GROUP COMPANIES	**2007**	**2006**
	SHS'000	SHS'000
DUE TO BOA GROUP (INCLUDED UNDER OTHER LIABILITIES)	2,146	1,619
DUE TO BOA GROUP (INCLUDED UNDER CUSTOMER DEPOSITS)	8,127	8,094
DUE TO NATIXIS (INCLUDED UNDER OTHER LIABILITIES)	907	909
TOTAL	**11,180**	**10,622**
AMOUNTS DUE TO GROUP BANKS		
BOA-MADAGASCAR	98,025	96,689
BOA-COTE D'IVOIRE	24,129	23,742
BOA-UGANDA	6,723	36,172
NATIXIS BANQUES	-	55,843
TOTAL	**128,877**	**212,446**
INTEREST EXPENSE INCURRED ON THE ABOVE	6,845	3,596
EXPENSES		
MANAGEMENT FEE PAID TO BOA GROUP	28,216	25,534
COMMISSION ON GUARANTEE PAYABLE TO BOA GROUP	564	564
ACCOUNT CHARGES PAID TO NATIXIS	2,252	1,575
COMMISSION ON GUARANTEE AND ACCOUNT CHARGES – BOA-UGANDA	452	-

Loans to employees and director.

Advances to customers at 31 December 2007 include loans to employees amounting to Shs 75 million (2006: Shs 76 million).

There was a loan of Kes 6.5 million to a director as at 31 December 2007 (2006: Nil).

	2007	2006
	SHS'000	SHS'000
INTEREST INCOME EARNED ON LOANS TO EMPLOYEES AND KEY MANAGEMENT	4,646	4,928

No provisions have been recognised in respect of loans given to related parties (2006: nil).

KEY MANAGEMENT COMPENSATION

	2007	2006
	SHS'000	SHS'000
SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	49,824	58,365

DIRECTORS' REMUNERATION

SALARIES TO EXECUTIVE DIRECTORS		
(INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	19,157	19,201
- OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	500	-

28 Associates

(A) ACQUISITION OF BUSINESS (ASSOCIATE)

Effective 1st July 2007, BANK OF AFRICA KENYA Limited, acquired shares in BOA BANK - TANZANIA Limited (formerly, Eurafrican Bank) for Kshs 124 Million, satisfied in cash. The company, registered in Tanzania, has its principal activity as the provision of banking services.

The acquiree's profit from the date of acquisition amounting to Kshs 5.3 million after taxation is included in the company's profit for the period ended 31 December 2007.

Assets and liabilities acquired

The acquired business of BOA BANK - TANZANIA comprised assets and liabilities are set out in the following manner.

	FAIR VALUE
	SHS'000
ASSETS	
CASH AND BALANCES WITH THE CENTRAL BANK	147,840
GOVERNMENT SECURITIES	375,870
AMOUNTS DUE FROM BANKS	438,240
LOANS AND ADVANCES TO CUSTOMERS	355,740
PROPERTY, PLANT AND EQUIPMENT	11,220
OTHER ASSETS	57,750
TOTAL ASSETS	**1,386,660**

	FAIR VALUE
	SHS'000
LIABILITIES	
AMOUNTS DUE TO BANKS	128,700
AMOUNTS DUE TO CUSTOMERS	1,106,160
OTHER LIABILITIES	29,700
TOTAL LIABILITIES	**1,264,560**
NET ASSETS	**122,100**

Goodwill on acquisition

This is the excess of the above fair value of net assets acquired over the purchase consideration as shown below;

	2007
	SHS'000
TOTAL PURCHASE CONSIDERATION	123,940
NET IDENTIFIABLE ASSETS AND LIABILITIES ACQUIRED	122,100
GOODWILL ON ACQUISITION OF BUSINESS	**1,840**

In 2007 the bank participated in a rights issue in BOA-UGANDA increasing its shareholding from 46% to 47.73% for a cash consideration of Shs 29,704,000.

(B) INVESTMENT IN ASSOCIATES

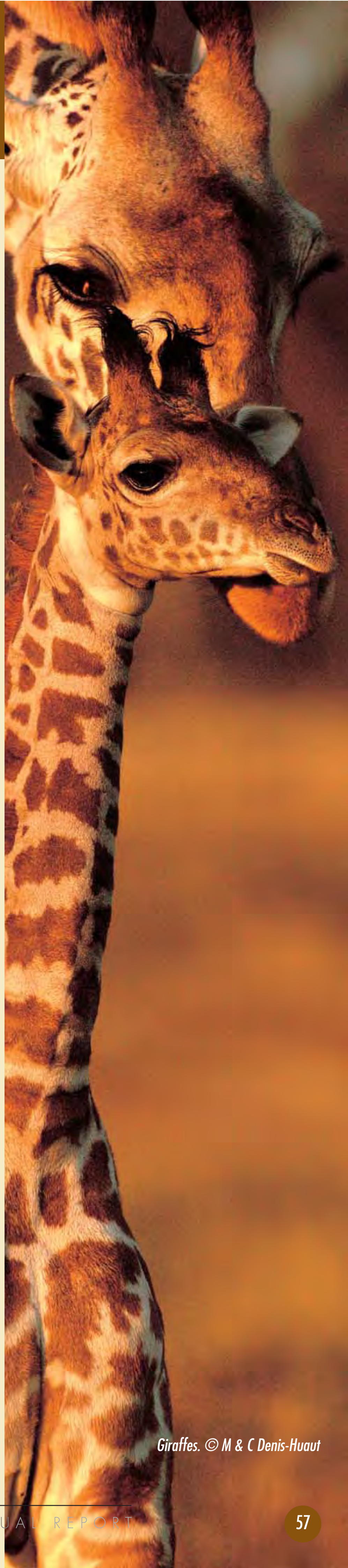
	2007	2006
	SHS'000	SHS'000
AT START OF YEAR	**162,889**	**-**
ACQUISITION IN ASSOCIATE	123,940	123,105
RIGHTS ISSUE	29,704	-
NEGATIVE GOODWILL ON ACQUISITION	-	32,359
SHARE OF POST ACQUISITION PROFIT	42,347	7,425
AT END OF YEAR	**358,880**	**162,889**

	COUNTRY OF INCORPORATION	% INTEREST HELD	ASSETS SHS'000	LIABILITIES SHS'000	REVENUES SHS'000	PROFIT SHS'000
2007						
BOA	TANZANIA	33%	4,974,909	4,578,646	345,312	56,195
BOA	UGANDA	47.73%	3,761,797	3,281,789	470,8817	77,310
2006						
BOA	UGANDA	46%	3,319,947	2,965,841	383,144	61,131

29 Prepaid operating lease rentals

This relates to leasehold land for our residential property. The amount is amortised over the remaining lease period.

Personnal notes



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BANK OF AFRICA
KENYA
GROUPE BANK OF AFRICA

BANK OF AFRICA KENYA LIMITED

Reinsurance Plaza, Taifa Road - P.O. Box 69562 - 00400 - Nairobi - KENYA
Phone (254) 20 327 50 00 – Fax: (254) 20 221 41 66
Swift: AFRIKENX
Email <bkofafrica@boakenya.com>

NAIROBI BRANCHES

■ NAIROBI BRANCH

Reinsurance Plaza, Taifa Road
P.O. Box 69562 - 00400 - Nairobi
Phone (254) 20 327 50 00 / 221 11 75
Fax: (254) 20 221 41 66 / 221 14 77
SWIFT: AFRIKENX
Email <bkofafrica@boakenya.com>

■ RIVER ROAD BRANCH

Opposite Kipepeo Restaurant, River Road
P.O.Box 11422 - 00400 - Nairobi
Phone (254) 20 327 50 00 / 222 52 75
Fax: (254) 20 249 042

■ UHURU HIGHWAY BRANCH

Highway Centre, Uhuru Highway
P.O. Box 27568 - 00506, Nyayo Stadium - 00506 - Nairobi
Phone (254) 20 327 50 00 / 650 153 / 4
Fax: (254) 20 650 219
Email <bkofafrica@boakenya.com>

■ WESTLANDS BRANCH

Mpaka Road - P.O. Box 14166 - 00800 - Nairobi
Phone (254) 20 327 50 00 / 445 05 66 / 7
Fax: (254) 20 445 05 68
Email <bkofafrica@boakenya.com>

MOMBASA BRANCH

■ MOMBASA BRANCH

Palli House, Nyerere Avenue
P.O. Box 87941 - 80100 - Mombasa
Phone (254) 41 231 58 18 / 9
Fax: (254) 41 231 29 99
Email <bkofafrica@boakenya.com>

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