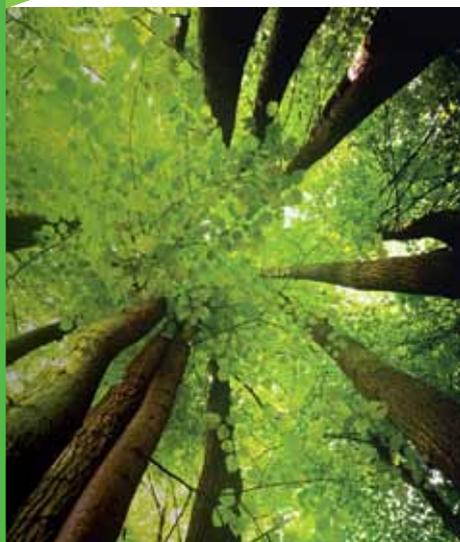


**TWENTY
TWELVE**
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annual report &
financial statements

we're transforming

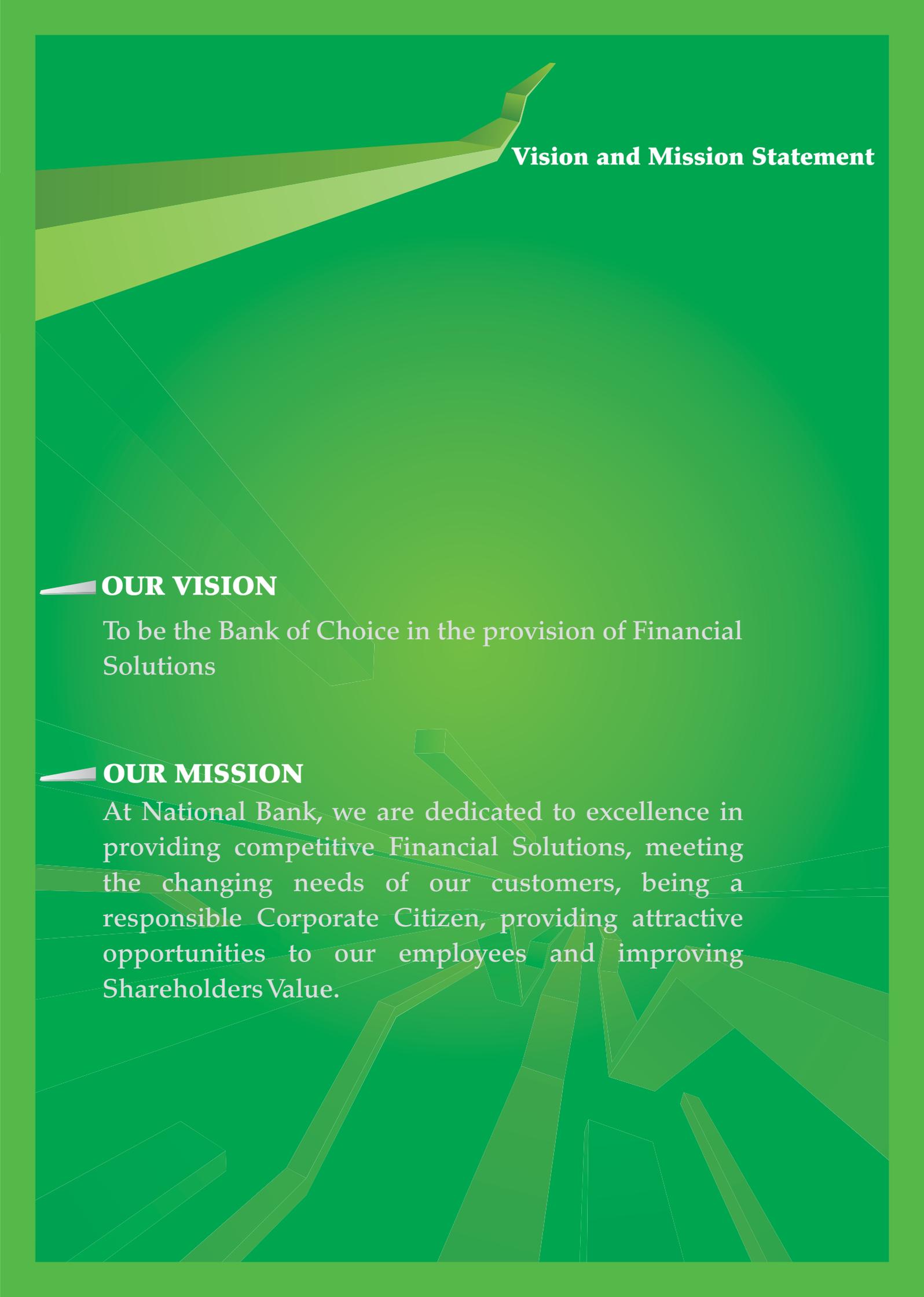


National Bank

THE BANK WHERE YOU BELONG

www.nationalbank.co.ke





Vision and Mission Statement

OUR VISION

To be the Bank of Choice in the provision of Financial Solutions

OUR MISSION

At National Bank, we are dedicated to excellence in providing competitive Financial Solutions, meeting the changing needs of our customers, being a responsible Corporate Citizen, providing attractive opportunities to our employees and improving Shareholders Value.



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transformation

Notice of the Annual General Meeting

NOTICE IS HEREBY GIVEN in accordance with Article 47 of the Bank's Articles that the Forty Forth 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 7 June, 2013 at 10.00 a.m. to transact the following business:-

A. ORDINARY BUSINESS

1. To read the Notice convening the Meeting.
2. To receive and consider the audited financial statements for the year ended 31 December 2012 together with the directors' and auditors' reports thereon.
3. (a) To note payment of a dividend of Sh.0.075/= per share (1.5%) to Preference Shareholders and also
(b) To approve payment of first and final dividend of Sh.0.20 per share to ordinary and participating Preference Shareholders. The dividend will be payable to shareholders on register at close of business on 25 April, 2013.
4. To elect Directors:-
 - (a) Mr. Munir Sheikh Ahmed, appointed pursuant to Article 97 to fill a vacancy occasioned by the retirement of the previous Director Mr. Reuben Mbaine Marambii. and being eligible offers himself for election.
 - (b) PS Treasury who retires by rotation pursuant to Article 91 and being eligible offers himself up for re-election.
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. **Holding Company**
Note that the Directors intend to set up a holding company to house all subsidiaries of the Company in compliance with the Banking Act.
8. **Regional Expansion**
Note that the Directors intend to set up Subsidiary (ies) in the African region and beyond as the Directors consider beneficial from time to time in accordance with the company's regional expansion strategy.

B. SPECIAL BUSINESS

1. **Appointment of Executive Directors and Officers**
To consider and if approved adopt a special resolution "that Article 74 (a) of the Articles of Association of the Company is hereby deleted and replaced by the following:-

74(a) The Directors may from time to time appoint three persons (other than the Chairman) of such qualifications as the Directors may from time to time determine whether such persons are directors of the

Bank or not to be Executive directors' one of whom shall be a Chief Executive Officer (by whatever name called) or Managing Director for such period and on such terms and with such powers, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), as they may think fit and, subject to the terms of any agreement entered into in any particular case, may revoke any such appointment. Without prejudice to any right to treat such determination as a breach of any such agreement as aforesaid the appointment of such a Director to office as aforesaid shall be subject to determination if the company in general meeting resolves that his tenure of the office of Managing Director or Chief Executive Officer be determined.

74(aa) Where the person so appointed is the Chief Executive Officer or Managing Director he will be entitled to attend and speak and vote at Board meetings but shall not be entitled to vote at general meetings (save where he is also a shareholder of the Bank in which case he may vote at a general meeting of the Bank).

74(bb) Where the other two persons so appointed as Executive Directors are not otherwise Directors, they will be entitled to attend and speak at Board and general meetings but shall not be entitled to vote (save where they are also shareholders of the Bank in which case they may vote at a general meeting of the Bank)".

The article deleted reads as follows:-

74(a)"The Directors may from time to time appoint three persons (other than the Chairman) of such qualifications as the Directors may from time to time determine whether such persons are directors of the Bank or not to be Executive directors' one of whom shall be a Chief Executive Officer (by whatever name called) or Managing Director for such period and on such terms and with such powers, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), as they may think fit and, subject to the terms of any agreement entered into in any particular case, may revoke any such appointment. Without prejudice to any right to treat such determination as a breach of any such agreement as aforesaid the appointment of such a Director to office as aforesaid shall be subject to determination if the company in general meeting resolves that his tenure of the office of Managing Director or Chief Executive Officer be determined. Where other persons so appointed as Executive Directors are not otherwise directors, they will be entitled to attend and speak at Board and general meetings but shall not be entitled to vote (save where they are also shareholders of the Bank in which case they may vote at a general meeting of the Bank)".

2 Unclaimed Assets

To insert the following as clause 40A immediately after clause 40 of the company's Articles of Association:-

"40A The Company will, if required by law, deliver or pay to any prescribed regulatory authority any unclaimed assets of the shareholder defined by law to be abandoned or unclaimed. Upon such delivery or payment, the unclaimed assets shall cease to remain owing by the Company and the Company shall no longer be liable or responsible to the owner or holder or his or her estate, for the relevant unclaimed assets."

Notice of the Annual General Meeting

(continued)

- 3. Transfer, Immobilization/Dematerialisation of Shares**
To consider, and if thought fit, pass the following Special Resolution to amend the Company's Articles of Association:

THAT Article 30 of the Articles of Association of the Company be amended by inserting a new Article 30(A) to read as follows:

"Transfer of shares under the Companies Act shall be (in respect of ordinary shares only and not preference shares) deemed to be a reference to a book-entry transfer performed by the central depository."

- 4. Increase of Authorised Ordinary Share Capital**
To consider and, if thought fit to pass the following resolution as an ordinary resolution:-
"THAT the authorised ordinary share capital of the company be and is hereby increased from Sh.3,000,000,000 divided into 600,000,000 ordinary shares of Sh.5.00 each to Sh.7,000,000,000 divided into 1,400,000,000 ordinary Shares of Sh.5.00 by the creation of 800,000,000 new ordinary shares of Sh.5.00 each ranking pari-passu in all respects with the existing ordinary shares in the capital of the Company".

- 5. Rights Issue**
To consider and, if thought fit, pass the following as an ordinary resolution:-

That subject to resolution B4 above, the Directors are hereby authorized and directed that up to 1, 120,000,000 ordinary shares of Sh.5.00 each in the capital of the Company be offered subject to any required regulatory approvals (including but not limited to Capital Markets Authority) at a price or premium to be determined by the Directors to and amongst the holders of the issued ordinary shares of Sh.5.00 each in the capital of the Company registered at the close of business on such date and at such price as shall be determined by the Directors and notified to the members through the Press or otherwise in proportion to the Members' respective holdings in the issued share capital of the Company, subject to the Articles of Association of the Company, at such rate and upon such terms as the Directors shall think fit and that the Directors be and are hereby authorised to issue such shares and pursue the listing of such shares upon issue on the Main Investment Market Segment of the Nairobi Securities Exchange and to do all such things as may be necessary to give effect to this resolution and to deal with fractions of shares in such a manner as they think fit subject to the Articles of Association of the Company.

- 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
Harambee Avenue, Nairobi
13 March 2013

NOTES

1. 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.
2. In the case of a member being a limited liability company or corporate body, the form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. A Proxy Form is available at:-
 - a. the Bank's website www.nationalbank.co.ke or
 - b. the Bank's Head Office National Bank Building 9th Floor Harambee Avenue Nairobi or
 - c. any of the Bank's agencies and branches countrywide.
4. Shareholders who will not be able to attend the Annual General Meeting are requested to complete and return the proxy form:-
 - a. by hand to the Registered Office of the Bank
 - b. by mail to "The Shares Registrar, National Bank of Kenya Limited, P.O. Box 72866- 00200 Nairobi",
 - c. by e-mailing a scanned proxy and copy of ID card in PDF format to proxyform@nationalbank.co.ke
5. Proxies must be received by the company not less than 48 hours before the meeting i.e. not later than 10.00 a.m. on Wednesday 5th June, 2013.
6. In accordance with Article 125 of the Company's Articles of Association a copy of the entire Annual Report and Accounts may be viewed on and obtained from the Company's website www.nationalbank.co.ke or from the Registered Office of the Company. An abridged set of the Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statement for year ended 31st December, 2012 have been published in two daily newspapers with nationwide circulation.
7. Registration of Members and proxies attending the Annual General Meeting will commence at 7:00 a.m. and will close at 11:00 a.m. Production of a national identification card, a passport or other acceptable means of identification and the Member's share certificate or current Central Depository Corporation statement of account for their shares in the Company will be required.

Ilani ya Mkutano Mkuu wa Mwaka

NOTISI INATOLEWA HAPA KWAMBA kwa mujibu wa kifungu nambari 47 cha Sheria za benki, mkutano wa arobaini na nne wa pamoja wa mwaka wa wanahisa wa National Bank of Kenya Limited utafanyika Tsavo Ball Room, katika Jumba la mikutano ya Kimataifa la Jomo Kenyatta, Nairobi Ijumaa Juni 7, 2013 kuanzia saa nne asubuhi ili kuangazia maswala yafuatayo:

A. SHUGHULI ZA KAWAIDA

- 1) Kusoma Notisi ya kuitishwa kwa Mkutano
- 2) Kupokea na kuchunguza taarifa kuhusu matumizi ya pesa iliyofanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2012 pamoja na ripoti kutoka kwa wakurugenzi na wakaguzi wa pesa.
- 3) **a)** Kufahamu malipo ya mgawo wa faida ya senti 0.075 kwa kila hisa (1.5%) kwa wamiliki wa hisa maalumu na pia;
b) Kuidhinisha malipo ya kwanza na ya mwisho ya senti 0.20 kwa kila hisa kwa wamiliki wa hisa za kawaida na washiriki wa hisa maalumu. Malipo haya yatatolewa kwa wanahisa ambao majina yao yatakuwa kwenye sajili kufikia Aprili 25, 2013.
4. Kuwachagua wakurugenzi:-
a) Kwa kuwa hali inamruhusu, Bw. Munir Sheikh Ahmed aliyeteuliwa chini ya Kifungu cha Sheria nambari 97 ili kujaza nafasi iliyoachwa wazi na Mkurugenzi wa awali Bw. Reuben Mbaine Marambii anajitokeza ili kuchaguliwa tena
b) Kwa kuwa anaruhusiwa, Katibu katika wizara ya fedha ambaye anastaafu kwa zamu chini ya Kifungu cha Sheria nambari 91 anajitokeza tena ili kuchaguliwa
5. Kupitisha ada za wakurugenzi.
6. Kuthibitisha kwamba wakaguzi wa pesa, Deloitte & Touche wataendelea mbele na jukumu lao na kuwapa uhuru wakurugenzi kuamua kiwango cha malipo yao kwa mujibu wa sehemu ya 159 (2) ya Sheria za Makampuni (kifungu nambari 486)
7. **Kampuni msimamizi**
"Kufahamu kwamba Wakurugenzi wanauia kuanzisha kampuni msimamizi ili kushikilia biashara zote tanzu za kampuni kwa mujibu wa sheria za benki"
8. **Upanuzi katika kanda**
Kufahamu kwamba wakurugenzi wanauia kuanzisha kampuni tanzu katika eneo la bara Afrika na zaidi huku wakurugenzi wakizingatia manufaa ya wakati baada ya wakati kwa mujibu wa mkakati wa upanuzi wa kampuni.

B. SHUGHULI MAALUMU

1. Uteuzi wa Wakurugenzi Wakuu na Maafisa

Kuzingatia na endapo itaonekana inafaa kupitia azimio maalumu "kwamba kifungu cha sheria nambari 74 (a) cha sheria za kampuni kiondolewe na kubatilishwa ifuatavyo:-

74a) Muda kwa muda, wakurugenzi wanaweza kuteua watu watatu (isipokuwa mwenyekiti) aliye na taaluma kama ya wakurugenzi ambaye muda kwa muda anaweza kufanya maamuzi endapo watu kama hao ni wakurugenzi wa benki au wasiwe wakurugenzi wasio na cheo ambapo mmoja wao atakuwa Afisa Mkuu Mtendaji (kwa jina lolote atakalopewa) au meneja Mkurugenzi kwa kipindi fulani na kwa masharti fulani na uwezo kama huo, na kwa marupurupu kama hayo (iwe ni kwa njia ya mshahara, marupurupu ya ziada, au ushiriki kwenye faida au kwa sehemu nyingine) kama watakavyoona inafaa na kwa kutegemea kanuni za makubaliano yaliyokubalika kwa hali inayohusiana na kisa, anaweza kufutulia mbali uteuzi. Bila kuvunja haki yoyote kufanya uamuzi kama huo kukiuka makubaliano kama hayo kuhusiana na uteuzi wa mkurugenzi kama huyo kuwa ofisini itategemea uamuzi endapo kampuni kupitia mkutano wa pamoja itaamua kusitishwa kwa uteuzi wa Meneja Mkurugenzi au Afisa Mkuu Mtendaji.

74(aa) Pale ambapo Afisa Mkuu Mtendaji, aliyeteuliwa kama ni Afisa Mkuu Mtendaji au Mkurugenzi Msimamizi ataruhusiwa kuhudhuria na kutoa hotuba na kupiga kura kwenye mikutano ya Halmashauri lakini hatakuwa na ruhusa kupiga kura wakati wa mikutano ya pamoja (isipokuwa tu awe mwanahisa wa Benki ambapo ataruhusiwa kupiga wakati wa mkutano wa pamoja wa Benki)

74(bb) Pale ambapo watu wengine wawili walioteuliwa kama Wakurugenzi Wakuu sio wakurugenzi wanaweza kuhudhuria na kuongea kwenye Halmashauri na mikutano ya pamoja lakini hawatakuwa na uhuru kupiga kura (isipokuwa wawe wanahisa wa Benki ambapo wanaweza kupiga kura kwenye Mkutano wa Pamoja wa Benki"
Kifungu kilichofutuliwa mbali kinasema hivi:-

74(a) "Muda kwa Muda wakurugenzi wanaweza kuwateua watu watatu (isipokuwa mwenyekiti) mwenye taaluma kama Wakurugenzi ambaye muda kwa muda anaweza kufanya maamuzi endapo watu kama hao ni wakurugenzi wa Benki au sio wakurugenzi wakuu" ambapo mmoja wao atakuwa Afisa Mkuu Mtendaji (kwa kutumia jina lolote) au Meneja Mkurugenzi kwa kipindi fulani na kwa kanuni fulani na kuwa na uwezo kama huo na kuwa na marupurupu kama hayo (iwe ni kwa njia ya ujira, au marupurupu ya ziada au ushiriki kwenye faida au kwa sehemu moja au nyingine) kama watakavyoona inafaa na kwa kutegemea kanuni za makubaliano yaliyoafikiwa kwa hali iliyoko wanaweza kufutulia mbali uteuzi kama huo bila kuvunja haki yoyote kufanya uamuzi kama huo kukiuka makubaliano kama hayo kuhusiana na uteuzi wa mkurugenzi kama huyo kuwa ofisini itategemea uamuzi endapo kampuni kupitia mkutano wa pamoja itaamua kusitishwa kwa uteuzi wa Meneja Mkurugenzi au Afisa Mkuu Mtendaji. Pale watu walioteuliwa kama Wakurugenzi wakuu kwa upande mwingine si wakurugenzi, watakuwa na uhuru kuhudhuria na kuongea kwenye Halmashauri na wakati wa mikutano ya pamoja lakini hawatakuwa na uhuru kupiga kura (isipokuwa tu pale wawe ni wanahisa wa Benki ambapo wataweza kupiga kura wakati wa mkutano wa pamoja wa Benki)".

Ilani ya Mkutano Mkuu wa Mwaka (inaendelea)

2. Raslimali Ambazo Hazijadaiwa

Kuingiza sura ifuatayo kama sura nambari 40 A punde tu baada ya sura ya 40:-

“40A endapo itahitajika kisheria, kampuni kutoa au kulipa Halmashauri yoyote raslimali zozote za kifedha ambazo hazijadaiwa kama ilivyofafanuliwa kisheria. Baada ya kutumwa au kutolewa kwa malipo kama haya, raslimali za kifedha ambazo hazijadaiwa hazitakuwa tena mali inayodaiwa kampuni na kampuni haitahusika tena na mmiliki au mshikilizi au mirathi ya raslimali ambayo haijadaiwa”.

3. Kubadilishwa kwa Umiliki / Kufilishwa kwa Hisa

Kuzingatia na endapo itaonekana kuwa inafaa, kupitisha azimio lifuatalo maalumu kwa kufanyia mabadiliko kifungu cha sheria za kampuni:-

KWAMBA kifungu nambari 30 cha sheria za kampuni kifanyiwe mabadiliko kwa kuingiza kifungu kipya nambari 30 (A) ili kisome kama ifuatavyo;

“Ubadilisho wa umiliki wa hisa chini ya sheria za kampuni utachukuliwa (kwa mujibu wa hisa za kawaida tu lakini si kwa hisa maalumu) kupitia mabadiliko yaliyosajiliwa katika rekodi ya Central Depository (hazina kuu ya pamoja)

4. Kuongezwa kwa Mtaji wa Hisa za Kawaida Ulioidhinishwa

Kuzingatia na endapo itakubalikakupitisha azimio lifuatalo kama azimio la kawaida:-

KWAMBA mtaji wa jumla wa hisa za kawaida wa kampuni uongezwe kutoka Kshs. 3,000,000, 000 kwa kugawanywa kwa hisa za kawaida 600,000,000 zenye thamani ya Ksh. 5.00 kwa kila moja hadi kshs. 7,000, 000, 000 kwa kugawanywa na hisa za kawaida 1, 400, 000,000 za thamani ya Kshs. 5.00 kwa kubuni hisa mpya za kawaida 800,000,000 zenye thamani ya Kshs. 5.00 kwa kila moja na kuwa sawa kwa hali zozote na hisa zilizoko sasa kwenye mtaji wa kampuni”.

5. Haki ya Ununuzi wa Hisa za Ziadi

Kuzingatiwa na endapo itaonekana inafaa kupitisha azimio lifuatalo kama la kawaida:-

Kwamba, kwa kuzingatia azimio la B4 hapo juu, wakurugenzi wanapewa uhuru na kuamriwa kwamba hadi hisa za kawaida 1, 120,000, 000 za thamani ya Kshs. 5.00 kwa kila hisa kwenye mtaji wa kampuni zitolewe kwa kutegemea idhini yoyote kisheria (ikiwemo lakini bila kikwazo cha Halmashauri ya Masoko ya Hisa) katika bei au thamani ambayo itatolewa na wakurugenzi kwa miongoni mwao wamiliki wa hisa za kawaida zilizotolewa za thamani ya Kshs.5.00 kwa kila hisa kwenye mtaji wa kampuni zilizosajiliwa kufikia mwisho wa kipindi cha biashara katika tarehe na kwa bei ambayo itaamuliwa na wakurugenzi na arifa yake kutolewa kwa wanachama kupitia vyombo vya habari au kwa njia nyingine sawa na umiliki wa wanachama kwenye mtaji wa hisa uliotolewa wa kampuni na kufungamana na vifungu vya sheria za kampuni kwa kiwango na bei ambayo wakurugenzi wataona inafaa na kwamba wakurugenzi

waamriwe kutoa hisa kama hizo na kufuatilia usajili wa hisa hizo kwenye kitengo muhimu cha uwekezaji wa soko la hisa la Nairobi na kufanya lolote watakaloonna linafaa ili kutekelezwa kwa azimio hili na kukabiliana akisami za hisa kwa njia ambayo wataona inafaa kwa mujibu wa Sheria za Kampuni.

C. Kutekeleza shughuli zozote zinazohusiana na mkutano mkuu wa pamoja wa mwaka ambazo notisi yake itakuwa imetolewa

Kwa Amri ya Halmashauri

Leonard G. Kamweti
Katibu wa Kampuni
Jumba la National Bank
Barabara ya Harambee, Nairobi
Imenukuliwa Machi 13, 2013

MUHIMU

1. Mwanachama aliye na ruhusa kuhudhuria mkutano na kupiga kura anaweza kumteua wakala kufika na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama wa Kampuni

2. Katika hali ambapo mwanachama ni kampuni maalumu au shirika, ni lazima fomu ya wakala iwe imepigwa muhuri wa kawaida au chini ya afisa au wakili aliyeidhinishwa kwa kuandika.

3. Fomu ya uwakilishi inapatikana kupitia :

a. Wavuti wa Benki www.nationalbank.co.ke au;

b. Makao makuu ya Benki Jumba la National Bank orofa ya 9 barabara ya Harambee Avenue Nairobi au;

c. Mawakala wowote na matawi ya Benki kote nchini.

4. Wanahisa ambao hawataweza kuhudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya wakala na kuirudisha kwa:-

a. njia ya mkono kupitia ofisi ya Benki iliyosajiliwa

b. njia ya barua kwa “msajili wa hisa, National Bank of Kenya Limited, Slp 72866-00200 Nairobi

c. Kupitia barua pepe fomu ya wakala na nakala ya kitambulisho cha kitaifa kwa mfumo wa “PDF” kwa proxyform@nationalbank.co.ke

5. Wakala wawe wamepokelewa na kampuni saa 48 kabla ya kuanza kwa mkutano yaani kabla ya saa nne asubuhi Jumatano Juni 5, 2013.

6. Kwa mujibu wa kifungu nambari 125 cha sheria za kampuni , nakala nzima ya ripoti ya mwaka na kaguzi za pesa zinaweza kupatikana kupitia wavuti wa kampuni www.nationalbank.co.ke au ofisi ya kampuni iliyosajiliwa. Muhtasari wa mizania , taarifa kuhusu mapato, taarifa kuhusu mabadiliko ya umiliki wa hisa na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2012 zimechapishwa kupitia magazeti mawili ya kila siku yanayosambazwa kote nchini.

7. Usajili wa wanachama na wakala watakaohudhuria mkutano utaanza saa moja asubuhi na utafungwa saa tano asubuhi. Utoaji wa kitambulisho cha kitaifa, hati ya kusafiria au stakabadhi nyingine za kujitambulisha zinazokubalika na cheti cha hisa cha uanachama au taarifa ya hivi punde ya akaunti ya CDS kuhusu hisa zao katika kampuni zitahitajika.

Board of Directors

1



**Mohamed A. Hassan
Chairman**

Appointed to the Board and Chair on 3 June 2011. He has been the joint Managing Director Dyer and Blair Investment Bank and Chairman Kenya National Trading Corporation Limited. He holds a MSc Finance (Strathclyde, Glasgow), B Com (Finance) (University of Nairobi) and an Advance Management Program (Strathmore University/IESE Business School, Barcelona). He is a Chartered Financial Analyst (CFA).

2



**Munir Sheikh Ahmed
Managing Director**

Appointed to the Board as Managing Director in August 2012. He is a career Banker who has worked in senior positions in Standard Chartered Bank for a period spanning 17 years, locally and internationally. During this period, he has worked in the Head Office of Standard Chartered Group in London U.K. He has also worked in Standard Chartered Regional Office for Africa in South Africa and London as well as in various assignments in Dubai and Singapore. He was the Chief Financial Officer of Standard Chartered South Africa and subsequently held Regional Head role in Transaction Banking before returning to Kenya as East Africa Head of Compliance Assurance. He is the holder of a B Comm. and MBA degrees (University of Nairobi).

3



**Joseph K. Kinyua
PS National Treasury, Non-Executive Director**

He is a senior economist and has served in various capacities in the Government and Central Bank of Kenya, including being a Financial Secretary, National Treasury, PS Ministry of Agriculture, and Chief Economist at the Central Bank of Kenya. He has also worked with the International Monetary Fund in Washington DC, USA. He is Alternate Governor, World Bank; a Director in the Board of the East African Development Bank (EADB); and a Director at large in the Board of the African Economic Research Consortium (AERC). He holds an MA degree and a BA degree both in Economics (University of Nairobi).

4



**Sylvia M. Kitonga,
Non-Executive Director**

Appointed to the Board and Vice-Chair on 3 June 2011. She is an advocate of the High Court and a Certified Public Secretary. She served in various public and private institutions, Banks and firms before her appointment. She holds an LLB (University of Nairobi).

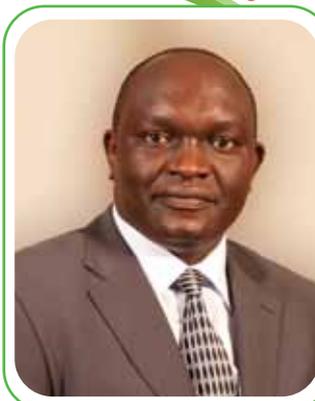
5



**Eng. Erastus K. Mwangera
Non-Executive Director**

Appointed to the Board on the 3 June, 2011, He is a Chartered Engineer and has served as Permanent Secretary and chairman of Kenya Airports Authority. He is an Engineering & Management Consultant. He holds a Bsc. Civil Engineering (Wales). He is a Registered Consulting Engineer and Fellow of the Institution of Engineers of Kenya.

6



**Tom Odongo EBS,
Managing Trustee NSSF,
Non-Executive Director**

Prior to his appointment he held the post of General Manager (Investments). He has worked at the Kenya Tourist Board (KTB), where he held the position of Head of Finance. He has over 19 years experience in Finance, Investments and Projects Management. He holds an MBA degree from the University of Nairobi. He is a Member of the Institute of Certified Public Accountants of Kenya (ICPAK), the Kenya Institute of Management (KIM) and the Institute of Human Resource Management (IHRM).

7



George Omino,
Alt to PS National Treasury,
Non-Executive Director

Appointed to the Board in January, 2008. He is an economist and has a wealth of experience in regulating and supervising Banks and other financial institutions while at CBK as a bank examiner. He is Head of Financial Services Sector, Economic Affairs Department, National Treasury. He holds B A (Economics) (University of Nairobi) and MSc (Finance) (Strathclyde Business School).

8



Joseph Kimote,
Alt. to Managing Trustee, NSSF

Appointed to the Board in February, 2012. He is the General Manager for Social Security and Strategy at NSSF. He has served in Senior Management positions in both public and private sectors. He holds BA (Economics) (University of Nairobi) and MBA (Strategic Planning). He is a full member of Kenya Institute of Management (FMKIM), Institute of Human Resource Management (IHRM) and Institute of Directors of Kenya.

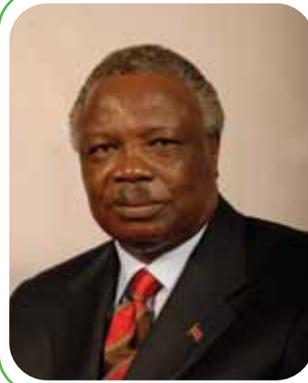
9



Wangui Mwaniki
Non-Executive Director

Appointed to the Board on 8 June 2012. Has over 20 years experience in various public and private organisations in corporate marketing, communications and public relations fields. She Holds a Bachelor's Degree (Home Economics) (Kenyatta University), and a post graduate diploma in Journalism (University of Nairobi). She is a member of the Public Relations Society of Kenya (PRSK).

10



Francis L. Atwoli, MBS, EBS,
Non- Executive Director.

Appointed to the Board in April 2003, he is a long serving career trade unionist and a member of the Board of Trustees of National Social Security Fund. He is a member of ILO Governing Body. General Secretary, Kenya Plantation and Agricultural Workers Union – (KPAWU). Secretary General, Central Organisation of Trade Union – Kenya (COTU K) Chairman /Spokesperson East African Trade Union Confederation (EATUC) - Arusha. President -Trade Union Federation of Eastern Africa (TUFEA) - Khartoum. Vice President Organisation of African Trade Union Unity (OATUU) – Ghana. Vice President International Trade Confederation Brussels. Vice President, International Labour Conference “ILC” (ILO 2012) – Geneva. Chairman Flat International. American Trained Labour Leader (George Mean College of Labour Studies USA).

11



Isaiah M. Mworira,,
Deputy Managing Director,
Customer Services

Appointed to the Board in June 2005, then as Executive Director – Finance. Before then, he had served in various senior capacities since joining the Bank in 1999. He holds a B Com Accounting (University of Nairobi) and is a Certified Public Accountant.

12



Ali Ismail Noor,
Deputy Managing Director,
Support Services

Appointed to the Board in July 2008, he joined the Bank in 1995 and served in various capacities before his appointment. Has been a member and chairman of the Kenya Institute of Bankers Executive Council, he is a Board Member NEMA. He holds a BA (University of Nairobi) an MSc HR (Manchester) and an LLB (University of Nairobi).

13



Leonard G. Kamweti,
Company Secretary

Appointed in February 1996 as Secretary to the Board. He is an advocate of the High Court and a Certified Public Secretary. He has over 20 years experience in Legal and Company Secretary Practice. He holds an LLB (University of Nairobi).



Chairman's Statement

Chairman's Statement

Dear Shareholders,
I have the pleasure to present to you the Annual Report and Financial Statements of the Bank for the year ended 31 December 2012.

This is my second AGM and the first where I had a view of a full year as the Chair of the Board of your company. I am happy to announce that the Bank continues to register profitability and maintained paying dividends to its shareholders because of the confidence we have that the Bank will continue to generate profits for its growth and pay the shareholders.

However you will also note the level of profits and dividends have fallen this year in comparison to last year. This was due to the volatile trading environment characterized by high interest rates, high inflation rate and volatile exchange rate. These have had a particularly adverse impact on our Bank because of its business concentration on the retail lending sector.

BUSINESS PERFORMANCE

Despite a difficult year the Bank remains profitable, is well capitalized and has sufficient liquidity. And although lower compared to last year, the Bank still had achieved a healthy level of profits and as a result we are proposing paying dividends the third year in a row. The Managing Director has explained the details on the business performance in his statement and the management has provided as full a picture of the Bank's performance and business activities as is possible within the Annual Report and Accounts. So my statement will concentrate on matters of industry overview and outlook, strategy, policy direction and governance issues while the Executive Management provides the full account of the business performance elsewhere in this report.

The Board took action to ensure we not only address the concentration risk that made us vulnerable to the volatile markets but also laid down strong foundations for an ambitious growth for your Bank to become a top tier bank over the next five years. I believe that the actions and initiatives the Board and Management have embarked on will generate significantly higher profits and sustainable business growth over the coming five years, thus assuring you of not only enhanced dividend yield but also overall better shareholder return on the investments you made in the Company through sustained capital appreciation.

BANKING SECTOR

During the year 2012 the Banking sector remained resilient to the challenging economic environment and continued to register growth in all aspects be it asset growth, deposits and profitability.

Commercial banks and mortgage finance companies remained at 43 and 1 respectively while deposit taking Microfinance institutions increased from 6 to 8. Foreign exchange bureaus reduced from 118 to 112 and credit reference bureaus remained two. The banking sector remains competitive and the trend shows that this will intensify in the

coming years with competition for market share based on customer service quality, cost efficiency and distribution reach. Increasing competition for talent, rebranding and regionalization are also trends that characterize the competition in a crowded field.

We remain alert to this increasing competition and hence have come to the conclusion that we must take decisive actions to ensure we not only survive the competition but actually grow our business significantly at double digit rates over the next five years.

STRATEGIC TRANSFORMATION

Over the last year the Board has recognized the Bank has not been performing at par with its peers or realizing its full potential to meet the rightful expectation of its investors. It also noted that the Bank has been steadily losing market share for the last two decades. Despite turning profitable and successful implementation of the first phase of restructuring that exited the Non-Performing Loans from its balance sheet, the Bank required to undertake its next phase of its transformation journey into a high performing organisation. This required hiring talent with the necessary experience and background to drive this phase.

The Board thus hired a new Managing Director through an international competitive process and also approved the recruitment of senior management team to drive the transformation program. The Board also enlisted a leading international consultancy firm that has helped the Bank develop a turnaround strategy. This is now under implementation and has already started bearing early fruits.

The transformation program entails a number of projects that broadly include:

- Organizational structure changes to create new divisions of Corporate & Institutional and Retail & Business Divisions to drive the business, and rationalization of the support divisions and departments.
- Innovation and development of products and customer value propositions for the target segments and markets we chose to participate in.
- Developing an effective Sales Model that achieves market share growth through building up business volumes and accelerating customer numbers growth
- Expanding our distribution network throughout the country and into regional markets. This entails establishing 20 additional branches in all the remaining counties and deploying a full range of non-branch channels including agent banking, offsite ATMs, mobile banking, electronic banking and other innovative channels. We will also expand into regional markets where we assess opportunities exist that will add value to the Bank.
- Leveraging investments in technology to centralize and automate our service delivery. This will help deliver superior customer service cost effectively and manage down the wage bill while growing the business.
- Enhancing our risk management capabilities and diversify our portfolios and businesses
- Introduce a rigorous performance management framework to ensure management performance is stewarded appropriately to achieve the business goals
- Driving the strategic initiatives requires investing in training our existing staff and in some cases bringing in new talent to fill skills gaps. We have hired experienced and skilled bankers to lead the new business divisions, drive business growth, manage customer relationship, steward business growth and effectively control all enterprise risks.

Chairman's Statement (continued)

- To announce the new and better focused National Bank we shall undertake a major rebranding exercise that will transform not only our corporate logos, tagline and colours but also the look and feel of our branches to make them more customer friendly and promote service efficiency.

The above transformation initiatives are all underway and will be implemented in a paced way so as to ensure successful achievement of the growth objectives and based on early results we are confident we are on course to realize our top tier ambition.

Dividend

The Board of Directors is recommending to this Annual General Meeting a first and final dividend of Sh.0.20 per share to the holders of ordinary and Preference shares and a further Sh. 0.075 per share to the holders of preference shares.

CORPORATE GOVERNANCE

The Board is committed to ensuring that the business of the Bank is run in a professional, transparent and equitable manner so as to protect and enhance shareholder value and also satisfy the interests of other stakeholders. The principles and standards adhered to by the Board have been developed considering the internationally accepted good corporate governance principles and practices. In this regard the Board confirms that the Bank complies with all relevant legislation including provisions of the Banking Act and Prudential Guidelines issued by the Central Bank of Kenya.

The Board fulfils its fiduciary obligations to the shareholders by providing policy direction and maintaining oversight over strategic, financial, operational and compliance risks of the Bank. In carrying out the above responsibilities the Board delegates its authority to the Managing Director to oversee the day to day business operations.

Board Meetings

The Board holds regular meetings and on occasions special meetings as and when the need arises. The meetings deal with business and operational issues referred to the Board by management and also review monthly performance against targets.

The Central Bank of Kenya inspection reports and audit reports are reviewed at some of these meetings and appropriate actions taken.

During the year the Board held 33 meetings. Details of attendance of the meetings by non-executive directors of the Bank are indicated in the table below:

Name of Director	Total number of meetings	Number of meetings attended
M A Hassan	33	33
S M Kitonga	33	33
E K Mwongera	33	33
PS – Treasury	33	32
NSSF	33	31
F L Atwoli	33	11
W. Mwaniki	9	8
M E G Muhindi *	24	24

*Retired on 8 June 2012

Board Evaluation

The Board carried out a peer evaluation exercise for the year 2012 as part of good corporate practice and in order to comply with the Central Bank requirement. The results of the evaluation were submitted to the Central Bank of Kenya.

All the directors apart from the one who retired during the year and therefore was not subjected to evaluation scored above average individually.

Composition of the Board

Seven out of the ten members of the Board including the Chairman are non-executive directors. Of these the Permanent Secretary to the Treasury and National Social Security Fund are institutional directors of the Board. 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 judgment.

Board Committees

The Board has seven standing committees which meet regularly under the terms of reference set by the Board. The committees meet and make recommendations to the Board on matters falling under their respective mandates. Details of these committees are given here below:

- Nominations committee;** which is responsible for board appointments and which meets once a year or more should a need arise.
- Audit & Risk committee;** whose responsibility is to ensure proper administration of systems of internal controls and effective risk management. Through this committee the Board is able to discharge its supervisory and good corporate governance responsibilities. These include among others the Bank's relationship with the independent external auditors, the reliability of the financial statements, external communication and maintenance of an effective risk management framework including compliance and internal controls.
- Finance & ICT committee;** which is responsible for review of financial performance of the Bank as well as the ICT systems supporting the Bank's business. The committee also reviews interim as well as annual results prior to publication.

Chairman's Statement (continued)

- 4. Credit, Legal & Remedial Committee;** which meets monthly is responsible for the credit function in the Bank. The committee reviews credit growth, administration and any legal issues arising thereon.
- 5. Human Resources, CSR & Administration Committee;** is largely responsible for human resources policies, staff remuneration and welfare. The committee is also responsible for the Corporate Social Responsibility function in the Bank.
- 6. Operations, Marketing & Business Development committee;** which meets quarterly is responsible for review of the Bank's business growth, marketing as well as the brand image.
- 7. Tender, Supplies & Premises Committee;** is responsible for all tenders referred to the Board for consideration as well as review of the status of the Bank's projects and procurement policies.

Communication with Shareholders

The Bank is committed to ensuring that shareholders, financial markets and other stakeholders are provided with adequate and timely information about its performance. This is achieved by the distribution of the Bank's annual report, the release in the media of its quarterly and annual results as well as any other pertinent disclosures. The Bank also uses its website to make available pertinent information to shareholders, potential investors and the general public.

The Bank therefore complies with its obligations as contained in the Nairobi Stock Exchange rules and Capital Market Act.

Directors' Emoluments and Loans

The aggregate of emoluments paid to Directors for services rendered during the year is 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 of the Bank.

Loans and advances of directors are also disclosed in the financial report.

BOARD AND MANAGEMENT CHANGES

During the year M/s. Wangui Mwaniki joined the Board of the Bank following retirement (by rotation) of Mr. M.E.G. Muhindi.

I take this opportunity to thank Mr. Muhindi for his dedicated service to the Bank during his tenure first as chairman of the Board and later as a director.

Also during the year, Mr. Munir Sheikh Ahmed was appointed to the position of Managing Director and Board member following the retirement of the long serving Managing Director Mr. Reuben M. Marambii. Mr. Munir is a seasoned banker who was competitively recruited through an international executive

search process and brings to the Bank a wealth of experience and knowledge that I believe will greatly help us drive the Bank to a top tier position. Please join the Board and me in welcoming Mr. Ahmed to National Bank and wishing him every success as he leads your Bank in the next stages of its growth.

I also thank Mr. Marambii for his long service and dedicated stewardship of the Bank through an initially very challenging period.

OUTLOOK

The Bank remains positive about the industry growth in the year 2013 given stability of the macro economy. The Board is committed to ensuring that National Bank becomes part of this expected growth now that the macro-economic indicators of interest rates, inflation and exchange rates are stable and positive.

The Board working with the new Managing Director and the management of the Bank is implementing a transformation programme which aims at revitalizing the institution and propel it to higher level in the coming few years. Refreshing the National Bank brand is also part of this transformation. The new ICT systems we have installed are modern and will be fully utilized to grow the Bank's business and improve service delivery to our customers.

We have set ambitious growth targets for the business and will be monitoring progress made by the management against these regularly. And although it is early days we have already seen some of the strategic initiatives outlined above yielding impressive results. Therefore we are optimistic the future of your Bank is bright.

APPRECIATION

In conclusion I wish to express gratitude to my fellow directors for their commitment, support and guidance throughout the year. I also extend thanks to the management and staff for their commitment and service to the Bank.

On behalf of the Board, management and staff I wish to sincerely thank our customers for choosing to 'belong' to National Bank. And finally to our esteemed shareholders, I am most grateful for your continuing understanding and unwavering support over the years.

MOHAMED A. HASSAN
CHAIRMAN

Taarifa Ya Mwenyekiti

Kwa wanahisa wapendwa, Nina furaha kuwaletea taarifa ya mwaka na ile ya matumizi ya pesa ya Benki kwa kipindi cha mwaka uliomalizika Desemba 31, 2012.

Huu ni mkutano wangu wa pili wa pamoja wa mwaka na wazazi kwa kipindi cha mwaka mzima ambapo nimekuwa na mtazamo kama Mwenyekiti wa Kampuni yenu. Nina furaha kutangaza kwamba Benki inaendelea kuandikisha faida na imedhibiti utoaji wa malipo ya mgawo wa faida kwa wanahisa wake kutokana na imani tuliyo nayo kwamba inaweza kuendelea kuzalisha faida kwa ustawi wake na kuwalipa wanahisa.

Hata hivyo, mtatambua kwamba viwango vya faida na mgawo wa faida vimeshuka mwaka huu ikilinganishwa na mwaka jana. Hii ilitokana na mazingira yasiyotabirika ya kibashara yaliyoambatana na viwango vya juu vya riba, mfumuko wa bei za bidhaa na viwango vya ubadilishanaji fedha. Hali hizi zote zilikuwa na athari kubwa kwa Benki yetu kutokana na utegemeaji wa biashara ya watu binafsi katika sekta ya ukopeshanaji pesa.

MATOKEO YA BIASHARA

Licha ya kuwa na mwaka mgumu, Benki bado inazidi kuleta faida, ina mtaji mzuri na ukwasi wa kutosha. Na ingawa faida imepungua ikilinganishwa na mwaka jana, Benki ilikuwa na viwango bora vya faida na kwa kutokana na hayo, tunapendekeza kutoa malipo ya mgawo wa faida kwa mwaka wa tatu mfululizo. Meneja Mkurugenzi amefanua maelezo kuhusu matokeo ya biashara kupitia taarifa yake ilhali usimamizi umetoa taswira kamili ya matokeo ya Benki na shughuli za biashara kadiri iwezekanavyo kupitia Ripoti ya Mwaka na hesabu. Kwa sababu hiyo, kwenye taarifa yangu nitaangazia tu kuhusu maswala ya mtazamo wa sekta ya benki, mkakati, sera za mwingo na maswala ya usimamizi huku usimamizi mkuu ukitoa taarifa ya kina kuhusu matokeo ya biashara kupitia sehemu nyinginezo kwenye ripoti hii.

Halmashauri imechukua hatua kuhakikisha kuwa hatuzingatii tu athari zilizotupelekea kuathiriwa na hali ya masoko bali pia kuandaa misingi thabiti kwa ukuaji wa Benki yenu ili kuwa mojawapo wa zile Benki za juu kufikia muda wa kipindi cha miaka mitano ijayo. Ninaamini kwamba hatua na mikakati ambayo Halmashauri na Usimamizi imeanzisha zitazalisha viwango vya juu vya faida na ukuaji wa kudumu wa biashara miaka mitano ijayo hivyo kutoa kwenu hakikisho la mgawo wa faida uliomarika na pia matokeo mazuri ya jumla kwa wanahisa kutokana na uwekezaji mlioweka kwa Kampuni kupitia mtaji ulioimarishwa.

SEKTA YA BENKI

Wakati wa kipindi cha mwaka 2012, sekta ya benki iliweza kuhimili changamoto kwenye mazingira ya kiuchumi na kuendelea kusajili ukuaji katika nyanja zote iwe ni wa rasimali, akiba na faida.

Benki za kibiashara na kampuni za ufadhili wa ujenzi wa nyumba zililalia kwa 43 na 1 mtawalia huku taasisi ndogo

ndogo za uwekaji akiba zikiongezeka kutoka 6 hadi 8. Benki za ubadilishanaji fedha za kigeni zilipungua kutoka 118 hadi 112, kulikuwa na taasisi mbili za ushauri kuhusu mikopo. Sekta ya benki ina ushindani na ishara inaonyesha kwamba hali hii itazidi kupanda miaka inayokuja kutokana na ugombeaji wa nafasi ya umiliki wa soko kupitia misingi ya viwango vya utoaji huduma, gharama nafuu na uafikaji wa huduma kwa wateja. Ushindani dhidi ya wafanya kazi wenye taaluma, mabadiliko kwenye sura na uwakilishi katika kanda ni mwelekeo unaoashiria mazingira yaliyozungukwa na ushindani mkubwa.

Tunazidi kuwa makini dhidi ya ushindani na hivyo basi kufikia uamuzi wa kuchukua hatua zinazofaa kuhakikisha kwamba hatukabiliani tu na ushindani lakini tunapata ukuaji wa kiwango cha herufi mbili ifikiapo muda wa miaka mitano ijayo.

MABADILIKO YA MKAKATI

Katika kipindi cha miaka iliyopita, Halmashauri imetambua kwamba Benki imekuwa haipati matokeo yanayolingana na benki zingine au kuafikia manufaa yake kamili ili kufanikisha matarajio kamili ya wawekezaji wake. Ilifahamu pia kwamba, Benki imekuwa ikipoteza sehemu yake kwenye soko kwa muda wa miongo miwili iliyopita. Licha ya uzinduzi wa awamu ya kwanza ya mabadiliko yaliyoleta faida na kufaulu kuondoa mikopo isiyolipika kutoka kwenye daftari la rasimali za Benki (mizania), Benki ilihitajika kutekeleza awamu ya pili ya safari yake ya mabadiliko ili kuwa shirika linalofanya vyema zaidi. Hili lilihitaji uajiri wa watu wenye taaluma na tajriba ili kufanikisha zoezi hili.

Kwa sababu hiyo, Halmashauri iliajiri Meneja Mkurugenzi Mkuu mpya kupitia taratibu ya ushindani wa kimataifa na pia kuidhinisha uajiri wa timu kuu ya usimamizi ili kuendesha mpango wa kuleta mabadiliko. Pia, Halmashauri ilisajili shirika la ushauri la kimataifa lililo maarufu ambalo limesaidia Benki kuendeleza mkakati wa kuleta mabadiliko. Kwa sasa, mkakati huu uko kwenye hatua za kuanzishwa na tayari umeanza kuzaa matunda.

Mpango wa kufanyia mabadiliko unahusu idadi kadhaa zikiwemo:

- Mabadiliko ya muundo wa usimamizi ili kubuni idara mpya ya kitengo cha kusimamia biashara za taasisi na ile ya kusimamia biashara za kawaida ili kuendesha biashara na pia kusawazisha vitengo na idara saidizi
- Ubunifu wa huduma na mchango wa thamana kwa wateja kwenye vitengo na masoko tutakayochagua kushiriki
- Ustawi wa mfumo bora wa mauzo ambao utaimarisha viwango vya biashara na kuchochea ukuaji wa wateja ili kukuza umiliki wa nafasi kwenye soko.
- Kupanua mtandao wetu wa usambazaji kote nchini na kwenye masoko ya kanda. Hili linahusisha uanzishaji wa matawi mengine mapya ishirini katika kaunti zote zilizosalia na matumizi ya mbinu kadhaa zisizohusisha matawi ikiwemo matumizi ya mawakala wa benki, uwekaji wa mitambo ya ATM katika sehemu mbali na matawi, huduma za benki kwa kutumia simu, huduma za kielektroniki za benki na mifumo mingine. Pia, tutapanua huduma zetu katika kanda tutakapoona kuna nafasi ambazo zitaongeza thamani kwa Benki.
- Kuhamasisha uwekezaji kwenye teknolojia ili kuleta pamoja matumizi ya kielektroniki kwenye utoaji wa huduma zetu. Hali hii itasaidia utoaji wa huduma za hali ya juu kwa gharama nafuu na kupunguza gharama za uajiri huku tunapokuza biashara.
- Kuimarisha uwezo wetu wa usimamizi wa hatari, kupanua huduma zetu za biashara
- Kuanzisha mfumo thabiti wa kutathmini usimamizi wa matokeo ya utendakazi na kuhakikisha kwamba matokeo ya usimamizi yanaongozwa vyema ili kuafikia malengo ya biashara.

Taarifa Ya Mwenyekiti (inaendelea)

- Kuendesha mifumo ya mikakati kunahitaji uwekezaji katika utoaji mafunzo kwa wafanyakazi walioko na kwa hali nyingine kuajiri maafisa wapya ili kuleta vipawa vipya na kujaza nafasi zilizo wazi. Tumeajiri watumishi wenye ujuzi wa benki ili kuongoza idara hizo mpya, kuendesha ustawi wa biashara, kusimamia uhusiano na wateja, kuongoza ukuaji wa biashara na kusimamia vyema uthibiti wa hatari zinaokabili biashara.
- Ili kuonyesha National Bank kama Benki mpya yenye mwelekeo, tutatekeleza zoezi kubwa la kubadili sura ambalo bali na kubadilisha nembo yetu, msemu na rangi pia litahusisha mabadiliko ya sura na hisia kwenye matawi yetu ili kuwavutia wateja na kuimarisha utoaji wa huduma kwa njia inayofaa.

Mikakati yote iliyotajwa hapo juu ya mabadiliko iko njiani na itazinduliwa kwa njia ya hatua ili kuhakikisha upatikanaji kamili wa malengo ya ukuaji. Kwa kuzingatia matokeo ya awali, tuna hakika kwamba tuko kwenye mkondo wa kuafikia kitengo cha juu katika idara ya benki.

Mgawo ya Faida

Halmashauri ya wakurugenzi inatoa pendekezo kwenye mkutano huu wa pamoja wa mwaka la malipo ya kwanza na ya mwisho ya mgawo wa faida ya senti 0.20 kwa kila hisa kwa wamiliki wa hisa za kawaida na hisa maalumu na mgawo mwingine wa ziada wa senti 0.075 kwa kila hisa kwa wamiliki wa hisa maalumu.

USIMAMIZI WA SHIRIKA

Halmashauri imejitolea kuhakikisha kwamba biashara za Benki zinaendeshwa kwa utaalumu, uwazi na kwa njia ya usawa ili kulinda na kukuza thamani kwa mwanahisa na pia kukidhi mahitaji ya washika dau wengine. Maadili na viwango ambavyo vinazingatiwa na Halmashauri vimebuniwa kwa kuzingatia kanuni na taratibu zinazokubalika kimataifa. Kwa sababu hiyo, Halmashauri inathibitisha kwamba Benki inaafikiana na sheria zote zinazohusika ikiwemo vifungu vya Sheria za Benki na masharti yaliyotolewa na Benki Kuu ya Kenya.

Halmashauri inatimiza wajibu wake kwa wanahisa kwa kutoa sera za mwongozo na uangalizi kuhusu mkakati, fedha, utekelezaji na kuafikiana na athari zinazokabili Benki. Kwa kutekeleza majukumu yaliyotajwa hapo juu, Halmashauri humwagiza Mkurugenzi Mtendaji kusimamia shughuli za kila siku za utekelezaji wa biashara.

Mikutano ya Halmashauri

Halmashauri hufanya mikutano ya kila mara na wakati mwingine mikutano maalumu haja inapotokea. Mikutano hii huangazia maswala ya kibiashara na usimamizi iliyoelekezwa kwa Halmashauri na usimamizi na pia kutathmini matokeo ya kila mwezi dhidi ya matarajio yaliyowekwa.

Ripoti za uchunguzi za Benki Kuu ya Kenya na wakaguzi huchunguzwa wakati wa mikutano kama hii na hatua zinazohitajika kuchukuliwa.

Wakati wa kipindi hiki cha mwaka, Halmashauri ilifanya mikutano 33. Maelezo kuhusu jinsi wakurugenzi wasio wafanyakazi walivyohudhuria yamefafanuliwa kupitia jedwali lililoko hapa chini:

Jina la Mkurugenzi	Jumla ya Mikutano	Jumla ya Mikutano aliyohudhuria
M A Hassan	33	33
S M Kitonga	33	33
E K Mwangera	33	33
PS – Treasury	33	32
NSSF	33	31
F L Atwoli	33	11
W. Mwaniki	9	8
M E G Muhindi *	24	24

*Alistaafu Juni 8, 2012

Tathmini ya Halmashauri

Halmashauri ilitokeleza zoezi la tathmini mwaka 2012 kama sehemu ya usimamizi bora wa shirika na pia kuafikiana na masharti ya Benki Kuu. Matokeo kuhusu tathmini hiyo yaliwasilishwa kwa Benki Kuu ya Kenya.

Wakurugenzi wote isipokuwa yule mmoja aliyestaafu kipindi hiki cha mwaka ambaye hakuhitajika kushiriki zoezi hili, walipata alama za kibinafsi zilizoziidhi kiwango cha wastani.

Muundo wa Halmashauri

Saba kati ya wanachama kumi kwenye Halmashauri akiwemo Mwenyekiti ni Wakurugenzi wasio wafanyakazi. Kati ya hawa, katibu wa kudumu katika Wizara ya Fedha na shirika la hazina ya uzeeni ni wakurugenzi wa kitaasisi. Wakurugenzi wengine watano wasio wafanyakazi wanachukuliwa na Halmashauri kuwa watu huru na wasio na uhusiano wa kibiashara ambao unaweza kushawishi utekelezaji wa maamuzi huru ya kibinafsi.

Kamati za Halmashauri

Halmashauri ina kamati saba zinazokutana mara kwa mara chini ya masharti rejelezi yaliyowekwa na Halmashauri. Kamati hizo hukutana na kutoa mapendekezo kwa Halmashauri kuhusiana na maswala yaliyo chini ya wajibu wao. Maelezo kuhusu kamati hizo ni kama yafuatayo:

1. **Kamati ya uteuzi;** ambayo ina jukumu la uteuzi wa Halmashauri na hukutana mara moja kwa mwaka au zaidi haja inapotokea.
2. **Kamati ya ukaguzi na athari za kibiashara;** ambayo jukumu lake ni kuhakikisha mifumo ya ndani ya uthibiti na usimamizi bora wa athari za kibiashara zinazingatiwa vyema. Kupitia kamati hii, Halmashauri inaweza kutekeleza vyema majukumu yake ya uongozi na usimamizi bora wa shirika. Miongoni mwa majukumu haya ni pamoja na uhusiano wa Benki na wakaguzi wa hesabu kutoka nje, utegemeaji wa

Taarifa Ya Mwenyekiti (inaendelea)

ripoti za pesa, mawasiliano yanayotolewa nje na mfumo wa udumishaji wa mbinu za kukabiliana na athari za kibishara ikiwemo uzingatiaji na uthibiti wa ndani.

- Kamati ya fedha na teknolojia ya habari na mawasiliano;** (ICT) ambayo ina jukumu la kutathmini matokeo ya fedha za Benki pamoja na mifumo ya teknolojia ya habari na mawasiliano inayofanikisha biashara za Benki. Pia, kamati hii huchunguza matokeo ya muda kati ya mwaka na ile ya mwisho wa mwaka kabla hayajachapishwa.
- Kamati ya mikopo, maswala ya kisheria na usahihishaji;** ambayo hukutana kila mwezi inawajibikia shughuli za mikopo ya Benki. Kamati hii hutathmini ukuaji wa mikopo, usimamizi na maswala mengine ya kisheria yanayoibuka.
- Kamati ya kitengo cha wafanyakazi, wajibu wa shirika kwa jamii na usimamizi;** ambayo inahusika pakubwa na sera za maongozi ya wafanyakazi, marupurupu na maslahi yao. Kamati hii pia ina jukumu la kusimamia wajibu wa Benki kwa jamii.
- Kamati ya utekelezaji, uvumishaji na ustawi wa biashara;** ambayo hukutana kila mara baada ya miezi mitatu ina wajibu wa kutathmini ukuaji wa biashara za Benki, uvumishaji pamoja na umbo la Benki.
- Kamati ya zabuni, utoaji matumizi na majumba ya Benki;** inasimamia zabuni zote zinazowasilishwa mbele ya Halmashauri ili kuzingatiwa pamoja na kutathmini hali ya miradi ya Benki na sera za uzawadaji zabuni kwa jumla.

Mawasiliano na wanahisa

Benki imejitolea kuhakikisha kwamba wanahisa, masoko ya kifedha na washika dau wengine wanapokea maelezo yanayohitajika kwa wakati unaofaa kuhusiana na matokeo yake. Hili huafikiwa kupitia usambazaji wa ripoti za mwaka kuhusu Benki, kuchapishwa kupitia vyombo vya habari matokeo yake ya kila baada ya miezi mitatu na ya kila mwaka pamoja na fichuzi nyingine muhimu. Benki pia hutumia wavuti wake kuweka wazi maelezo muhimu kwa wanahisa, wawekezaji na umma kwa jumla.

Kwa sababu hiyo, Benki inatimiza wajibu kama ilivyofafanuliwa kupitia masharti ya Soko la Hisa la Nairobi na sheria za Soko la Mtaji.

Marupurupu ya wakurugenzi na mikopo

Kiwango cha jumla cha Marupurupu yaliyotolewa kwa wakurugenzi kutokana na huduma walizotoa kipindi hiki cha mwaka imefichuliwa kupitia nukuu za taarifa ya matumizi ya pesa. Tangu kufanyika kwa mkutano wa pamoja wa mwaka wa kampuni uliopita, hakuna mkurugenzi aliyepokea au kuruhusiwa kupokea manufaa mengine bali na ada za wakurugenzi, marupurupu na viwango vilivyopokelewa chini ya kandarasi za uajiri wa wakurugenzi walio wafanyakazi wa Benki.

Mikopo na marupurupu ya wakurugenzi pia yameelezewa kupitia ripoti hii ya matumizi ya pesa.

MABADILIKO YA HALMASHAURI NA USIMAMIZI

Wakati wa kipindi hiki cha Mwaka, Bi. Wangui Mwaniki alijiunga na Halmashauri ya Benki baada ya kustaafu (kwa zamu) kwa Bw. M.E.G Muhindi.

Nachukua fursa hii kumshukuru Bw. Muhindi kutokana na kujitolea kwake kuhudumia Benki wakati wa kipindi chake cha uongozi kwanza kama Mwenyekiti wa Halmashauri na hatimaye kama Mkurugenzi.

Wakati wa kipindi hiki cha Mwaka, Bw. Munir Sheikh Ahmed aliteuliwa kuchukua nafasi ya Meneja Mkurugenzi na mwanachama kwenye Halmashauri kufuatia kustaafu kwa Bw. Reuben M. Marambii. Bw. Munir amekuwa mhudumu katika kitengo cha benki kwa muda mrefu. Aliajiriwa kupitia zoezi kali lenye ushindani wa kimataifa na anaitea Benki tajriba ya ujuzi mkubwa na ufahamu ambao naamini utatusaidia pakubwa kuipeleka Benki katika upeo wa juu.

Tafadhali jiungeni na Halmashauri pamoja nami kumkaribisha Bw. Ahmed katika National Bank na kumtakia kila la heri anapoingoa Benki yenu katika hatua nyingine ya ukuaji.

Pia, namshukuru Bw. Marambii kutokana na huduma zake za muda mrefu na kujitolea kwake kuongoza Benki kupitia kipindi cha awali cha changamoto tele.

MTAZAMO

Benki ina matumaini ya ukuaji kwenye sekta ya benki mwaka 2013 kutokana na uthabiti wa kiuchumi kwa jumla. Halmashauri imejitolea kuhakikisha kwamba National Bank imekuwa sehemu ya ukuaji huu unaotarajiwa hasa wakati huu ambapo ishara zinazotabiri hali ya uchumi kwa jumla kama vile viwango vya riba, mfumuko wa bei za bidhaa na viwango vya ubadilishanaji fedha ni thabiti na zenye matumaini.

Halmashauri kwa ushirikiano na Meneja Mkurugenzi Mpya na usimamizi wa Benki inatekeleza mpango wa mabadiliko ambao unanua kuinua taasisi na kuiweka katika viwango vya juu miaka michache ijayo. Kugeza sura ya National Bank pia ni mojawapo wa mabadiliko haya. Mfumo mpya wa Habari na Mawasiliano ambao tumeweka ni wa kisasa na utatumika kikamilifu kwa ukuaji wa biashara za Benki na kuimarisha utoaji wa huduma kwa wateja wetu.

Tumeweka malengo ya juu ya ukuaji wa biashara na tutakuwa tukitathmini matokeo yatakayopatikana kutokana na usimamizi dhidi ya malengo haya kila mara. Na ingawa ni mapema, tayari tumeanza kuona manufaa ya mikakati iliyotajwa hapo juu yakizalisha matokeo ya kufana. Kwa sababu hiyo, tuna matumaini kuhusiana na hali ya usoni ya Benki.

SHUKRANI

Mwisho, ningependa kutoa shukrani zangu za dharti kwa wakurugenzi wenzangu kwa uwajibikaji wao, mchango na mwongozo katika kipindi chote cha Mwaka. Pia, ningependa kutoa shukrani zangu kwa usimamizi na wafanyakazi kwa kujitolea kwao kuhudumia Benki.

Kwa niaba ya Halmashauri, wasimamizi na wafanyakazi ningependa kutoa shukrani zangu za dharti kwa wateja wetu kwa "kuchagua" National Bank. Na mwisho kabisa kwa wanahisa wetu wapendwa, ninatoa shukrani zangu kwenu kwa kuzidi kutuelewa na kwa msaada wenu usio na kifani miaka iliyopita.

MOHAMMED A. HASSAN

MWENYEKITI



Managing Director's Statement

Managing Director's Statement

In the year 2012, the Bank's business registered growth over the prior year in terms of income generated as well as in total assets, as a result of which the Bank made a profit after tax of Ksh. 730 million. This growth is particularly significant considering the difficult trading environment presented by the high interest rates for most of the year which has had particular adverse impact on the Bank due to its retail banking bias. However we are confident of the Bank's overall growth momentum is sustainable and the capitalization is adequate. Therefore the Board has recommended payment of dividends to the shareholders out of the profits generated in the year, marking the 3rd year in row that NBK will continue the trend of paying dividends.

However, in spite of this growth of the business, it is noteworthy that overall net profit after tax declined below the previous year's. This decline in net profit was largely attributable to the difficult trading environment in most of 2012 which resulted in higher interest cost on deposits which could not all be passed to the borrowers, and the high operational costs due to inflation and investments in branch expansion.

Performance Review

The business grew interest income to KSh. 8,430 million in 2012 from KSh. 6,458 million in the same period in 2011, representing a 31% increase. This is a clear indication that the top line business of the Bank is growing. However, interest expense increased significantly by 165% from KSh. 1,377 million in 2011 to KSh. 3,655 million in 2012 largely due to the high cost of funds that began in the fourth quarter of 2011. Additionally, the Bank opted to shield its customers from some of the increase in interest rates resulting in the overall decline in net interest income.

Total operating expenses also increased by 21% to KSh. 6,463 million in 2012 from KSh. 5,351 million over the same period in 2011. This is attributable to the costs of investments in upgrading the Bank's technology platform and capital expenditure incurred in the branch expansion program. It is however important to appreciate the costs associated with investing in a robust technology platform and new branches are, on the other hand, investments upon which future growth in profitability will be hinged.

2012 saw a rapid increase in interest rates across the industry. Loans and advances to customers increased marginally to KSh. 28,347 million in 2012 from KSh. 28,068. The sluggish growth in retail lending is to be expected in high interest rate regime experienced in the period.

Overall the Bank made total profits after tax for the year of Ksh. 730 million which is lower than last year's profit due to the reasons explained above.

Business Growth and Development

The Bank replaced its core banking system in March 2012 and has upgraded or introduced new systems and applications in various business segments in order to support the planned growth of the business and improve our customers experience through fast and efficient service delivery. The new systems will deliver enhanced capabilities and functionality requirements for the various products and businesses of the Bank, including deposits, lending, payments, international trade, treasury, cards, Islamic banking, and custody, among others. The implementation was through a phased approach and was largely completed by December 2012. We are determined to ensure the significant investment in technology platform will result in improved service delivery, support growth of new business segments, reduce our operating costs and thereby yield higher profit dividends to the shareholders of the Bank.

The new banking system has enabled the Bank fully automate its Trade Finance and Treasury services as well as offer our customers the ability to apply for international trade services from the comfort of their homes or offices. More recently, we have replaced our card systems with a new system, Tranzware, to address credit cards, debit cards and agent banking. This project will also provide the Bank with a platform to enhance its card product portfolio, enhance customer service and enable the Bank to address card frauds that has increasingly been on the rise.

In 2012, we continued to expand our distribution channels and opened six new branches namely: Changamwe, Thika, Garissa, Technical University of Mombasa, Mtwapa and Bomet. We plan to open 10 more branches in 2013 to enable us have better representation across all the counties in the country.

In our continuous efforts to increase convenience to our customers, we have also extended our operating hours across the branch network. In addition, we launched a Call Centre to enable customers communicate with the Bank on a 24 hour 365 days basis.

The Bank also enhanced its mobile banking capability and functionality by upgrading the SIM-ple mobile banking channel to integrate with M-pesa money transfer service to provide our customers with the convenience that comes with this service. We have also launched SMS alerts to enable our customers monitor transactions on their accounts.

There are various other customer service enhancements we have undertaken and we will continue to build on the technology platforms to enhance our services standards in order to make them current and most competitive to meet the need of our customers.

Strategic Growth Plan

During the last quarter of 2012, the Board and the Executive Management team began a deep review of the mid and long term strategy of the business with the assistance of a leading global consultancy firm. It became clear that a new strategy was required to transform the bank into a high performing institution. The objective of the new strategy is to transform the Bank into

Managing Director's Statement (continued)

one of the top banks in Kenya by 2017. This requires long term strategic initiatives to be implemented and internal organization changes undertaken while at the same time ensuring short term profits are not adversely impacted. The main pillars of this strategy are scheduled for implementation in H1 2013.

Business Outlook

National Bank's future is promising and I am extremely optimistic about the outlook for the Bank. The falling interest and inflation rates in the last quarter of 2012 provide for an improved business environment for us. A number of initiatives have been implemented to drive business growth.

We will leverage the significant investment in upgrading the technology platform to generate efficiencies and better service delivery. We have invested in new talent, product innovation, and diversified the revenue streams of the Bank from the traditional Retail Banking on which we mainly relied to now include Corporate, SME and Treasury segments. We are also introducing new business segments and enhancing others, including Insurance, Custody, Cards, and Islamic Banking. The Bank has established a new operating structure that is more business focused by introducing Retail and Business Division, Corporate and Institutional Banking Division, Treasury Department and Islamic Banking Department in addition to rationalizing the existing support divisions.

Customer service improvement initiatives are a key pillar of the strategy we will be driving in 2013 and beyond and we have so far implemented a number of these including setting up a 24/7 customer contact centre, revamping value propositions, product innovations and developing a customer centric sales and service model.

Internally we are strengthening our risk management capabilities – Credit risk, Operational risk and Market risk - and introduced a performance management program across the whole business. We are also implementing a number of cost reduction and cost control measures that will make our Bank deliver cost effective efficient service.

Regional expansion into the greater Eastern Africa region and establishment of dedicated subsidiaries are also options we are going to pursue wherever opportunities arise.

We are confident these initiatives and changes will have positive impact and help us achieve the planned business growth which in turn will help us realize our goal of transforming National Bank of Kenya into a leading bank in the next five years.

Conclusion

Despite a challenging operating environment in 2012, the Bank's employees sought out opportunities for growth and put our customers at the heart of the business which has helped achieve good results.

Going forward, National Bank has embarked on a journey with a clear goal of becoming a top tier bank in the region by 2017. The following year will be the start of that journey and I am confident that this goal is achievable with the continued support of the shareholders, customers and staff of the Bank.

Finally I wish to thank the Chairman and the Board of Directors for their encouraging guidance throughout the year and for setting high aspirations for the Bank. I would also like to express my utmost appreciation to our employees who continue to play the most critical role in the transformation process of our Bank and in realizing the goals set by the shareholders and the board. And above all, I wish to thank all our shareholders whose unwavering support and belief in the Bank, both in difficult and good times, have made the National Bank a thriving business in the banking industry in Kenya.

MUNIR S. AHMED

MANAGING DIRECTOR

Repoti Kutoka Kwa Maneja Mkurugenzi

Katika kipindi cha Mwaka 2012, biashara Za Benki zilisajili ukuaji wa juu ikilinganishwa na mwaka uliotangulia kutokana na mapato yaliyopatikana pamoja na raslimali za jumla, hali ambayo ilipelekea Benki kupata faida baada ya ushuru ya Kshs. milioni 730. Ukuaji huu ni muhimu sana hasa ikilinganishwa na mazingira magumu ya kibiashara yaliyochochewa na viwango vya juu vya riba katika kipindi kirefu cha mwaka ambavyo vilikuwa na athari kwa Benki hasa kutokana na mtindo wake wa kibiashara wa reja reja. Hata hivyo, tuna imani na mwendo wa ukuaji wa jumla wa benki kwamba utadumishwa na mtaji utatosha. Hivyo, halmashauri inapendekeza malipo ya mgawo wa faida kwa wanahisa kutokana na faida iliyoapatikana mwaka huu na kuadhimisha mwaka wa tatu mfulululizo ambapo NBK itaendelea na mwendo wa kutoa malipo ya mgawo wa faida.

Hata hivyo, licha ya ukuaji huu wa biashara, ni muhimu kufahamu kwamba, faida yote kwa jumla baada ya kutozwa ushuru ilishuka ikilinganishwa na mwaka uliotangulia. Kushuka huku kwa faida kwa jumla kulisababishwa na mazingira magumu ya kibiashara kipindi kirefu cha mwaka 2012 yaliyoababisha kupanda kwa viwango vya gharama za riba za akiba ambavyo havingewekewa wakopaji, na pia gharama za juu za uendeshaji kazi kutokana na mfumuko wa juu wa bei za bidhaa na uwekezaji kwenye upanuzi wa matawi.

Tathmini ya matokeo

Mapato kutokana na faida ya biashara yaliongezeka hadi Ksh. milioni 8, 430 mwaka 2012 kutoka Kshs. milioni 6, 458 kipindi sawa na mwaka 2011 na kuwakilisha ongezeko la asilimia 31 (31%). Hii ni ishara dhahiri kwamba malengo ya biashara ya kampuni yanakua. Hata hivyo, gharama za riba ziliongezeka pakubwa kwa asilimia 165 (165%) kutoka Kshs. milioni 1, 377 mwaka 2011 hadi Kshs. milioni 3, 655 mwaka 2012 hasa kutokana na gharama za juu za hazina zilizoanza kipindi cha nne cha mwaka 2011. Zaidi ya hayo, Benki iliamua kuwakinga wateja wake kutokana na kuongezeka kwa viwango vya riba na kupelekea kushuka kwa mapato kwa jumla.

Jumla ya gharama za uendeshaji kazi ziliongezeka kwa asilimia 21 (21%) hadi shilingi bilioni 6, 463 mwaka 2012 kutoka Kshs milioni 5, 351 kipindi sawa na mwaka 2011. Hii ilitokana na gharama za uwekezaji, kuimarisha mtandao wa teknolojia ya benki na gharama za mtaji zilizotokana na mpango wa upanuzi. Hata hivyo ni muhimu kutambua kwamba gharama zilizotokana na uwekezaji kwenye mtandao wa teknolojia na ufunguzi wa matawi mpya kwa upande mwingine ni uwekezaji ambao ukuaji wa faida siku za usoni utategemewa. Mwaka 2012 ulishuhudia ongezeko la haraka la viwango vya riba kote katika sekta hii. Mikopo na malipo ya awali kwa wateja iliongezeka pakubwa mwaka 2012 hadi Kshs. milioni 28, 347 kutoka Kshs. milioni 28, 068. Ukuaji hafifu wa utoaji mikopo ya reja reja unatarajiwa wakati wa msimu wa viwango vya juu vya riba ambao ulishuhudiwa kipindi hiki. Kwa jumla, Benki ilipata faida ya Kshs. milioni 730 baada ya kutozwa ushuru kiwango ambacho ni cha chini ikilinganishwa na faida ya mwaka uliopita kutokana na sababu zilizotajwa hapo juu.

Ukuaji wa biashara na maendeleo

Benki ilibadili mfumo wake maalumu wa benki mwezi Machi mwaka 2012 na imeimarisha au kuzindua mifumo mipya na mitambo katika sekta mbali mbali za biashara ili kuchangia ukuaji uliopangwa wa biashara na kuimarisha huduma kwa wateja wetu kwa haraka na kwa njia inayofaa. Mifumo hii mipya itaimarisha uwezo na mahitaji ya utendakazi kwa bidhaa mbali mbali na biashara za Benki, ikiwemo uwekaji akiba, ukopeshaji, malipo, biashara za kimataifa, shughuli za fedha, kadi, kitengo cha huduma za benki kwa waislamu, utunzaji, miongoni mwa mengine. Uzinduzi huu ulitekelezwa kupitia awamu na ulitarajiwa kukamilika mwezi Desemba 2012. Tumejitolea kuhakikisha kwamba uwekezaji kwenye mfumo wa teknolojia utapelekea uimarishaji wa huduma, kuchangia ukuaji wa vitengo vipya vya biashara, kupunguza gharama zetu za utekezaji na hivyo kuongeza mgawo wa faida kwa wanahisa wa Benki.

Mfumo mpya wa Benki umeiwezesha kutumia kikamilifu huduma za mtandao wa biashara za fedha na hazina na pia kuwapa wateja wetu uwezo wa kutuma maombi ya huduma za biashara za kimataifa kutoka manyumbani mwao au ofisini. Hivi karibuni, tumebadilisha mfumo wetu wa matumizi ya kadi na mfumo mpya, mfumo wa Tranzware, ili kushughulikia kadi za mikopo, kadi za madeni na uwakala wa benki. Mradi huu pia utaipea Benki nafasi kuimarisha msururu wa kadi zake, kuhamasisha huduma kwa wateja na kuiwezesha kushughulikia ulaghai wa kadi ambao umekuwa ukiongezeka.

Mwaka 2012, tuliendelea kupanua njia zetu za usambazaji na kufungua matawi mapya sita ambayo ni; Changamwe, Thika, Garissa, Technical University of Mombasa, Mtwapa na Bomet. Tunanua kufungua matawi mengine kumi mapya mwaka 2013 kutuwezesha kujiwakilisha vyema katika kaunti zote nchini.

Katika juhudi zetu za kurahisisha huduma kwa wateja wetu, tumeongeza saa za kazi kote katika mtandao wa matawi yetu. Zaidi ya hayo, tulianzisha kituo cha mawasiliano ili kuwawezesha wateja kuwasiliana na Benki kwa saa 24 siku 365.

Pia, benki iliimarisha uwezo wake wa huduma za pesa kwa kutumia simu ya mkono ("mobile banking") kwa kuimarisha njia za SIM-ple mobile banking kwa kuunganisha na huduma ya usafirishaji pesa kwa njia ya simu (M-pesa) ili kuwapa wateja wetu manufaa yanayopatikana kupitia huduma hii. Pia tumezindua huduma ya utumaji tahadhari kupitia ujumbe mfupi (SMS) ili kuwawezesha wateja wetu kufuatilia shughuli kwenye akaunti zao.

Kuna huduma nyingine mbali mbali ambazo tumeimarisha na tutaendelea kuwezesha kwenye ulingo wa teknolojia ili kuimarisha viwango vya huduma zetu na kuzifanya kuwa za kisasa na zenye ushindani kukidhi mahitaji ya wateja.

Mpango wa mkakati wa ukuaji

Wakati wa muhula wa mwisho wa Mwaka 2012, Halmashauri na timu kuu ya usimamizi zilindua tathmini ya mkakati wa muda wa kadri na mrefu wa biashara chini ya usaidizi wa kampuni ya ushauri inayoongoza duniani. Ilibainika wazi kwamba kulikuwa na haja ya kuwa na mkakati mpya ili kuibadilisha Benki na kuwa taasisi bora inayofanya vyema. Malengo ya mkakati huu mpya ni kuibadilisha Benki na kuwa mjojwapo wa Benki bora nchini Kenya ifikiapo mwaka 2017. Hili lithitaji mfumo wa mkakati wa muda mrefu utakaozinduliwa na mabadiliko ya usimamizi wa ndani utakaoanzishwa na kwa wakati huo kuhakikisha kwamba faida za muda mfupi hazithiriki vibaya. Nguzo muhimu ya mkakati huu zimeratibiwa kuanza Mwaka 2013.

Repoti Kutoka Kwa Maneja Mkurugenzi (inaendelea)

Mtazamo wa biashara

Hali ya siku za usoni ya National Bank inaashiria matumaini na nina imani kuhusiana na mtazamo wa Benki. Kushuka kwa riba na mfumuko wa bei za bidhaa muhula wa mwisho wa mwaka 2012 kunatoa nafasi ya mazingira ya kibiashara yaliyoimarika kwetu. Mifumo kadhaa imebuniwa ili kuongoza ukuaji wa biashara.

Uwekezaji muhimu ambao tumetumia kwenye jukwaa la teknolojia utapelekea kufanikisha utekezaji na utoaji wa huduma bora. Tumewekeza kwenye vipawa vipya, ubunifu wa bidhaa, na kupanua njia za mapato za Benki ili kutoka huduma za wateja wa kawaida tunaotegemea sana na wakati huo kuhusisha mashirika, taasisi ndogo za uwekezaji (SME) na vitengo vya idara ya biashara. Pia tunazindua vitengo vipya vya biashara na kuimarisha vinginezo vikiwemo bima, uhifadhi, kadi na kitengo cha benki kwa huduma za waislamu. Benki imebuni mfumo mpya wa kibiashara unaoangaziwa sana kwa kuanzisha idara wateja wa kawaida, mashirika na Idara ya kitaasisi, idara ya fedha na Idara ya huduma za benki za waislamu bali na kupanga upya idara saidizi zilizoko.

Uimarishaji wa mifumo ya utoaji huduma kwa wateja ni nguzo muhimu ya mkakati ambao tutategemea mwaka 2013 na siku za usoni na hadi sasa tumezindua idadi kadhaa za mikakati hii ikiwemo kuanzisha kituo cha mawasiliano kwa saa 24 siku saba mfufulizo, kuinua swala la thamani, ubunifu wa bidhaa na kuandaa mtindo wa mauzo na huduma kwa wateja.

Katika Kampuni, tunaimarisha uwezo wetu wa kukabiliana na athari za biashara- hatari za mikopo, hatari za usimamizi na hatari za masoko na kuanzisha mpango wa usimamizi wa matokeo kote katika biashara. Pia, tunazindua njia kadhaa za kupunguza matumizi na hatua za udhibiti wa gharama ambazo zitafanya Benki yetu kutoa huduma nafuu na zinazofaa.

Upanuzi wa kanda hadi eneo kubwa la Afrika Mashariki na kuanzishwa kwa kampuni tanzu zilizojitolea ni mojawapo wa chaguzi ambazo tutazingatia wakati wowote nafasi zinapojitokeza.

Tuna imani kwamba mbinu hizi na mabadiliko zitaleta athari njema na kutusaidia kuafikia mipango ya ukuaji wa biashara iliyopangwa ambayo hatimaye itasaidia lengo letu la kuibadili National Bank of Kenya kuwa benki inayoongoza miaka mitano ijayo.

Hitimisho

Licha ya changamoto za mazingira ya utekezaji mwaka 2012, wafanyakazi wa Benki walitafuta nafasi za ukuaji kwa kuwaweka wateja katikati mwa biashara ambazo zimetusadia kupata matokeo mazuri.

Kuendelea mbele, National Bank imerejelea safari ikiwa na lengo wazi la kuwa Benki inayoongoza katika kanda hii ifikiapo mwaka 2017. Mwaka ujao, utakuwa mwanzo wa safari hiyo na nina imani kwamba lengo hili litaafikiwa chini ya usaidizi wa wanahisa, wateja na wafanyakazi wa Benki.

Mwisho, ningependa kumshukuru Mwenyekiti na Halmashauri ya wakurugenzi kwa mwongozo wao unaotoa himizo kipindi chote cha mwaka na kwa kuandaa matamaniyo makubwa kwa Benki. Pia, ningependa kutoa shukrani zangu za dhati kwa wafanyakazi wetu ambao wanazidi kutekeleza jukumu muhimu la hatua za kuibadilisha Benki yetu na kwa kuafikia malengo yaliyowekwa na wanahisa na Halmashauri. Zaidi ya hayo, ningependa kuwashukuru wanahisa wetu wote ambao msaada wao dhabiti na imani kwa Benki, nyakati ngumu na nzuri, wameifanya National Bank kuwa biashara iliyoneemeka katika sekta ya biashara za benki nchini Kenya.

MUNIR S. AHMED

MANEJA MKURUGENZI

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National Bank

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Corporate Social Responsibility

Corporate Social Responsibility (CSR) is now an integral part of National Bank's Business culture. Guided by an existing policy and deep commitment to making a difference in people's lives, the Bank commits a substantial budgetary allocation each year to CSR initiatives. In the year under review the institution continued to support CSR programmes in its traditional areas of focus which are health, education, sports, vulnerable groups and environment.

HEALTH

Provision of adequate health care to all in need remains a daunting task in the country and it is widely acknowledged that the demands exceed what is currently provided by the Government as well as the private sector. The high cost of providing specialized treatment further makes access to such health care by majority of Kenyans to be a major challenge.



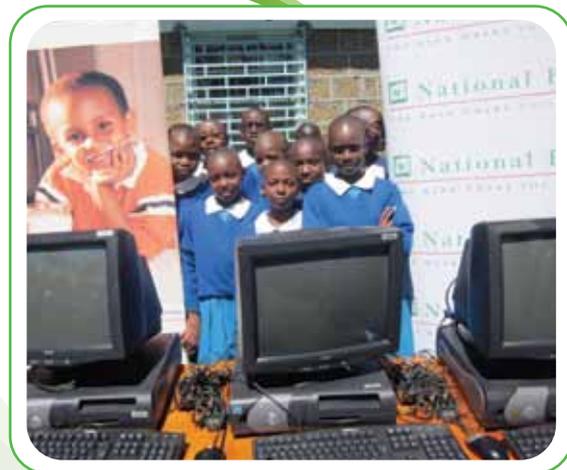
Medical Services PS Mary Ngare (right) and the National Bank of Kenya MD Munir Ahmed cut a tape off a Dialysis machine at the Nakuru Provincial General Hospital during a ceremony to hand over 2 Dialysis Machines to the hospital. The Bank also donated 4 other Dialysis Machines to Coast General Provincial Hospital and Moi Teaching and Referral Hospital (MTRH)

It is recognition of the above that the Bank has continued to support initiatives aimed at improving health care. In the year 2012 the Bank donated six Dialysis machines to three hospitals namely: - Coast General Hospital (Mombasa) Rift Valley Provincial General Hospital (Nakuru) and Moi Teaching and Referral Hospital (Eldoret) at a total cost of about Sh. 10 million. This intervention by the Bank has been highly appreciated by the recipient health institutions as it went along away to alleviate the suffering of the patients with Kidney ailments. It has also reduced the waiting period for patients who require dialysis and who at times had to travel to Kenyatta National Hospital, Nairobi which too has limited facilities being a national referred hospital. In 2012 the Bank also supported Operation Smile mission in

Kenya (OSMIK) through a donation of Sh. 2.5 million towards treatment of persons born with cleft lips and related facial deformities. Other initiatives included provision of a blood storage facility to Elburgon Nyayo Hospital in Molo, donation of mosquito nets to Malindi District Hospital and sponsorship of medical camps in various locations in the country.

EDUCATION

The Bank recognizes the importance of education in fostering social, cultural and economic development in the country.



Computer donations as presented by NBK to Mount St Mary's Girls Boarding Primary School -Molo.

In this regard National Bank supported various initiatives across the country aimed at promoting education. These initiatives included donations towards construction of classrooms, laboratories, sanitation facilities and purchase of equipment of various types. Among the beneficiaries of donations were Ayany Primary School in Kibera towards construction of a modern kitchen, provision of textbooks to Milimani Secondary School in Nairobi and Friends Secondary School in Mugomari. Furniture and equipment were donated to Awendo Primary School and Kamagambo Day Secondary School while Thindigua Primary School in Kiambu was assisted to construct a sanitary block.

The Bank supported initiatives aimed at promoting quality education for the girl child and to this end donated Sh. 1 million to St Paul's ACK Mother's Group Ratta in Kisumu for construction of a kitchen as part of Ratta Girls Hostel Project. In Kianjai and Mituntu Girls Secondary School in Meru the Bank supported the construction of a dormitory and laboratory respectively at a cost of Sh. 5 million. A donation of Sh. 500,000 was given towards the construction of a classroom in Matumbufu Baptist Girls Secondary School in Bungoma. St Cecilia Namenya Girls Secondary School in Busia also received a donation of Sh. 569,000 towards construction of a laboratory.

Other support to educational institutions included donation of reconditioned computers and sponsorship of various school trophy-award programmes aimed at promoting excellence in learning and sporting activities.

Corporate Social Responsibility (continued)

SPORTS

National Bank has for a number of years been closely associated with sporting activities and especially athletics. Kenyans have on many occasions proved to the world that the country is a home of talent when it comes to athletics and nurturing these talents has been a special area of interest for the Bank. Sports have a unique way of promoting social cohesion among communities besides becoming a source of livelihood for many successful sportsmen and women.



Some of the Athletes during the 2012 National Athletics Olympics Trials held at Nyayo National Stadium on 23rd June, 2012. NBK sponsored the Athletics Kenya 2012 events to a tune of 33 Million.

In 2012, the Bank continued supporting sporting activities through its annual sponsorship of Athletics Kenya which



Some of the Athletes during the 2012 National Athletics Olympics Trials held at Nyayo National Stadium on 23rd June, 2012. NBK sponsored the Athletics Kenya 2012 events to a tune of 33 Million.

amounted to Sh. 33 million. Through this sponsorship Athletics Kenya has been able to produce very successful athletes who have done the country proud from their participation in various international sporting competitions.

The Bank also continued with its sponsorship of sports personality of the year Awards (SOYA) in the sum of Sh. 3 million. For the third year running the Bank sponsored the annual Tegla Lorupe Peace Race which this time was organized to foster peace in the clash torn regions of Tana delta.

Other beneficiaries of sports sponsorship by the Bank included, Deaf Athletics Kenya, the Special Olympics Team, Mwea Classic Marathon, the Moi forces Academy annual Open ball tournament, the Kisii University College Culture Week & Peace Decathlon, the Tudumu Ngong half Marathon and St. Teresa Table Tennis Club Exchange Programme.

VULNERABLE GROUPS

In 2012 the Bank participated in a number of initiatives aimed at impacting positively the lives of the less endowed members of the society. These initiatives included donations of basic amenities such as foodstuff and linen to various institutions among them Bishop Luigi Locati Children's home, Joyland special Secondary School, Soweto Good Samaritan orphans & Destitute Children's Centre and Mama Fatuma Goodwill Children's Homes.

ENVIRONMENT

The Bank is committed to conserving the environment in all its dealings with its customers and communities within which it carries out business activities. In this regard the staff of the Bank participated in various environmental conservation activities by partnering with the local communities and schools to plant trees and carry out cleanup exercises.



TSC Upper Hill Branch staff carrying out a community clean up exercise.

Corporate Information

DIRECTORS

Non-executive

Mr. M. A. Hassan - Chairman
Ms. S. M. Kitonga - Vice Chair
PS Treasury
National Social Security Fund (NSSF)
Eng. E. K. Mwongera
Mr. F. L. Atwoli
Ms. W. Mwaniki

Executive

Mr. M. S. Ahmed - Managing Director
Mr. I. M. Mworira - Deputy managing Director - Customer Services
Mr. A. N. Ismail - Deputy managing Director - Support Services

BOARD COMMITTEES

STAFF & CORPORATE AFFAIRS COMMITTEE

Ms. S. M. Kitonga *
Eng. E. K. Mwongera
Ms. Wangui Mwaniki
PS Treasury
NSSF

AUDIT & RISK COMMITTEE

Ms. S. M. Kitonga *
Eng. E. K. Mwongera
Ms. Wangui Mwaniki
Mr. F. L. Atwoli

OPERATIONS, MARKETING & BUSINESS DEVELOPMENT COMMITTEE

Eng. E. K. Mwongera *
Ms. S. M. Kitonga
Ms. Wangui Mwaniki
NSSF
PS Treasury

NOMINATIONS COMMITTEE

Mr. F. L. Atwoli *
Eng. E. K. Mwongera
Ms. S. M. Kitonga
Ms. Wangui Mwaniki
NSSF
PS Treasury

CREDIT, LEGAL & REMEDIAL COMMITTEE

* - Chairperson of the Committee

Ms. S. M. Kitonga *
Eng. E. K. Mwongera
Ms. Wangui Mwaniki
NSSF
PS Treasury

TENDER, SUPPLIES & PREMISES COMMITTEE

Eng. E. K. Mwongera *
Mr. F. L. Atwoli
NSSF
PS Treasury
Ms. Wangui Mwaniki

FINANCE & ICT COMMITTEE

Eng. E. K. Mwongera *
Ms. S. M. Kitonga
Ms. Wangui Mwaniki
NSSF
PS Treasury

NATIONAL BANK OF KENYA LIMITED

COMPANY SECRETARY

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

REGISTERED OFFICE

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

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 GPO
00100 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 2012 which show the state of affairs of National Bank of Kenya Limited (the "bank").

ACTIVITIES

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

RESULTS

	2012 Sh'000	2011 Sh'000
Profit before taxation	1,147,408	2,443,850
Taxation	(417,656)	(897,737)
Profit for the year	729,752	1,546,113

DIVIDEND

The directors recommend payment of dividend as follows:

i) That a first and final dividend of 1.5% (2011 – 3%) be paid to the holders of the Preference Shares over and above any further dividend that may be paid to them and the ordinary shareholders in respect of the financial year ended 31 December 2012.

ii) That a first and a final dividend of Sh 0.20 (2011 – Sh 0.40 per share) to be paid to the holders of the Ordinary Shares in respect of the financial year ended 31 December 2012.

DIRECTORS

The present members of the board are as shown on page 7. The following changes took place on 8 June 2012

Retirement from the Board

1. Mr. R.M. Marambii – retired on 31 August 2012
2. Mr. M.E.G. Muhindi – retired on 8 June 2012

Appointment into the Board

- 1 Ms. Wangui Mwaniki – appointed on 8 June 2012
- 2 Mr. Munir Sheikh Ahmed – appointed on 1 September 2012

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 approval by the Central Bank of Kenya under Section 24(1) of the Banking Act.

ON BEHALF OF THE BOARD

LG Kamweti
Company Secretary

Nairobi
18 March 2013

Wakurugenzi wanawasilisha ripoti yao ikiandamana na taarifa kuhusu matumizi ya pesa iliyoifanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2012 ambayo inaonyesha hali ya benki ya National Bank of Kenya Limited ("benki").

SHUGHULI

Shughuli maalumu ya benki ambayo imesajiliwa chini ya Sheria za Benki ni utoaji wa huduma za benki, fedha na zile zinazohusiana.

MATOKEO

	2012 Sh' 000	2011 Sh'000
Faida kabla ya ushuru	1, 147, 408	2, 443, 850
Ushuru	(417, 656)	(897, 737)
Faida kwa mwaka	729, 752	1, 546, 113

MGAWO WA FAIDA

Waurugenzi wanapendekeza kutolewa kwa malipo ya mgawo wa faida kama ifuatavyo:

i) Kwamba mgawo wa kwanza na wa mwisho wa faida wa asilimia 1.5 (2011- 3%) ulipwe kwa wamiliki wa hisa maalumu juu na zaidi ya mgawo mwingine wa faida ambao unaweza kuwa umetolewa kwao na kwa wanahisa wa kawaida kwa mujibu wa kipindi cha mwaka wa biashara uliomalizika Desemba 31, 2012.

ii) Kwamba mgawo wa kwanza na wa mwisho wa faida wa senti 0.20 (2011- senti 0.40 kwa hisa) kwa wamiliki wa hisa za kawaida kwa mujibu wa kipindi cha biashara kilichomalizika Desemba 31, 2012.

WAKURUGENZI

Wanachama wa sasa katika Halmashauri wameonyeshwa kupitia ukurasa 7. Mabadiliko yafuatayo yalifanyika Juni 8, 2012.

Kustaafu kutoka Halmashauri:

- 1) Bw. R.M. Marambii alistaafu Agosti 31, 2012
- 2) Bw. M.E.G. Muhindi alistaafu Juni 8, 2012

Uteuzi kwenye Halmashauri

- 1) Bi. Wangui Mwaniki aliteuliwa Juni 8, 2012
- 2) Bw. Munir Sheikh Ahmed aliteuliwa Septemba 1, 2012

WAKAGUZI WA PESA

Wakaguzi wa pesa Deloitte & Touche wameonyesha nia yao kuendelea na jukumu lao kwa mujibu wa sehemu ya 159 (2) ya sheria za Makampuni na kwa kutegemea idhini kutoka Benki Kuu ya Kenya kuambatana na sehemu ya 24 (1) ya Sheria za Benki .

KWA NIABAYA HALMASHAURI

LG Kamweti
Katibu wa Kampuni

Nairobi
18 March 2013

Statement Of Directors' Responsibilities Taarifa Ya Majukumu Ya Wakurugenzi

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

The directors accept responsibility for 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 Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of the bank's 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.

Sheria ya Makampuni nchini Kenya zinawahitaji wakurugenzi kuandaa taarifa ya matumizi ya pesa kwa kipindi cha kila mwaka wa biashara ambayo itatoa taswira halisi na ya maana ya shughuli za benki kufikia mwisho wa kipindi cha matumizi ya pesa na matokeo ya utekelezaji shughuli za benki kwa kipindi hicho cha mwaka. Pia, inawahitaji wakurugenzi kuhakikisha kwamba Benki inahifadhi vyema rekodi zake za hesabu ambazo zinatoa ufichuzi wa maana na wa kweli wakati wowote kuhusu hali ya kifedha ya Benki. Pia, wana wajibu wa kulinda raslimali za benki.

Wakurugenzi wana jukumu la kutayarisha taarifa za matumizi ya pesa na kutoa picha halisi na iliyo sawa kwa mujibu wa viwango vya kimataifa za utoaji wa habari za kifedha na mahitaji ya Sheria za Makampuni nchini Kenya, na kwa mwelekeo wa kimataifa ambao wakurugenzi wataona unafaa kuwawezesha kuandaa taarifa za matumizi ya pesa ambazo zitakuwa huru dhidi ya kuripotiwa vibaya iwe ni kwa udanganyifu au makosa.

Wakurugenzi wanakubali jukumu kuhusiana na taarifa ya mwaka ya matumizi ya pesa ambayo imetayarishwa kwa kutumia sera za uhasibu zinazohitajika na kuungwa mkono na uamuzi na makadirio ya maana kwa mujibu wa viwango vya kimataifa za utoaji wa habari za kifedha na kwa njia inayohitajika na Sheria za Makampuni nchini Kenya. Wakurugenzi wanakubaliana kwamba taarifa za matumizi ya pesa zinaonyesha hali halisi na ya maana ya kifedha ya benki na matokeo ya utekelezaji wa shughuli zake. Zaidi ya hayo, wakurugenzi wanakubali jukumu la uhifadhi wa rekodi za fedha ambazo zinaweza kutegemewa wakati wa kuandaa taarifa za matumizi ya pesa pamoja na mifumo mingine muhimu ya ndani inayohitajika kwa uthibiti wa fedha.

Hakuna jambo lililojitokeza mbele ya wakurugenzi kuashiria kwamba benki itashindwa kutekeleza majukumu yake kwa muda wa miezi kumi na miwili ijayo kuanzia tarehe ya kutolewa kwa taarifa hii.

M. A. Hassan
Chairman/Mwenyekiti

M. S. Ahmed
Managing Director/Mkurugenzi Mkuu

18 March 2013

Independent Auditors' Report to Members of National Bank of Kenya Ltd.

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Kenya Limited, set out on pages 30 to 82 which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

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 bank's preparation of financial statements that give a true and fair

view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the bank's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the bank as at 31 December 2012 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

DELOITTE & TOUCHE
Certified Public Accountants (Kenya)

18 March 2012
Nairobi

Ripoti Ya Wakaguzi Huru Kwa Wanachama wa National Bank of Kenya Ltd.

Ripoti kuhusu ukaguzi wa pesa

Tumefanyia ukaguzi taarifa zilizoambatanishwa hapa za matumizi ya pesa za National Bank Of Kenya Limited kama zilivyoonyeshwa kupitia ukurasa wa 30 hadi 82 ambazo zinajumuisha taarifa kuhusu hali ya kifedha kufikia Desemba 31, 2012 na taarifa ya kina kuhusu mapato, mabadiliko ya umiliki wa hisa na taarifa kuhusu mtiririko wa fedha kwa kipindi hiki cha mwaka uliomalizika, na pia muhtasari wa sera muhimu za ukaguzi wa pesa na vidokezo vingine.

Wajibu wa wakurugenzi kuhusiana na taarifa za matumizi ya pesa

Wakurugenzi wana jukumu la kutayarisha taarifa za matumizi ya pesa na kutoa picha halisi kwa mujibu wa viwango vya kimataifa za utoaji habari za fedha na mahitaji ya Sheria za Makampuni nchini Kenya na kwa uadhibiti wa ndani ambao wakurugenzi wataona unafaa kuwezesha kuandaa taarifa za matumizi ya pesa ambazo zitakuwa huru dhidi ya upotovu, iwe ni kwa udanganyifu au makosa.

Wajibu wa wakaguzi wa pesa

Wajibu wetu ni kutoa maoni kuhusiana na taarifa hizi za matumizi ya pesa kwa kutegemea ukaguzi wetu. Tulitekeleza ukaguzi wetu kwa mujibu wa viwango vya kimataifa vya ukaguzi wa kifedha. Viwango hivyo vinatuhitaji kuzingatia mahitaji ya kimaadili, kupanga na kutekeleza ukaguzi ili kupata ukahika wa maana endapo taarifa za matumizi ya pesa ziko huru dhidi ya upotovu wowote. Ukaguzi unahusu kuzingatia taratibu ili kupata ushahidi wa viwango na fichuzi zilizoko kwenye taarifa ya matumizi ya pesa. Taratibu zilichaguliwa zinategemea uamuzi wetu, ikiwemo tathmini kuhusiana na athari za maelezo yasiyo ya kweli kuhusiana na taarifa za matumizi ya pesa, iwe ni kwa hila au makosa. Wakati wa kufanya tathmini hizo za athari, tulizingatia uthibiti wa ndani kutayarisha taarifa za matumizi ya pesa zinazotoa picha halisi na iliyo sawa ili kubini taratibu za ukaguzi wa pesa ambazo zinahitajika kwa hali halisi iliyo lakini sio kwa kusudi la kutoa maoni kuhusu vidokezo vya ukaguzi wa ndani. Pia ukaguzi unahusu kutathmini upya utengaji wa sera za ukaguzi wa pesa zilizotumika na

makisio ya maana yaliyofanywa na wakurugenzi, pamoja na kutathmini uwasilishaji wote wa taarifa za matumizi ya pesa. Tunaamini kwamba ushahidi kuhusu ukaguzi wa pesa ambao tumepata unatosha na unafaa kusimamia msingi wa ukaguzi wetu.

Maoni

Kwa maoni yetu, taarifa hizi za matumizi ya pesa zilizoambatanishwa hapa zinatoa hali halisi na sawa ya shughuli za kifedha za benki kufikia Desemba 31, 2012 na kuhusiana na faida na mtiririko wa fedha wakati wa kipindi hiki cha mwaka uliomalizika kwa mujibu wa viwango vya kimataifa vya kuripoti na mahitaji ya Sheria za Makampuni nchini Kenya.

Ripoti kuhusu mahitaji mengine ya kisheria

Kama inavyohitajika kupitia Sheria za Makampuni nchini Kenya, kwa kutegemea ukaguzi wetu wa pesa, tunaripoti kwenu kwamba:

- Tumepata maelezo yote yanayohitajika na ufafanuzi ambao kwa maoni na imani yetu zilifaa kwa madhumuni ya kufanya ukaguzi wetu;
- Kwa maoni yetu, rekodi bora ya vitabu vya pesa ilihifadhiwa na benki, kama inavyoonekana kupitia uchunguzi wa vitabu hivyo; na
- Taarifa za benki kuhusiana na hali ya kifedha na taarifa ya kina kuhusu mapato zinawiana na vitabu vya hesabu.

Disclaimer

This Swahili language translation of the portions of this Annual Report and Financial statements has been prepared solely for the convenience of Swahili speaking readers. Despite all the efforts devoted to ensure the accuracy of this translation, certain errors and omissions may subsist. National Bank of Kenya Ltd, its representatives and employees decline all responsibility in this regard.

DELOITTE & TOUCHE
Certified Public Accountants (Kenya)

16 March 2012
Nairobi

Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 Sh'000	2011 Sh'000
INTEREST INCOME	4	8,430,119	6,457,997
INTEREST EXPENSE	5	(3,655,325)	(1,376,887)
NET INTEREST INCOME		4,774,794	5,081,110
Fee and commission income		1,349,629	1,468,038
Fee and commission expense		(7,099)	(6,166)
NET FEE AND COMMISSION INCOME	6	1,342,530	1,461,872
Gains on foreign exchange dealings	7	229,273	310,015
Other operating income	8	1,263,721	942,142
Operating expenses	9	(5,737,284)	(4,658,866)
Impairment losses on loans and advances	16(c)	(725,626)	(692,423)
PROFIT BEFORE TAXATION		1,147,408	2,443,850
TAXATION	11	(417,656)	(897,737)
PROFIT FOR THE YEAR		729,752	1,546,113
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		729,752	1,546,113
EARNINGS PER SHARE - basic & diluted	12	Sh 1.49	Sh 3.19

Statement of Financial Position

As at 31 December 2012

	Note	2012 Sh'000	2011 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	13	5,460,991	5,564,998
Deposits and balances due from banking institutions	14	1,356,954	3,388,191
Government securities	15	26,788,110	26,678,099
Loans and advances to customers (net)	16	28,346,668	28,068,218
Other assets	17	1,014,991	1,728,157
Other investments	18	93,224	62,872
Tax recoverable	11(c)	371,691	-
Investment in subsidiary companies	19	19,963	19,963
Property and equipment	20	2,673,313	2,740,003
Operating lease prepayments	21	11,467	11,615
Intangible assets	22	924,912	402,400
Due from a subsidiary company	26	26,080	-
Deferred tax asset	29	66,441	-
TOTAL ASSETS		67,154,805	68,664,516
LIABILITIES			
Customer deposits	23	55,191,425	56,728,163
Deposits and balances due to banking institutions	24	254,694	155,613
Other liabilities	25	1,178,145	933,635
Taxation payable	11(c)	-	322,357
Due to a subsidiary company	26	21,976	21,976
Borrowings	27	29,960	-
Unclaimed dividends	28(a)	28,629	21,728
Deferred tax liability	29	-	24,570
TOTAL LIABILITIES		56,704,829	58,208,042
CAPITAL RESOURCES			
Share capital	30	7,075,000	7,075,000
Revaluation surplus		564,018	603,559
Revenue reserve		2,547,101	2,501,448
Statutory reserve		263,857	276,467
SHAREHOLDERS' FUNDS		10,449,976	10,456,474
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		67,154,805	68,664,516

The financial statements on pages 30 to 82 were approved and authorised for issue by the board of directors on 18th March 2013 and were signed on its behalf by:

M. A. Hassan
S. M. Kitonga
M. S. Ahmed
L. G. Kamweti

Chairman
Director
Managing Director
Company Secretary

Statement of Changes In Equity

For the year ended 31 December 2012

	Note	Share capital Sh' 000	Revaluation surplus Sh' 000	Revenue reserve Sh' 000	Statutory reserve Sh' 000	Total Sh' 000
At 1 January 2011		7,075,000	643,100	2,006,611	204,900	9,929,611
Total comprehensive income for the year		-	-	1,546,113	-	1,546,113
Transfer of excess depreciation		-	(56,487)	56,487	-	-
Deferred tax on excess depreciation		-	16,946	(16,946)	-	-
Transfer to statutory reserve		-	-	(71,567)	71,567	-
Dividends declared - year 2010	28(a)	-	-	(1,019,250)	-	(1,019,250)
At 31 December 2011		7,075,000	603,559	2,501,448	276,467	10,456,474
At 1 January 2012		7,075,000	603,559	2,501,448	276,467	10,456,474
Total comprehensive income for the year		-	-	729,752	-	729,752
Transfer of excess depreciation		-	(56,487)	56,487	-	-
Deferred tax on excess depreciation		-	16,946	(16,946)	-	-
Transfer to statutory reserve		-	-	12,610	(12,610)	-
Dividends declared - year 2011	28(a)	-	-	(736,250)	-	(736,250)
At 31 December 2012		7,075,000	564,018	2,547,101	263,857	10,449,976

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 loss 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 Cash Flows

For the year ended 31 December 2012

	Note	2012 Sh'000	2011 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31(a)	618,920	5,538,891
Taxation paid	11(c)	(1,202,715)	(662,811)
		<hr/>	<hr/>
Net cash (used in)/generated from operating activities		(583,795)	4,876,080
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	20	(623,317)	(669,511)
Purchase of intangible assets	22	(448,066)	(387,369)
Proceeds from disposal of property and equipment		3,564	-
Purchase of other investments		(2,161)	
		<hr/>	<hr/>
Net cash used in investing activities		(1,069,980)	(1,056,880)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	28(a)	(729,349)	(1,008,037)
		<hr/>	<hr/>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(2,383,124)	2,811,163
CASH AND CASH EQUIVALENTS AT 1 JANUARY		5,904,967	3,093,804
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT 31 DECEMBER 31(b)		3,521,843	5,904,967
		<hr/> <hr/>	<hr/> <hr/>

Notes to the Financial Statements

For the year ended 31 December 2012

1. ACCOUNTING POLICIES

Statement of compliance

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

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

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

(a) Relevant new standards and amendments to published standards effective for the year ended 31 December 2012

Amendments to IFRS 1 Severe Hyperinflation

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for the first time.

The application of the amendments had no effect on the bank's financial statements.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.

The application of the amendments had no effect on the bank's financial statements.

Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principle set out in IAS 12 Income Taxes that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40 Investment Property will be recovered entirely through sale. The amendments were issued in response to concerns that application of IAS 12's general approach can be difficult or subjective for investment property measured at fair value because it may be that the entity intends to hold the asset for an indefinite or indeterminate period of time, during which it anticipates both rental income and capital appreciation.

The application of the amendments had no effect on the bank's financial statements.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1. ACCOUNTING POLICIES (Continued)

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

(b) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012

The Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (as revised in 2010)	1 January 2015
IFRS 10 Consolidated Financial Statements	1 January 2013
IFRS 11 Joint Arrangements	1 January 2013
IFRS 12 Disclosure of Interests in Other Entities	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (2011) - Revised requirements for pensions and other post retirement benefits, termination benefits and other changes	1 January 2013
IAS 27 Separate Financial Statements (as revised in 2011)	1 January 2013
IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)	1 January 2013
IAS 32 Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 1 First- time Adoption of International Financial Reporting Standards	1 January 2013
Amendments to IFRS 7-Disclosures-Transfers of Financial Assets	1 January 2013
Annual Improvements 2009- 2011 Cycle	1 January 2013

Amendments to IFRS 7: Disclosures-Transfers of Financial Assets

The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors do not anticipate that these amendments to IFRS 7 will have a significant effect on the bank's disclosures. However, if the bank enters into transfers of financial assets in the future, disclosures regarding those transfers may be affected.

IFRS 9: Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

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

(b) *Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012 (Continued)*

IFRS 9: Financial Instruments (continued)

- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

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

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

The directors anticipate that IFRS 9 will be adopted in the bank's financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have a significant impact on amounts reported in respect of the bank's financial assets and financial liabilities (e.g. the bank will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of that effect until a detailed review is done.

IFRS 10: Consolidated Financial Statements

IFRS 10 requires a parent to present consolidated financial statements as those of a single economic entity, replacing the requirements previously contained in IAS 27 'Consolidated and Separate Financial Statements' and SIC-12 'Consolidation - Special Purpose Entities'.

The standard identifies the principles of control, determines how to identify whether an investor controls an investee and therefore must consolidate the investee, and sets out the principles for the preparation of consolidated financial statements. The Standard introduces a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e. whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in 'special purpose entities'). Under IFRS 10, control is based on whether an investor has:

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

The standard is effective for annual periods beginning on or after 1 January 2013. The bank will apply this amendment prospectively.

IFRS 13: Fair Value Measurement

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

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

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the bank is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

IAS 27: Separate Financial Statement (2012)

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

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

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

(b) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2012 (Continued)

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

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

The standard is effective for annual periods beginning on or after 1 January 2013. The bank will apply this amendment prospectively. The directors anticipate no material impact to the bank's financial statements.

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

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

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

The amendments to IFRS 7 are effective for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The director's anticipate that the application of these amendments to IFRS 7 may result in more disclosures being made with regard to offsetting financial assets and financial liabilities in the future.

Amendments to IAS 1 Presentation of Items of Other

Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are banked into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The bank has no items of other comprehensive income and the directors anticipate that the application of the amendment will have no impact on the amounts to be reported in future accounting periods.

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

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

- Preserve the amendments made to IAS 1 in 2007 to require profit or loss and Other comprehensive Income (OCI) to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement.
- Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified.
- Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

The above amendments are generally effective for annual periods beginning on or after 1 July 2012. The bank will apply the amendments prospectively. Other than presentation, the directors anticipate no material impact to the bank's financial statements.

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

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

- the meaning of currently has a legally enforceable right of set-off
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

- The unit of account for applying the offsetting requirements.

The above amendments are generally effective for annual periods beginning on or after 1 January 2013. The bank will apply the amendments prospectively. The directors anticipate no material impact to the bank's financial statements.

(c) Early adoption of standards

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

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. While some of the subsidiary companies are dormant the results and net assets of one subsidiary company are insignificant. Consolidated financial statements have not been prepared as the results and net assets of the subsidiaries are not material.

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 the 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 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:

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

Depreciation (continued)

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 end of the reporting period. 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 statement of financial position when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

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 end of the reporting period.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

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.

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.

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 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.

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.

Financial assets at fair value through profit or loss are subsequently 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 or loss in the period in which they arise.

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.

Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

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.

Held-to-maturity investments are carried at amortised cost using the effective interest method.

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.

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income.

Where fair value cannot be reliably measured, the unquoted investment is carried at cost. 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 the end of each reporting period, 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

Impairment and uncollectability of financial assets (Continued)

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in 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 bank of assets such as adverse changes in the payment status of borrowers or issuers in the bank, or economic conditions that correlate with defaults in the bank.

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

a) *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.

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

b) *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.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

1 ACCOUNTING POLICIES (Continued)

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 statement of cash flows, 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.

Comparatives

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

2 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

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

2 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

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.

3 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:

- a) Hold the minimum level of regulatory capital of Shs 1 billion.
- b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%;
- c) Maintain a 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 had met all the above requirements by the Central Bank of Kenya as at 31 December 2012 and 31 December 2011.

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

3 CAPITAL MANAGEMENT (Continued)

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:

	2012 Sh'000	2011 Sh'000
Tier 1 capital		
Ordinary share capital	7,075,000	7,075,000
Retained earnings	2,547,101	2,501,448
	<u>9,622,101</u>	<u>9,576,448</u>
Tier 2 capital		
Revaluation surplus (25%)	141,005	150,890
Statutory reserves	263,857	276,467
	<u>404,862</u>	<u>427,357</u>
Total regulatory capital	<u>10,026,963</u>	<u>10,003,805</u>
Risk weighted assets		
On- balance sheet	31,333,231	31,335,588
Off- balance sheet	3,947,117	2,886,054
	<u>35,280,348</u>	<u>34,221,642</u>
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum-12%)	28.4%	29.5%
Tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum-8%)	<u>27.3%</u>	<u>28.2%</u>



Notes to the Financial Statements (continued)

For the year ended 31 December 2012

Capital Allocation

The allocation of capital between specified operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of the 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 maximization 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 in determining how capital is allocated within the bank to particular operations or 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

4 INTEREST INCOME

Loans and advances
Deposits and balances due from banking institutions
CBK Repo
Treasury bills – Held to maturity
Treasury bonds – Held to maturity
Treasury bonds – Held for trading

	2012 Sh'000	2011 Sh'000
Loans and advances	5,376,734	3,517,134
Deposits and balances due from banking institutions	211,400	60,924
CBK Repo	9,660	-
Treasury bills – Held to maturity	-	28,936
Treasury bonds – Held to maturity	1,960,668	1,983,817
Treasury bonds – Held for trading	871,657	867,186
	<u>8,430,119</u>	<u>6,457,997</u>
	=====	=====

5 INTEREST EXPENSE

(a) On deposits:
Fixed and short term deposits
Savings accounts
Demand deposits

(b) On borrowed funds:
Repurchase agreement with Central Bank of Kenya
Placements from banks and financial institutions

Fixed and short term deposits	3,183,486	945,207
Savings accounts	51,415	47,893
Demand deposits	334,038	239,231
	<u>3,568,939</u>	<u>1,232,331</u>
Repurchase agreement with Central Bank of Kenya	1,828	55,701
Placements from banks and financial institutions	84,558	88,855
	<u>86,386</u>	<u>144,556</u>
	<u>3,655,325</u>	<u>1,376,887</u>
	=====	=====

6 FEES AND COMMISSION

(a) INCOME
Letters of credit
Foreign currency transactions fees and commissions
Local currency transactions fees and commissions
Ledger fees

(b) EXPENSE
Letters of credit

Letters of credit	41,005	18,233
Foreign currency transactions fees and commissions	13,312	19,003
Local currency transactions fees and commissions	1,087,313	1,177,791
Ledger fees	207,999	253,011
	<u>1,349,629</u>	<u>1,468,038</u>
Letters of credit	(7,099)	(6,166)
	<u>1,342,530</u>	<u>1,461,872</u>
	=====	=====

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

7 GAINS ON FOREIGN EXCHANGE DEALINGS

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

8 OTHER OPERATING INCOME

Bad debts recovered
Fair value losses on government securities held for trading (note 15(c))
Rental income
Gain on disposal of property and equipment
Miscellaneous income
Write back of unclaimed customer balances and pay orders
Gain on revaluation of other investment (note 18)

2012 Sh'000	2011 Sh'000
1,172,834	962,688
(94,730)	(184,838)
50,533	43,728
2,623	-
104,270	77,950
-	27,795
28,191	14,819
<u>1,263,721</u>	<u>942,142</u>
=====	=====

9 OPERATING EXPENSES

Staff costs (Note 10)
Directors' emoluments - fees
- other (executive remuneration)
Depreciation (note 20)
Amortisation of operating lease prepayments (note 21)
Amortisation of intangible assets (note 22)
Repairs and maintenance
Security
Telephone and postage
Operating lease rentals
Rates and insurance
Contribution to Deposit Protection Fund
Software fees
Training & research
Legal and other professional fees
Auditors' remuneration
Banking license and fee
Other operating expenses

3,110,702	2,635,180
22,767	16,644
81,024	58,794
374,218	314,974
148	148
240,403	37,756
249,890	187,805
132,702	117,521
165,735	119,288
134,433	118,488
87,620	94,898
75,249	70,169
142,618	82,930
23,815	36,045
89,904	34,880
8,212	7,979
8,794	8,598
789,050	716,769
<u>5,737,284</u>	<u>4,658,866</u>
=====	=====

10 STAFF COSTS

Salaries and wages
Pension costs - defined benefit scheme
- defined contribution scheme
National Social Security Fund Contributions
Other staff costs

2,593,241	2,201,130
1,774	1,494
323,176	273,379
3,671	3,944
188,840	155,233
<u>3,110,702</u>	<u>2,635,180</u>
=====	=====

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

11 TAXATION

	2012 Sh'000	2011 Sh'000
(a) Taxation charge		
Current taxation:		
Current taxation based on the chargeable profit for the year	508,667	1,065,698
Prior year current taxation underprovision	-	7,769
	<u>508,667</u>	<u>1,073,467</u>
Deferred taxation (note 29):		
Current year credit	(81,193)	(281,883)
Prior year underprovision	(9,818)	106,153
	<u>(91,011)</u>	<u>(175,730)</u>
	<u>417,656</u>	<u>897,737</u>
	=====	=====
(b) Reconciliation of taxation charge to the expected taxation based on accounting profit		
Accounting profit before taxation	1,147,408	2,443,850
	=====	=====
Tax at the applicable rate of 30%	344,222	733,155
Tax effect of expenses not deductible for tax	129,666	113,358
Tax effect of income not taxable	(46,414)	(62,698)
Prior year current tax underprovision	-	7,769
Prior year deferred taxation underprovision	(9,818)	106,153
	<u>417,656</u>	<u>897,737</u>
	=====	=====
(c) Tax recoverable/(payable)		
At 1 January	(322,357)	88,299
Charge for the year (note 11(a))	(508,667)	(1,073,467)
Paid in the year	1,202,715	662,811
	<u>371,691</u>	<u>(322,357)</u>
At 31 December	=====	=====

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

12 EARNINGS PER SHARE

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

	2012 Sh'000	2011 Sh'000
Earnings		
Profit for the year (Sh'000)	729,752	1,546,113
Preference dividend (Sh'000)		
- 1.5% (2011- 3%) negotiated preferential dividend	85,125	170,250
- Participation pari passu with ordinary shareholders	227,000	483,523
Total preference dividend (Sh'000)	312,125	653,773
Earnings attributable to ordinary shareholders (Sh'000)	417,627	892,340
	=====	=====
Weighted average number of ordinary shares ('000)		
At 31 December	280,000	280,000
	=====	=====
Earnings per share		
Basic and diluted (Sh)	1.49	3.19
	=====	=====

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. In addition, whenever the profits of the bank in respect of any year are more than sufficient to pay the preferential dividend, the holders of preference shares are entitled to participate in the surplus pari passu with the holders of ordinary shares (note 30).

There were no potentially dilutive instruments outstanding at the end of the reporting period.

13 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2012 Sh'000	2011 Sh'000
Cash on hand	2,845,876	2,250,352
Balances with Central Bank of Kenya		
- Cash ratio requirement	2,615,115	2,803,909
- Other	-	510,737
	5,460,991	5,564,998
	=====	=====

As at 31 December 2012, the cash ratio requirement was 5.25% (2011 - 5.25%) of eligible deposits. The cash ratio requirement is non interest bearing and not available for the day to day operations of the bank.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

14 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

Deposits due from banking institutions:

Foreign currency deposits

Balances due from banking institutions:

Local currency

Foreign currency

Maturity analysis of deposits and balances due from banking institutions:

Maturity within 91 days after placement

Maturity 91 days after placement

	2012 Sh'000	2011 Sh'000
Deposits due from banking institutions:		
Foreign currency deposits	426,293	88,700
Balances due from banking institutions:		
Local currency	-	2,581,409
Foreign currency	930,661	718,082
	<u>1,356,954</u>	<u>3,388,191</u>
	=====	=====
Maturity analysis of deposits and balances due from banking institutions:		
Maturity within 91 days after placement	930,661	3,299,491
Maturity 91 days after placement	426,293	88,700
	<u>1,356,954</u>	<u>3,388,191</u>
	=====	=====

The effective interest rate on deposits due from banking institutions at 31 December 2012 was 13% (2011 - 9.53%).

Included in deposits due from banking institutions is an amount of Sh 81,058,100 (2011 - Sh 88,700,250) held under lien as collateral for letters of credit and guarantees issued to the bank's customers.

15 GOVERNMENT SECURITIES

(a) Government securities are categorised as follows;

Treasury bonds held to maturity - At amortised cost

Treasury bonds held to maturity

(long term non - negotiable) - At amortised cost*

Treasury bonds held for trading - At fair value through profit or loss

	2012 Sh'000	2011 Sh'000
Treasury bonds held to maturity - At amortised cost	9,494,595	9,674,647
Treasury bonds held to maturity (long term non - negotiable) - At amortised cost*	16,224,466	16,174,584
Treasury bonds held for trading - At fair value through profit or loss	1,069,049	828,868
	<u>26,788,110</u>	<u>26,678,099</u>
	=====	=====

*The Government of Kenya issued the bank with 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 bonds began maturing during the year 2010.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

	2012 Sh'000	2011 Sh'000
(b) Maturity analysis of government securities:		
(i) Treasury Bonds - Held to Maturity		
Maturity between 3 and 10 years	7,397,332	9,674,647
Maturity Over 10 years	2,097,263	-
	<u>9,494,595</u>	<u>9,674,647</u>
(ii) Treasury bonds- (long term non-negotiable bonds)		
Held to maturity		
Interest bearing:		
Maturing less than 1 year	5,059,097	5,047,917
Maturing between 3 and 5 years	5,075,833	5,054,167
Maturing between 5 and 10 years	6,089,536	6,072,500
	<u>16,224,466</u>	<u>16,174,584</u>
(iv) Treasury Bonds – Held for trading		
Maturing between 3 and 10 years	1,069,049	828,868
	<u>26,788,110</u>	<u>26,678,099</u>
(c) Movement of treasury bonds held for trading – At fair value through profit or loss		
At 1 January	828,868	10,788,668
Purchased during the year	334,911	-
Disposed during the year	-	(9,774,962)
Fair value (loss)/gain (note 8)	(94,730)	(184,838)
At 31 December	<u>1,069,049</u>	<u>828,868</u>
(d) The weighted average effective interest rate for Government securities is as summarized below:		
Treasury bonds – At amorised cost	11.12	11.32
Treasury bonds – At fair value through profit or loss	12.93	13.00

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

16 LOANS AND ADVANCES TO CUSTOMERS

	2012 Sh'000	2011 Sh'000
(a) Overdrafts	3,440,130	3,471,066
Mortgages	6,533,305	3,164,406
Loans	19,957,039	22,290,947
Gross loans and advances	29,930,474	28,926,419
Provision for impaired loans and advances:		
- Individually assessed	(1,543,344)	(854,456)
- Collectively assessed	(40,462)	(3,745)
	(1,583,806)	(858,201)
	28,346,668	28,068,218

Included in net advances of Sh. 28,346,668,000 (2011 - Sh 28,068,218,000) are loans and advances amounting to Sh 465,488,000 (2011- Sh 300,219,000), 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 3,614,645,000 (2011 - Sh 2,892,804,000). The effective interest rate on loans and advances was 19.20 % as at 31 December 2012 (2011-17.50%).

	2012 Sh'000	2011 Sh'000
(b) ANALYSIS OF GROSS ADVANCES BY MATURITY		
Maturing: Within one year	5,025,323	6,109,006
One year to three years	6,076,186	5,778,821
Three to five years	7,194,598	7,194,598
Over five years	11,634,367	9,843,994
	29,930,474	28,926,419
(c) PROVISION FOR LOANS AND ADVANCES		
At 1 January	858,201	685,621
Provisions during the year	725,626	692,423
Recoveries during the year	(21)	(32,331)
Bad debts written off during the period	-	(487,512)
At 31 December	1,583,806	858,201

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

17 OTHER ASSETS

	2012 Sh'000	2011 Sh'000
Inter bank clearing items	534,374	743,579
Rent and service charge receivable	27,643	16,488
Other receivables	452,974	968,090
	<u>1,014,991</u>	<u>1,728,157</u>
	=====	=====

18 OTHER INVESTMENTS

Unquoted

	2012 Sh'000	2011 Sh'000
Available for sale At cost:		
IDB Capital Limited	1,501	1,501
African Export Import Bank (US\$ 10,000)	7,615	7,615
SWIFT	2,161	-
	<u>11,277</u>	<u>9,116</u>
	=====	=====

Quoted

	2012 Sh'000	2011 Sh'000
Fair value through profit or loss At market value:		
VISA International	75,339	49,920
Safaricom Limited	6,608	3,836
	<u>81,947</u>	<u>53,756</u>
	<u>93,224</u>	<u>62,872</u>
	=====	=====
Movement in investments:		
At 1 January	62,872	48,053
Investments – SWIFT shares allocated	2,161	-
Fair value gain	28,191	14,819
	<u>93,224</u>	<u>62,872</u>
	=====	=====

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 on the Nairobi Securities Exchange.

Society for Worldwide Interbank Financial Telecommunication (SWIFT) shares are allocated to an institution based on the institution contribution to the SWIFT network. The share allocation takes place every three years the last of which was done in early 2012. The transfer value of one SWIFT was fixed at EUR 3,300 at the June 2011 General Meeting of shareholders.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

19 INVESTMENT IN SUBSIDIARY COMPANIES

At cost

Natbank Trustee and Investment Services Limited, 100% owned
Kenya National Capital Corporation Limited, 100% owned
NBK Insurance Agency Limited 100% owned

	2012 Sh'000	2011 Sh'000
Natbank Trustee and Investment Services Limited, 100% owned	19,963	19,963
Kenya National Capital Corporation Limited, 100% owned	-	-
NBK Insurance Agency Limited 100% owned	-	-
	<u>19,963</u>	<u>19,963</u>
	=====	=====

The subsidiary companies have not been consolidated. Kenya National Capital Corporation Limited and Natbank Trustee and Investment Services Limited are dormant. NBK Insurance Agency Limited began trading in 2009. The principal activity of the company is the provision of insurance agency services. However, its results and net assets are insignificant. Non-consolidation of the subsidiaries therefore has no material impact on the bank's net assets and profit for the year and hence does not add any real value to the shareholders. The results and net assets of the subsidiary companies are as outlined below

	NBK Insurance Agency Limited		Natbank Trustee and Investment Services Limited		Kenya National Capital Corporation Limited	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Profit after taxation	5,605	12,822	-	-	-	-
	=====	=====	=====	=====	=====	=====
Net assets						
Total assets	51,567	31,063	21,976	21,976	-	-
Total liabilities	(30,486)	(1,124)	(19,963)	(19,963)	-	-
	<u>21,081</u>	<u>29,939</u>	<u>2,013</u>	<u>2,013</u>	<u>-</u>	<u>-</u>
	=====	=====	=====	=====	=====	=====

The subsidiary companies listed above are incorporated in Kenya under the Companies Act.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

20 PROPERTY AND EQUIPMENT

	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	Leasehold Improvements Sh'000	Capital work in Progress Sh'000	Total Sh'000
COST OR VALUATION							
At 1 January 2011	188,000	1,043,541	801,679	748,242	406,578	437,652	3,625,689
Additions	-	38,451	155,196	80,288	38,428	357,148	669,511
At 31 December 2011	188,000	1,081,992	956,874	828,529	445,006	794,799	4,295,200
Comprising:							
Cost	-	39,992	956,874	828,529	445,006	794,799	3,065,200
Valuation – 2009	188,000	1,042,000	-	-	-	-	1,230,000
At 31 December 2011	188,000	1,081,992	956,874	828,529	445,006	794,799	4,295,200
At 1 January 2012	188,000	1,081,992	956,874	828,529	445,006	794,799	4,295,200
Additions	-	-	146,559	22,107	134,314	320,337	623,317
Disposals	-	-	(9,985)	-	-	-	(9,985)
Transfers	45,217	246,994	76,871	-	174,169	(543,251)	-
Reclassified to intangible assets	-	-	-	-	-	(314,849)	(314,849)
At 31 December 2012	233,217	1,328,986	1,170,319	850,636	753,489	257,036	4,593,683
Comprising:							
Cost	45,217	286,986	1,170,319	850,636	753,489	257,036	3,363,683
Valuation – 2009	188,000	1,042,000	-	-	-	-	1,230,000
At 31 December 2012	233,217	1,328,986	1,170,319	850,636	753,489	257,036	4,593,683
DEPRECIATION							
At 1 January 2011	2,580	26,539	453,841	610,328	146,935	-	1,240,223
Charge for the year	2,580	28,409	99,851	95,133	89,001	-	314,974
At 31 December 2011	5,160	54,948	553,692	705,461	235,936	-	1,555,197
At 1 January 2012	5,160	54,948	553,692	705,461	235,936	-	1,555,197
Charge for the year	3,484	33,349	120,593	66,095	150,697	-	374,218
Disposal	-	-	(9,045)	-	-	-	(9,049)
At 31 December 2012	8,644	88,297	665,240	771,556	386,633	-	1,920,370

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

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	Leasehold Improvement ents Sh'000	Capital work in Progress Sh'000	Total Sh'000
NET BOOKVALUE							
At 31 December 2012	224,573	1,240,689	505,079	78,080	366,856	257,036	2,673,313
At 31 December 2011	182,840	1,027,044	403,182	123,068	209,070	794,799	2,740,003
NET BOOKVALUE (Cost basis)							
At 31 December 2012	44,313	242,054	505,079	78,080	366,856	257,036	1,493,418
At 31 December 2011	63,430	284,226	403,182	123,068	209,070	794,799	1,877,775

Included in computers, motor vehicles, equipment, furniture and fittings are assets with a cost of Sh 1,058,162,000 (2011 – Sh 634,092,493) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 228,767,821 (2011 – Sh 138,519,982).

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 revalued amounts. 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 or loss.

Capital work in progress mainly relates to the acquisition of banking software related hardware; and the branch expansion programme.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

21 OPERATING LEASE PREPAYMENTS

	2012 Sh'000	2011 Sh'000
COST		
At 1 January and 31 December	14,663	14,663
AMORTISATION		
At 1 January	3,048	2,900
Charge for the year	148	148
At 31 December	3,196	3,048
NET BOOK VALUE		
At 31 December	11,467	11,615

The operating lease prepayment relates to leasehold land. The leasehold land which is carried at cost, 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 Sh'000	Capital work in progress Sh'000	Total Sh'000
COST			
At 1 January 2011	352,209	-	352,209
Additions	46,912	340,457	387,369
At 31 December 2011	399,121	340,457	739,578
At 1 January 2012	399,121	340,457	739,578
Additions	448,066	-	448,066
Reclassified from property and equipment	216,064	98,785	314,849
Transfers	340,457	(340,457)	-
At 31 December 2012	1,403,708	98,785	1,502,493

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

22 INTANGIBLE ASSETS (CONTINUED)

	Computer software Sh'000	Capital work in progress Sh'000	Total Sh'000
AMORTISATION			
At 1 January 2011	299,422	-	299,422
Charge for the year	37,756	-	37,756
At 31 December 2011	337,178	-	337,178
At 1 January 2012	337,178	-	337,178
Charge for the year	240,403	-	240,403
At 31 December 2012	577,581	-	577,582
NET BOOK VALUE			
At 31 December 2012	826,127	98,785	924,912
At 31 December 2011	61,943	340,457	402,400

Capital work in progress relates to ongoing work in respect of implementation of a new core banking system and acquisition of software and database licenses.

Included in intangible assets are assets with a cost of Sh 326,414,564 (2011 – Sh 248,096,864) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 81,603,641 (2011 – Sh 62,024,216).

23 CUSTOMER DEPOSITS

	2012 Sh'000	2011 Sh'000
Fixed deposit accounts	16,078,381	15,561,630
Savings accounts	13,149,871	12,463,001
Current and demand accounts	23,125,563	27,006,306
Foreign currency deposits	2,837,610	1,697,226
	55,191,425	56,728,163

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

23 CUSTOMER DEPOSITS (Continued)

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

(a) From Government and parastatals:

Payable within 90 days	25,752,026	26,771,854
Payable after 90 days and within one year	3,715,952	122,868
	<u>29,467,978</u>	<u>26,894,722</u>

(b) From Private Sector and individuals:

Payable within 90 days	21,471,781	28,315,801
Payable after 90 days and within one year	4,251,666	1,517,640
	<u>25,723,447</u>	<u>29,833,441</u>

At 31 December	<u>55,191,425</u>	<u>56,728,163</u>
	=====	=====

The effective interest rate on interest bearing customer deposits was 1.4% (2011 – 7.52%)

24 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

Deposits due to banking and financial institutions	254,096	155,613
Balances due to banking and financial institutions	598	-
	<u>254,694</u>	<u>155,613</u>
	=====	=====

The effective interest rate on deposits due to banking institutions at 31 December 2012 was 3.2% (2011 – 1.50%). The deposits are payable within 90 days after the end of the reporting period.

25 OTHER LIABILITIES

Bills payable	188,090	205,575
Other liabilities	990,055	728,060
	<u>1,178,145</u>	<u>933,635</u>
	=====	=====

26 RELATED PARTY BALANCES – Due to/(Due from)

Natbank Trustee and Investment Services Limited	21,976	21,976
NBK Insurance Agency Limited	(26,080)	-
	<u>-----</u>	<u>-----</u>

Natbank Trustee and Investment Services Limited balance relates to non-interest bearing amounts held with the bank. NBK Insurance Agency Limited balances relates to amounts due to the bank.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

27 BORROWINGS

The balance relates to borrowings from United Bank – Dubai of USD 349,508 to finance customer imports. This is a short-term borrowing payable within 6 months at LIBOR plus 3.5% p.a secured by bank guarantee of a similar amount.

28 DIVIDENDS

a) Unclaimed dividends

	2012 Sh'000	2011 Sh'000
At 1 January	21,728	10,515
Dividends declared - prior year	736,250	1,019,250
Dividends paid	(729,349)	(1,008,037)
At 31 December	<u>28,629</u>	<u>21,728</u>
	=====	=====

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

b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A first and final dividend is to be proposed at the next annual general meeting in respect of 2012 as follows:

	Dividend per share Sh	Total dividend Sh
Preference shares	0.075	85,125,000
	=====	=====
Ordinary shares	0.20	56,000,000
	=====	=====

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

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

29 DEFERRED TAX LIABILITY

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

Liabilities:

	2012 Sh'000	2011 Sh'000
Revaluation surplus on property	<u>219,314</u>	<u>236,260</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

29 DEFERRED TAX LIABILITY (Continued)

Assets:

Excess of depreciation over capital allowances
Unrealised fair value loss on government securities
Gratuity provision
General provisions

	2012 Sh'000	2011 Sh'000
	(168,703)	(133,075)
	(102,871)	(74,425)
	(825)	(2,365)
	(13,356)	(1,798)
	<u>(285,755)</u>	<u>(211,690)</u>
	<u>(66,441)</u>	<u>24,570</u>
	=====	=====
<i>Movement on the deferred tax account is as follows:</i>		
At 1 January	24,570	200,300
Prior year underprovision –note 11(a)	(9,818)	106,153
	<u>14,752</u>	<u>306,453</u>
Profit or loss credit – note 11(a)	(81,193)	(281,883)
	<u>(66,441)</u>	<u>24,570</u>
	=====	=====

Movement on the deferred tax account is as follows:

At 1 January
Prior year underprovision –note 11(a)

Profit or loss credit – note 11(a)

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

	3,000,000	3,000,000
	6,000,000	6,000,000
	<u>9,000,000</u>	<u>9,000,000</u>
	=====	=====
Issued and fully paid:		
280,000,000 Ordinary shares of Sh 5 each	1,400,000	1,400,000
1,135,000,000 Preference shares of Sh 5 each	5,675,000	5,675,000
	<u>7,075,000</u>	<u>7,075,000</u>
	=====	=====

Issued and fully paid:

280,000,000 Ordinary shares of Sh 5 each
1,135,000,000 Preference shares of Sh 5 each

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 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

30 SHARE CAPITAL (Continued)

- 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 STATEMENT OF CASH FLOWS

	2012 Sh'000	2011 Sh'000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before taxation	1,147,408	2,443,850
Adjustments for:		
Depreciation	374,218	314,974
Amortisation of intangible assets	240,403	37,756
Amortization of operating lease prepayments	148	148
Gain on disposal of equipment	(2,623)	-
Gain on revaluation of other investments	(28,191)	(14,819)
Profit before working capital changes	1,731,363	2,781,909
Decrease/(Increase) in cash ratio requirement	188,792	(499,551)
(Increase)/decrease in Government securities	(110,011)	2,930,961
Increase in deposits and balances due from financial institutions	(337,593)	(12,504)
Increase in loans and advances to customers	(278,450)	(7,223,582)
Decrease/(increase) in other assets	713,165	(1,016,051)
Increase in amount due from subsidiary	(26,080)	-
(Decrease)/increase in customer deposits	(1,536,738)	8,923,556
Increase/ (decrease) in other liabilities	244,510	(345,847)
Increase in short term borrowings	29,960	-
Cash generated from operations	618,920	5,538,891
(b) Analysis of the balances of cash and cash equivalents		
Cash on hand (note 13)	2,845,876	2,250,352
Balances with Central Bank of Kenya (note 13)	-	510,737
Deposits and balances due from banking institutions (note 14)	930,661	3,299,491
Deposits and balances due to banking institutions (note 24)	(254,694)	(155,613)
	3,521,843	5,904,967

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

31 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

For the purposes of the statement of cash flows, 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.

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. 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:

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

Management of credit risk (Continued)

- *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 2012 and 2011, without taking into account any collateral held or other credit enhancements attached.

	2012 Sh '000	2011 Sh '000
On- balance sheet items		
a) Government securities held for trading	1,069,049	828,868
Government securities held to maturity	25,719,061	25,849,231
	<hr/>	<hr/>
	26,788,110	26,678,099
	<hr/>	<hr/>
b) Deposits and balances due from banking institutions		
- Local Currency	-	2,581,409
- Foreign Currency	1,356,954	806,782
	<hr/>	<hr/>
	1,356,954	3,388,191
	<hr/>	<hr/>

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

31 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

	2012 Sh '000	2011 Sh '000
On- balance sheet items		
c) Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	532,315	1,271,819
- Credit cards	62,433	61,209
- Term loans	16,989,719	21,030,443
- Mortgages	6,080,933	3,164,406
	<u>23,665,400</u>	<u>25,527,877</u>
Loans to corporate entities:		
- Overdrafts	2,841,382	2,134,701
- Credit cards	4,000	3,300
- Term loans	3,020,902	1,260,541
- Mortgages	398,790	-
	<u>6,265,074</u>	<u>3,398,542</u>
Total loans and advances	<u>29,930,474</u>	<u>28,926,419</u>
d) Other assets		
Interbank clearing items	534,374	743,579
Total on balance sheet items	<u>58,642,767</u>	<u>59,035,603</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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

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.

2012

Loans and advances to customers	Gross amounts Shs'000	Impairment Allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	26,385,685	-	26,385,685	94
Past due but not impaired	1,348,718	(40,462)	1,308,256	4
Impaired	2,196,071	(1,543,344)	652,727	2
	<u>29,930,473</u>	<u>(1,583,806)</u>	<u>28,346,668</u>	<u>100</u>
	=====	=====	=====	===

2011

Neither past due nor impaired	27,646,711	-	27,646,711	98
Past due but not impaired	125,033	(3,745)	121,288	1
Impaired	1,154,675	(854,456)	300,219	1
	<u>28,926,419</u>	<u>(858,201)</u>	<u>28,068,218</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 advances are those 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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

31 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

i) Credit risk (Continued)

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.

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 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 2012 or 2011.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

Collateral held (Continued)

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

Loans and advances to customers

	2012 Shs'000	2011 Shs'000
Against individually impaired		
Property	517,860	659,838
Against collectively impaired		
Property	831,900	764,219
Other	-	23,560
Against past due but not impaired		
Property	172,454	168,970
Other	-	-
Against neither past due nor impaired		
Property	12,740,664	11,845,400
Other	410,164	265,000
Total	<u>14,673,042</u>	<u>13,726,987</u>

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

	2012 Sh'000	%	2011 Sh'000	%
Agriculture	1,769,926	6.0	859,508	3.0
Manufacturing	1,079,587	4.0	905,108	3.1
Wholesale and retail trade	2,467,028	8.0	4,730,468	16.3
Transport and communications	442,256	1.0	565,577	2.0
Mining and quarrying	60,504	0.2	68,344	0.2
Building and construction	1,784,734	6.0	1,233,040	4.3
Foreign trade	164,475	1.0	45,610	0.2
Business services	3,271,706	11.0	3,761,242	13.0
Real estate	6,539,548	22.0	3,405,541	11.8
Social Community and personal Services	6,174,399	23.0	5,412,804	18.7
Others	6,176,311	18.0	7,939,177	27.6
	<u>29,930,474</u>	<u>100.0</u>	<u>28,926,419</u>	<u>100.0</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

Collateral held (Continued)

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

	2012 Sh'000	%	2011 Sh'000	%
Social community and personal services	159,228	3.0	62,483	1.5
Business services	371,533	7.0	367,441	8.7
Wholesale and retail	1,061,522	20.0	746,232	17.7
Transport and communication	689,989	13.0	604,520	14.4
Manufacturing	1,698,435	32.0	1,575,330	37.4
Other	1,312,144	25.0	855,880	20.3
	<u>5,292,850</u>	<u>100</u>	<u>4,211,886</u>	<u>100</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:

	2012	2011
At 31 December	30%	34%
Average for the period	32%	37%
Maximum for the period	45%	45%
Minimum for the period	26%	27%
Statutory minimum requirement	20%	20%
	=====	=====

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

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.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (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)

2012	12 months						Non-interest bearing	Total
	Less than 1 month	1 month less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years		
FINANCIAL ASSETS								
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	5,460,991
Deposits and balances due from banking institutions	-	164,293	172,000	81,000	-	-	9,000	1,356,954
Government securities held for trading	-	21,367	-	1,003	-	-	1,046,679	- 1,069,049
Government securities held to maturity	32,870	599,942	5,071,559	-	5,000,000	-	15,000,000	- 25,704,371
Loans and advances to customers (net)	3,953,702	135,857	1,483,000	2,278,000	3,903,000	8,272,000	8,321,109	- 28,346,668
Total financial assets	3,986,572	921,459	6,726,559	2,360,003	8,903,000	8,272,000	24,376,788	6,391,652
FINANCIAL LIABILITIES								
Customer deposits	13,153,988	8,802,239	5,791,332	1,839,721	-	-	-	25,604,145
Deposits and balances due to banking institutions	-	254,096	-	-	-	-	-	598
Due to a subsidiary company	-	-	-	-	-	-	-	21,976
Total financial liabilities	13,153,988	9,056,335	5,791,332	1,839,721	-	-	-	25,626,719
INTEREST RATE SENSITIVITY GAP	(9,167,416)	(8,134,876)	935,227	520,282	8,903,000	8,272,000	24,376,788	(19,235,067)
2011								
Total financial assets	3,665,911	365,149	1,022,154	4,863,651	10,778,821	7,194,598	29,526,143	6,283,080
Total financial liabilities	21,757,514	13,968,992	1,064,527	591,798	-	-	-	19,522,921
INTEREST RATE SENSITIVITY GAP	(18,091,603)	(13,603,843)	(42,373)	4,271,853	10,778,821	7,194,598	29,526,143	(13,239,841)

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (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 2012.

	Amount at 31-Dec Sh'000	Scenario 1 5% increase in net interest margin Sh'000	Scenario 2 5% decrease in net interest margin Sh'000
2012			
Profit Before Tax	1,147,408	1,403,706	891,110
Adjusted Core Capital	9,622,101	9,801,509	9,442,693
Adjusted Total Capital	10,026,963	10,206,371	9,837,317
Risk Weighted Assets (RWA)	35,280,348	35,287,141	35,273,555
Adjusted Core Capital to RWA	27.30%	27.80%	26.80%
Adjusted total Capital to RWA	28.40%	28.90%	27.90%
	=====	=====	=====
2011			
Profit Before Tax	2,443,850	2,606,496	2,281,204
Adjusted Core Capital	9,576,447	9,690,299	9,462,595
Adjusted Total Capital	10,003,804	10,117,656	9,889,952
Risk Weighted Assets (RWA)	34,286,441	34,286,441	34,286,441
Adjusted Core Capital to RWA	27.93%	28.26%	27.60%
Adjusted total Capital to RWA	29.18%	29.51%	28.85%
	=====	=====	=====

Assuming no management actions, a series of such rises would increase/decrease net interest income for 2012 by Sh 256,298,000 (2011- Sh.162, 646,000). Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.5% and 0.5% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.5% and 0.5% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

(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 10% (2011 - 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:

	2012 Sh	2011 Sh
US Dollar	86.03	85.13
GB Pound	139.02	131.24
EURO	113.56	110.13
	=====	=====

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk (Continued)

The table below summarises the bank's exposure to foreign currency exchange rate risk as at the end of the reporting period.

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	4,123,221	823,818	360,991	139,035	13,926	5,460,991
Deposits and balances due from banking institutions	-	1,068,488	65,149	92,287	131,030	1,356,954
Government securities held for trading	1,069,049	-	-	-	-	1,069,049
Government securities held to maturity	25,719,061	-	-	-	-	25,719,061
Loans and advances to customers (net)	27,396,796	949,795	10	67	-	28,346,668
Other investments	8,109	82,954	-	2,161	-	93,224
Other assets-Inter bank clearing items	534,374	-	-	-	-	534,374
Total financial assets	58,835,920	2,925,055	426,150	233,550	144,956	62,565,631
FINANCIAL LIABILITIES						
Customer deposits	52,353,343	2,694,203	11,133	123,783	8,963	55,191,425
Deposits and balances due to banking institutions	254,694	-	-	-	-	254,694
Due to a subsidiary company	21,976	-	-	-	-	21,976
Total financial liabilities	52,630,013	2,694,203	11,133	123,783	8,963	55,468,095
NET BALANCE SHEET POSITION	6,205,907	230,852	415,017	109,767	135,993	7,097,536
NET OFF BALANCE SHEET POSITION	6,132,497	(1,967,683)	7,796	107,158	42,608	4,322,377
As at 31 December 2011						
Total financial assets	62,969,796	1,088,711	256,092	64,634	126,724	64,505,957
Total financial Liabilities	55,084,300	1,813,599	3,275	4,569	9	56,905,752
NET BALANCE SHEET POSITION	7,885,496	(724,888)	252,817	60,065	126,715	7,600,205
NET OFF BALANCE SHEET POSITION	5,293,122	(1,935,914)	26,595	(33,503)	32,991	3,383,291

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk (Continued)

Foreign exchange risk – Appreciation/depreciation of Ksh 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 2012.

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 at 31-Dec Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% depreciation Sh'000
2012			
Profit Before Tax	1,147,408	1,122,915	1,171,901
Adjusted Core Capital	9,622,101	9,597,608	9,646,594
Adjusted Total Capital	10,026,963	10,002,470	10,051,456
Risk Weighted Assets (RWA)	35,280,348	35,113,066	35,447,630
Adjusted Core Capital to RWA	27.30%	27.40%	27.21%
Adjusted total Capital to RWA	28.40%	28.50%	28.35%
	=====	=====	=====
2011			
Profit Before Tax	2,443,850	2,410,641	2,477,059
Adjusted Core Capital	9,576,447	9,553,201	9,599,693
Adjusted Total Capital	10,003,804	9,980,558	10,027,050
Risk Weighted Assets (RWA)	34,286,441	34,286,441	34,286,441
Adjusted Core Capital to RWA	27.93%	28.00%	27.86%
Adjusted total Capital to RWA	29.18%	29.24%	29.11%
	=====	=====	=====

Assuming no management actions, a series of such appreciation /depreciation would decrease/ increase operating income for 2012 by 24,493,000 (2011- Sh 33,209,000). Also a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.1% respectively, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.09% and 0.05% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

32 FINANCIAL RISK MANAGEMENT (Continued)

iv) Fair value of financial assets and liabilities

- a) Financial instruments measured at fair value
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:

At 31 December 2012

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Financial Assets				
Government securities held for trading	1,069,049	-	-	1,069,049
Equity investments	81,947	-	-	81,947
	<u>1,150,996</u>	<u>-</u>	<u>-</u>	<u>1,150,996</u>
	=====	=====	=====	=====

At 31 December 2011

Financial Assets				
Government securities held for trading	828,868	-	-	828,868
Equity investments	53,756	-	-	53,756
	<u>882,624</u>	<u>-</u>	<u>-</u>	<u>882,624</u>
	=====	=====	=====	=====

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 are a reasonable approximation of their fair values.

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

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.

	2012 Sh'000	2011 Sh'000
Letters of credit	1,789,721	1,608,020
Letters of guarantee	3,500,493	2,603,867
Other	2,636	-
Pending lawsuits	64,800	64,800
	<u>5,357,650</u>	<u>4,276,687</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 lawsuits relate to claims by customers and former employees against the bank in the normal course of business. The amounts claimed have not been provided in the financial statements since the directors, based on advice received from the bank's legal advisors, are of the opinion that no significant claims will crystallise.

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:

	2012 Sh'000	2011 Sh'000
Authorised and contracted for	215,536	436,182
	=====	=====
Authorised but not contracted for	-	9,426
	=====	=====

The authorized and contracted capital commitments largely relate to procurement of software and hardware needed in the implementation of a new core banking system and the refurbishment costs for the premises for the new and existing branches.

c) Operating lease arrangements

The bank as a lessor

Rental income earned during the year was Sh 50,533,000 (2011 – Sh 43,727,387). At the end of the reporting period, the bank had contracted with tenants for the following future lease receivables:

	2012 Sh'000	2011 Sh'000
Within one year	32,111	48,446
In the second to fifth year inclusive	30,866	148,118
After five years	-	14,520
	<u>62,977</u>	<u>211,084</u>
	=====	=====

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

33 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

c) Operating lease arrangements (Continued)

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 end of the reporting period, the bank had outstanding commitments under operating leases which fall due as follows:

	2012 Sh'000	2011 Sh'000
Within one year	114,825	92,157
In second to fifth year inclusive	246,781	339,958
After five years	23,664	53,341
	<u>385,469</u>	<u>485,456</u>
	=====	=====

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. 324,950,000 (2011 – Sh. 274,872,500) 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 2012, the company contributed Sh. 3,671,000 (2011 – Sh 3,943,717) 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. 12,171,758 (2011 – Sh 10,397,262). The amounts recognized in profit or loss in respect of this defined benefit plan is Sh. 1,774,496 (2011 – Sh 1,493,688). The liability in the Defined Benefit Scheme is determined through periodic actuarial valuations conducted by an approved actuary.

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 Pine Bridge Investment .

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

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 2012 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:

	2012 Sh'000	2011 Sh'000
(a) Advances to customers:		
Directors (note 35(d))	6,322	11,233
Employees	3,612,084	2,888,391
	<u>3,618,406</u>	<u>2,899,624</u>
(b) Customer deposits:		
Directors (note 35(d))	11,364	25,828
Natbank Trustee & Investment services Limited	21,976	21,976
	<u>33,340</u>	<u>47,804</u>
(c) Contributions to the statutory defined contribution pension scheme, the National Social Security Fund	<u>3,671</u>	<u>3,944</u>

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

35 RELATED PARTY TRANSACTIONS (Continued)

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

	Directors	
	2012 Sh'000	2011 Sh'000
Loans and advances:		
At 1 January	11,233	10,459
Advanced during the year	-	9,506
Interest charged	316	562
Repayments during the year	(5,227)	(9,294)
At 31 December	6,322	11,233
Deposits:		
At 1 January	25,858	45,060
Received during the year	43,472	50,586
Withdrawn during the year	(57,966)	(69,818)
At 31 December	11,364	25,858
Key management compensation		

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

	2012 Sh'000	2011 Sh'000
Salaries and other short-term employment benefits	125,805	116,196
Pension and gratuity	40,181	17,448
	165,986	133,644
Directors' remuneration		
Fees for services as a director	22,767	16,644
Other emoluments (included in key management compensation above)	81,024	58,794
	103,791	75,438



Notes to the Financial Statements (continued)

For the year ended 31 December 2012

36 FIDUCIARY ACTIVITIES

The bank holds asset security documents on behalf of customers with a value of Sh. 3,340,341,992 (2011 – Sh 2,308,420,349).

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 SEGMENTAL REPORTING

The bank adopted IFRS 8 Operating Segments which became effective for the periods beginning 1 January 2010. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the corporation that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess performance. Thus, under IFRS 8, the major reporting segment is banking with other income comprising less than 10% of total income. This is the information which has been reported in these financial statements. Therefore, no further segmental information has been provided.

38 ASSETS PLEDGED AS SECURITY

Deposits due from foreign banks amounting to Sh. 425,259,100 (Sh 2011 - Sh 88,700,250) were under lien as collateral for the letters of credit and guarantees issued to the bank's customers.

39 INCORPORATION

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

40 CURRENCY

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

Shareholding as at 31 December 2012

The company, through its Company Secretary, files returns regularly in line with the requirement of the Capital Markets Authority and the Nairobi Stock Exchange under the listing regulations on transactions related to shareholders.

The number of shareholders as at 31 December 2012 was 49,230.

A. Top 10 Shareholders

No.	Name	No. of Shares	Percentage of shares held
1	Board of Trustees NSSF	134,547,725	48.05%
2	The PS to the Treasury	63,000,000	22.50%
3	NIC Custodial Services A/c 077	1,161,360	0.41%
4	Equity Nominee Ltd A/c 00084	1,038,300	0.37%
5	Equity Nominee Ltd A/c 00111	955,000	0.34%
6	Standard Chartered Nominees A/c. 9098AJ	945,000	0.34%
7	Eng Ephraim Mwangi Maina	913,227	0.33%
8	Craysell Investments Limited	902,820	0.32%
9	The Jubilee Insurance Co. of Kenya Ltd	823,593	0.29%
10	David Mwangi Ndegwa	700,400	0.25%
Total number of Shares		204,987,425	73.21%
AND:- 49220 other shareholders		75,012,575	26.79%
Total		280,000,000	100.00%

B. Distribution Schedule

Shareholding shares held	No. of Shareholders	No. of Shares	% of Shares Held
1 to 500	19,361	6,147,627	2.19
501 - 5,000	28,281	34,721,531	12.40
5,001 - 10,000	779	5,484,427	1.95
10,001 - 100,000	749	18,080,918	6.45
100,001 - 1,000,000	56	15,818,112	5.64
1,000,001 and above	4	199,747,385	71.33
Total:	49,230	280,000,000	100.00

C. Shareholder profile

CATEGORY	Number Of Shareholders	Number Of Shares Held	% of Shares Held
FOREIGN INVESTORS	69	937,300	0.33
LOCAL INDIVIDUAL INVESTORS	48,430	211,951,074	75.69
LOCAL INSTITUTIONAL INVESTORS	722	67,100,636	23.96
EAST AFRICAN INDIVIDUAL INVESTORS	9	10,990	0.00
EAST AFRICAN INSTITUTIONAL INVESTORS	0	0	0
TOTAL	49,230	280,000,000	100

Products and Services

DEPOSITS ACCOUNTS

VISION ACCOUNT is an account for children under the age under the age of 18 years that encourages a saving culture from a tender age. It also enables parents to save for their children's education and future.

The minimum account opening balance is sh.500. Some of the benefits are; No monthly ledger fees, attractive interest paid on all account balances, free debit /ATM card and free bankers cheques for school fees payments

STUDENT ACCOUNT encourages savings by young people in the age group of 18 -25 years. It also provides an account where parents may deposit cash for children studying in learning institutions worldwide.

The minimum opening balance is sh.500, no monthly ledger fee, attractive interest paid on all account balances. This account gives access to HELB loans and SIM-ple banking (Mobile banking service).

TAIFA ACCOUNT offers an affordable, secure and convenient avenue for accumulating savings as well as processing remittances e.g. salaries, pension, agricultural proceeds.

This is easy to open account with a minimum of sh.500, no monthly ledger fee and access to SIM-ple banking.

WAGES ACCOUNT offers an affordable, secure convenient account for salary processing for employees of large companies e.g. security firms, flower farms, factories.

The minimum opening balance is sh.500, low salary processing fees and it has no monthly ledger fees

NATIONAL ACCOUNT has been designed to encourage customers to enhance their savings.

Minimum opening balance is sh.500. The account offers attractive interest and accident insurance covers for balances upto one million.

CURRENT ACCOUNTS offer fast and convenient access to cash at any time. It is suitable for individuals as well as companies.

The minimum opening balance is sh.5000. It is easy and convenient to open, no minimum account balance. The account is available to both personal and business customers.

UCHUZI SME CURRENT ACCOUNT offers fast and convenient access to cash at any time. It is designed to suit the needs of SMEs.

Affordable opening balance of sh.1000, no minimum operating balance, free quarterly statements, access to overdraft facility and SME loan.

PINNACLE ACCOUNT is the ultimate account designed to offer customers special attention and the exclusivity they deserve.

The minimum opening balance is sh.60000, targets both personal and business customers. Account benefits include; free accidents insurance cover upto a maximum of sh.1000000

(as per account balance), free debit/ATM card and free purchase of banker's cheques.

FIXED DEPOSITS offers an avenue to earn interest on long term and short term deposits. It is a convenient and flexible way to save funds. The minimum opening amount is sh.50000, available for flexible periods of 1, 3, 6, 12 months. The account offers attractive interest rates.

NATIONAL AMANAH ACCOUNTS are shariah compliant accounts guided by Islamic law.

They are packaged to meet the banking needs of all including; children, youth, women, salaried and self employed individuals, companies etc. In compliance with the shariah law, no interest paid and no charges are levied.

NATIONAL AMANAH FINANCING FACILITIES The opening balance is Ksh. 5,000, no minimum account balance. In compliance with the shariah law, no interest paid or charged. Service fees are waived for any account with balances above sh. 500,000. National Amanah Financing Facilities are shariah compliant asset facilities guided by Islamic law. This is Halaal financing based on the principles of Murabaha financing and Diminishing Musharaka. The assets financed include houses, plots, vehicles, machinery to name a few..

The opening balance is Ksh. 5,000, no minimum account balance. In compliance with the shariah law, no interest paid or charged. Service fees are waived for any account with balances above sh. 500,000.

SUPER CHAMA ACCOUNT targets chamas that require an avenue to save and manage their funds.

The minimum opening balance is sh.1, 500, no monthly charges, free monthly statements, free standing orders to the super chama account. Customers are eligible to loans secured upto 100% of their deposits, loans of up to minimum sh.50, 000 and maximum sh.10, 000,000.

WELFARE ACCOUNT targets registered groups that require an account to manage their funds. Examples of such groups include; welfare associations, churches, Non-profit organization groups, women groups, youth groups and self help groups.

The minimum opening amount for a current account is sh.10, 000 and for savings account is sh.1000.

USHURU ACCOUNT facilitates fast and convenient payment of KRA taxes. Minimum opening amount is sh. 10,000, free cheque book facility available, access to credit facilities. All payments to KRA from the ushuru account are free of charge. The account offers a fixed monthly ledger fee regardless of the number of transactions effected.

LENDING PRODUCTS

ASSET FINANCING empowers customers in the acquisition of assets e.g motor vehicles, tractors and machinery.

It offers financing of up to 80% of the asset value, available to salaried, self employed individuals and corporate companies, flexible repayment period of up to 48 months.

MORTGAGE FACILITIES available for the purchase of residential and commercial properties.

The bank can finance upto 90% of market value of property, if property is residential and upto 80% of market value of the property, if the property is

Products and Services (continued)

commercial. Financing is available to companies, Real Estate developers, salaried and self employed individuals. We offer flexible repayment periods and affordable interest rates.

NBK EQUITY RELEASE is aimed at assisting property owners to obtain cash from the value of their residential or commercial property.

The bank can finance upto 90% of market value of property, if property is residential and upto 80% of market value of the property, if property is commercial. The maximum repayment period for residential properties is between 5-20 years while the maximum repayment period for commercial properties is 10 years.

OVERDRAFT FACILITIES help customers to meet working capital funding needs. Interest is only charged on the utilized debit balance.

SCHOOL OVERDRAFT assists schools handle their overhead costs especially towards the end of the term. Amount advanced at minimum sh.10000 maximum sh.1,000,000, competitive interest rates, repayment period three (3) monthly installments (beginning of school term).

NBK STUDY LOAN is aimed at providing financial solutions for those investing in education at all levels of learning. Maximum loan is sh.500,000; repayment period is maximum 60 months depending on the duration of the degree.

SALARY ADVANCE FACILITIES is available for individuals whose salaries are channeled through their accounts with NBK.

Amount of the advance is up to a maximum of 50% net salary (minimum sh.2000-maximum sh.100,000), repayment period is upto one month and we offer competitive interest rates.

SME LOAN PRODUCTS

INUA BIASHARA SME LOAN is a facility to assist business people to develop their business.

The facility offers flexible collateral requirements. Customers can get loans of up to sh.60,000,000 and can also access overdraft facility. We offer competitive interest rates and a repayment period of up to 4 years.

LPO FINANCING is a facility to assist business people to service their LPOs.

It avails financing of up to 80% of the amount specified on the LPO, competitive interest rates, repayment period of maximum 3 months.

LOAN TO TEA FARMERS is a facility for tea farmers who deliver their tea produce to both KTDA and private factories and who are receiving their tea proceeds in their accounts with NBK.

Customers can borrow a minimum sh.10,000 and a maximum of sh.500,000, repayment period between 12-24 months.

LOAN TO SUGAR CANE FARMERS is a loan facility for the sugarcane farmers who are receiving their sugarcane proceeds in their account with National Bank.

Customers can borrow a minimum sh.10,000 and a maximum of sh.500,000, repayment period between 1-6months on a one-off payment.

SUPER CHAMA LOAN is a loan facility to enable welfare group achieve their investment plan.

Customers are eligible to loans secured up to 100% of their deposits, free standing orders to the Chama account. Customers can apply for loans of up to minimum sh.50,000 and maximum sh.10,000,000.

STIMA LOAN is a facility to assist individuals and businesses install power from KPLC in their commercial or residential premises.

Maximum repayment period is 12 months and eligible loans range from sh.35,000-sh.100,000 we offer competitive interest rates.

CONSTRUCTION LOAN this is a facility that enables individual or corporate clients to complete building projects already under the mortgage facility.

PREMIUM BANKING BUSINESS CLUB is a club mainly for business people and operating various NBK accounts. The membership fee is sh.2,500 and a monthly subscription of sh.1,000 members enjoy the following benefits; Business tours both locally and international to expand on business opportunities and gain insights on diverse business practices and operations, seminars to enable businessmen/women to build business networks and develop new business ideas, and access to concessionary loans & overdrafts.

E-BANKING SERVICES

INTERNET BANKING allows customers to conduct financial transactions on a secure website operated by the Bank. This service is available for our personal and business customers. We offer a wide range of online services. These include; online viewing of recent transactions, funds transfers between a customer's own accounts, funds transfer to third parties, paying bills.

SIMPLE BANKING is a service that allows customers to perform the following via mobile phone: account information enquiry, balance enquiry, mini-statement enquiry, transfer of funds between accounts, transfer of funds from NBK account to M pesa and vice versa, funds transfer to third party accounts within NBK, airtime purchase.

MONEY GRAM is an international money transfer where a customer is able to transfer money fast and conveniently to friends and family and add a personal message for every transaction made.

M-PESA is a mobile -phone based money transfer service. Through M pesa a customer can receive /send money from mobile phone from/to other mobile users, withdraw or deposit cash from/to the mobile phone, transfer money from bank account to M pesa account, transfer money from M pesa account to bank account, purchase e-float from the bank if offering M pesa agency services.

WESTERN UNION is a money transfer service that enables customers to send and receive money locally and internationally, pay bills online in person or by phone.

Products and Services (continued)

OTHER SERVICES

TRADE FINANCE

Letters of credit
Bills Discounting
Collections
Performance Bids
Guarantees and Bonds
Swift transfers
Demand drafts
CREDIT CARDS
Local VISA
International VISA

PAYMENT SERVICES

Remittance services (Inwards/Outwards) through SWIFT
Interbank funds transfers through RTGS
Payroll processing & distribution
Payment collection & reconciliation
Tax collections/transmission

CUSTODIAL SERVICES

CDS account opening
Purchase of shares and stocks
Escrow custody
Immobilization & deposit of securities
Asset trading & settlements
Safety deposits of valuables
Follow up on corporate actions (e.g. dividends, bonuses, splits, mergers)
Core custody (custodial services to retirement benefit schemes)
Proxy voting

BANCASSURANCE

Placing insurance covers on behalf of our clients
Processing claims on behalf of our clients in case of an occurrence
Facilitating of insurance premium finance for our clients
Educating our clients on various insurance products

TREASURY SERVICES

Purchasing and sale of foreign currency bank notes
Buying and selling of foreign currency SWIFT transfers
Foreign currency fixed deposits
Investment in Government securities (Treasury bills and Bonds)

SHARE REGISTRY SERVICES.

Maintenance of share registers
Initial Public Offer (IPOs)
Dividend payments
Rights Issue
AGM Management

Branches

HEAD OFFICE

National Bank Building, Harambee Ave, City Centre
Box 72866 00200, Nairobi. Email: info@nationalbank.co.ke
Tel: 020 2828000. Fax: 020 2223044, 311444

CARD CENTRE

Box 72866 00200, Nairobi. Email: cardcentre@nationalbank.co.ke
Tel: 020 2226471, 334690 Cell: 0720 752682. Fax: 020 2213987

NAIROBI BRANCHES

African Cargo Handling Ltd

(ACHL)-JKIA
Box 19230 00501, Nairobi
Email: jkia@nationalbank.co.ke
Tel: 020827216
Fax: 020 827216

Eastleigh

Box 16131 00610, Nairobi
Email: eastleigh@nationalbank.co.ke
Tel: 0206768133/4
Cell: 0719 445156
Fax: 020 6768132

Harambee Avenue.

Box 41862 00100
Email: harambee@nationalbank.co.ke
Tel: 020 2828000
Cell: 0711038000
Fax: 020 2248487

Hill Plaza

Box 45219 00100, Nairobi
Email: hill@nationalbank.co.ke
Tel: 020 2720151/2
Tel: 020 2722332, 2722211
Cell: 0722 201370, 0722201380
Fax: 020 2725512

Hospital

Box 30763 00100
Email: hospital@nationalbank.co.ke
Tel: 020 2719123/4
Tel: 020 2724608, 2724815
Cell: 0726 610097

Inland Container depot

Box 41862 00100, Nairobi
Email: icdagency@nationalbank.co.ke
Tel: 020 2828000
Cell: 0711 038000
Fax: 020 826035

JKIA

Box 19230 00501, Nairobi
Email: jkia@nationalbank.co.ke
Tel: 020 827286
Cell: 0710 223623
Fax: 020 827254

Kenyatta Avenue

Box 30645 00100, Nairobi
Email: kenyatta@nationalbank.co.ke
Tel: 020 340880, 340887
Cell: 0722 205253/4
Cell: 0733 618663
Fax: 020 2230294

Sameer Business Park

Box 78272 00507, Nairobi
Email: sameer@nationalbank.co.ke
Tel: 020 2570175

Times Tower

Box: 56330 00200, Nairobi
Email: timestower@nationalbank.co.ke
Tel: 020 2828000, 020 2213087
Cell: 0711 038000
Fax: 020 2213084

Upper Hill (TSC Building)

Box: 59396 00200, Nairobi
Email: upperhill@nationalbank.co.ke
Tel: 020 2077356
Fax: 020 2077362

Westlands

Box: 1613 00606, Nairobi
Email: westlands@nationalbank.co.ke
Tel: 020 2077373, 3442984
Cell: 0704 832675, 0788 481835
Fax: 020 3743023

Wilson Airport

Box 956 00517, Nairobi
Email: wilson@nationalbank.co.ke
Tel: 020 6007383/4, 213 0128/9
Fax: 020 6001065

OTHER BRANCHES

Awendo

Box: 200 40405, Sare-Awendo
Email: awendo@nationalbank.co.ke
Tel: 020 8029205, 23510009, 2336270
Cell: 0725 118548, 0737 339603
Fax: 020 2336319

Bomet

Box: 539 20400, Bomet
Email: bomet@nationalbank.co.ke
Tel: 020 2595444/5

Bungoma

Box 25 50200, Bungoma
Email: bungoma@nationalbank.co.ke
Tel: 055 30621/5/4/3/2
Cell: 0789 493284, 0789 952 942,
Tel: 0727684221, 0736 129373, 0786 952941
Fax: 055 30498

Busia

Box 264 50400, Busia
Email: busia@nationalbank.co.ke
Tel: 055 22111, 22173, 020 3588258
Tel: 057 2505665, 020 3588258, 057 2505298
Fax: 055 22368

Changamwe

Box 92958 80102, Changamwe
Email: changamwe@nationalbank.co.ke
Tel: 020 2585561/2
Cell: 0711807956, 0737 854176

Eldoret

Box 3111 30100, Eldoret
Email: eldoret@nationalbank.co.ke
Tel: 053 2062545/6/7
Cell: 0734 575590, 0713 790791
Fax: 053 2032387

Branches (continued)

Eldoret International Airport

Box 3111 30100, Eldoret
Email: eldoretairport@nationalbank.co.ke
Tel: 020 2418947, 0532032442
Fax: 020 2032442

Embu

Box 2290 60100, Embu
Email: embu@nationalbank.co.ke
Tel: 068 31788, 31801/2/3
Cell: 0720 151990
Fax: 068 31785

Garissa

Box 1648 70100, Garissa
Email: garissa@nationalbank.co.ke
Tel: 020 2585563
Cell: 0718 792029, 0736 747651
Fax: 020 2585564

Kakamega

Box 1773 50100, Kakamega
Email: kakamega@nationalbank.co.ke
Tel: 057 250 4004/5/6/057 3140/7
Cell: 0731 056655, 0700 682159/0732 113100
Fax: 056 31417

Kapsabet

Box 34 30300, Kapsabet
Email: kapsabet@nationalbank.co.ke
Tel: 053 52125, 52159, 020 2336672, 057 52112
Cell: 0727 553680, 0737 400451
Fax: 053 52284

Karatina

Box 1490 10101, Karatina
Email: karatina@nationalbank.co.ke
Tel: 061 72875/6, 72792, 020 2130115
Cell: 0725 828364, 0734 691763
Fax: 061 72886

Kenyatta University

Box 1688 00232, Ruiru
Email: kenyattauniversity@nationalbank.co.ke
Tel: 020 2150188
Cell: 0739 257 614, 0705 551028
Fax: 020 8710632

Kiambu

Box 2090 00900, Kiambu
Email: kiambu@nationalbank.co.ke
Tel: 2471333, 2471322
Cell: 0700 753749, 0734 340168
Fax: 066 2022000

Kianjai

Box 261 60602, Kianjai
Email: kianjai@nationalbank.co.ke
Tel: 020 3588249, 2445563
Cell: 0736 634189, 0705 652539
Fax: 057 2514137

Kisii

Box 2435 40200, Kisii
Email: kisii@nationalbank.co.ke
Tel: 058 31920, 31930
Cell: 0737 444798
Fax: 058 30302

Kisumu

Box 1152 40100, Kisumu
Email: kisumu@nationalbank.co.ke
Tel: 057 2024389/90/91/92/95
Cell: 0713 777290, 0733 338150
Fax: 057 2025031

Kitale

Box 1192 30200, Kitale
Email: kitale@nationalbank.co.ke
Tel: 054 30827/8/9, 020 2140837
Cell: 0789 195167, 0706 239274
Fax: 054 30832

Kitengela

Box 55 00242, Kitengela
Email: kitengela@nationalbank.co.ke
Tel: 28287300
Cell: 0707 813999, 0786 361113
Fax: 020 2150231

Kitui

Box 166 90200, Kitui
Email: kitui@nationalbank.co.ke
Tel: 020 3588265, 044 4422035/ 4422443
Cell: 0736 684700
Fax: 044 4422916

Limuru

Box 240 00217, Limuru
Email: limuru@nationalbank.co.ke
Tel: 020 8044453/4
Cell: 0715 101424, 0737 524227
Fax: 020 3588247

Machakos

Box 274 90100, Machakos
Email: machakos@nationalbank.co.ke
Tel: 044 20142, 21566, 020 2150190
Fax: 044 21909

Malindi

Box 2016 80200, Malindi
Email: malindi@nationalbank.co.ke
Tel: 042 2121210/2/4, 020 2643816
Fax: 042 2131940

Maua

Box 559 60600, Maua
Email: maua@nationalbank.co.ke
Tel: 064 21521/2/ 020 8005818/020 2674984
Cell: 0704 080416, 0788 608501
Fax: 064 215223
Email: meru@nationalbank.co.ke

Meru

Box 1774 60200, Meru
Tel: 064 32031, 32558, 32202
Cell: 0715 006311, 0738 525456
Fax: 064 30541

Migori

Box 1071 40400, Suna
Email: migori@nationalbank.co.ke
Tel: 059 20670
Cell: 0705 297043, 0735 313492
Fax: 020 2077376

Branches (continued)

Moi International Airport

Box 94637 80115, Portway
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Tel: 051 802848, 051 8002848, 020 220140
Cell: 0711 807956
Fax: 020 2354402

Moi University

Box 22 301107, Moi University
Email: moiuniversity@nationalbank.co.ke
Tel: 053 43082
Fax: 053 043016

Moi's Bridge

Box 128 30202, Moi's Bridge
Email: moisbridge@nationalbank.co.ke
Tel: 020 2445564, 2121233
Cell: 0729 681327, 0735 244519
Fax: 020 2445566

Molo

Box 68 20106, Molo
Email: molo@nationalbank.co.ke
Tel: 020 2314010/12
Tel: 020 2317172/3, 020 2130118
Cell: 0726 610095, 0734 272271
Fax: 020 2314027/ 032

Technical University of Mombasa

Box 578 80100, Mombasa
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Mtwapa

Box 1059 80109, Mtwapa
Email: Mtwapa@nationalbank.co.ke
Cell: 0708 814416, 0788 723288
Fax: 020 2150177

Mutomo

Box 177 90201, Mutomo
Email: mutomo@nationalbank.co.ke
Tel: 020 8009688, 2445560
Fax: 020 2445565

Nakuru

Box 1013- 20100, Nakuru
Email: Nakuru@nationalbank.co.ke
Tel: 051 2211795/6/7
Fax: 051 2211478

Nandi Hills

Box 264 30301, Nandi Hills
Email: nandihills@nationalbank.co.ke
Tel: 053 643066, 643170, 643010, 020 2077386, 020 2077363
Fax: 053 643200

Narok

Box 348 20500, Narok
Email: narok@nationalbank.co.ke
Tel: 020 2137208, 2130144, 2137215, 050 22088, 050 22181
Fax: 050 22442

Nkurumah

Box 90363 80100, Mombasa
Email: nkrumah@nationalbank.co.ke
Tel: 041 2225383, 2315107, 2311736, 2311150
Cell: 0716 777317, 0736 777317
Fax: 041 2313828

Nyeri

Box 1629 10100, Nyeri
Email: nyeri@nationalbank.co.ke
Tel: 061 2030734, 2030824
Cell: 0737 115248/6
Fax: 061 2034391

Ongata Rongai

Box 590 00511, Ongata Rongai
Email: ongatarongai@nationalbank.co.ke
Tel: 020 2528359/60
Fax: 020 2528361

Port Kilindini

Box 87770 80100, Mombasa
Email: portagency@nationalbank.co.ke
Tel: 020 2335743, 222099
Fax: 041 2354402

Portway House

Box 87770 80100, Mombasa
Email: portway@nationalbank.co.ke
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Cell: 0722 205351/2, 0733 600933/4
Fax: 041 2229806

Ruiru

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Email: ruiru@nationalbank.co.ke
Tel: 067 5854226, 5855010
Cell: 0726 610096
Fax: 067 5855105

St. Paul's University

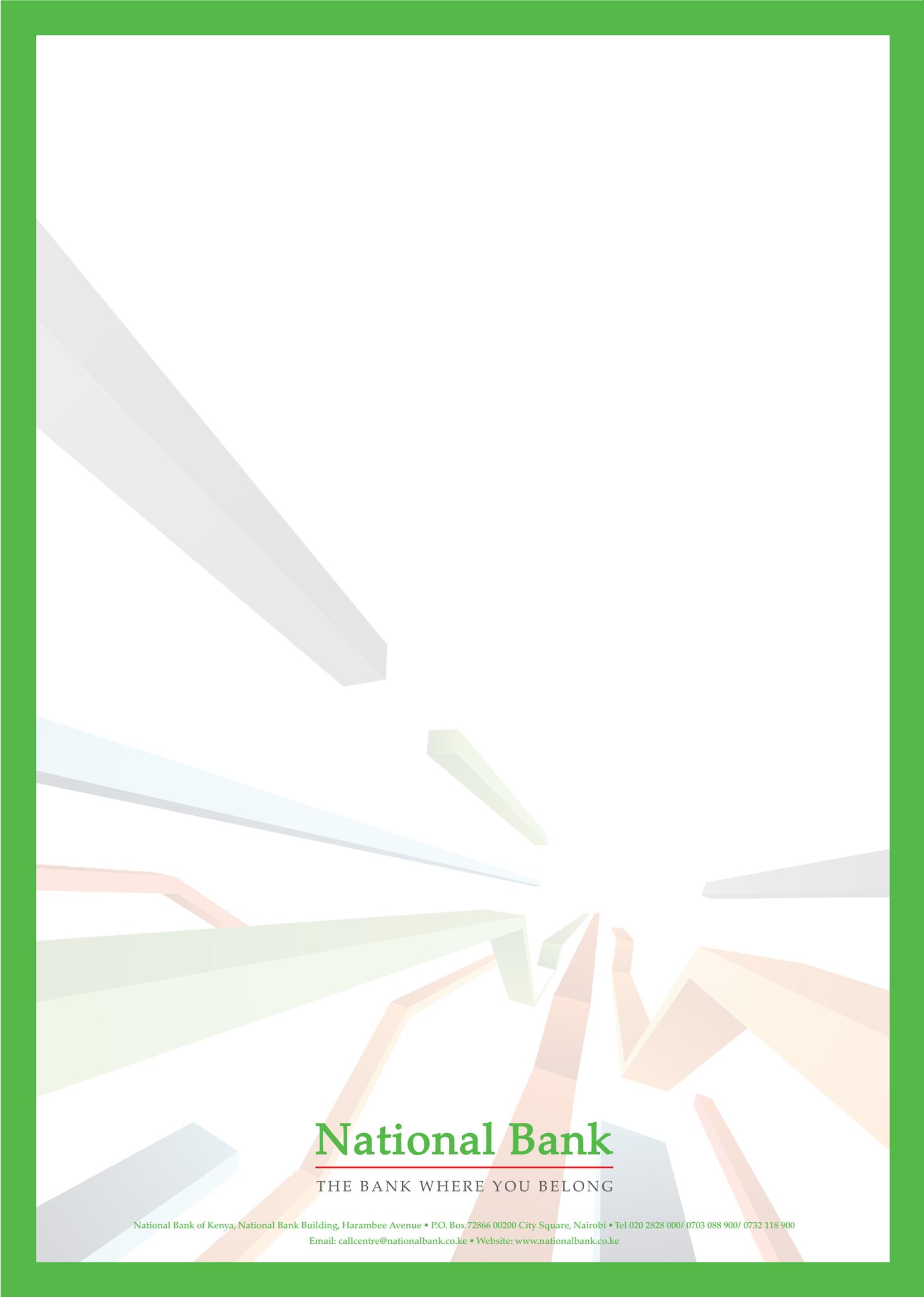
Box 1080 00217, Limuru
Email: stpaulsuniversity@nationalbank.co.ke
Tel: 020 8044494
Cell: 0704 073974

Thika

Box 2757 01000, Thika
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Tel: 020 2585565
Cell: 0722 286089, 0737 492221

Ukunda

Box 457 80400, Ukunda
Email: ukunda@nationalbank.co.ke
Tel: 020 2111703
Cell: 0702 495400
Fax: 040 3202315



National Bank

THE BANK WHERE YOU BELONG

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