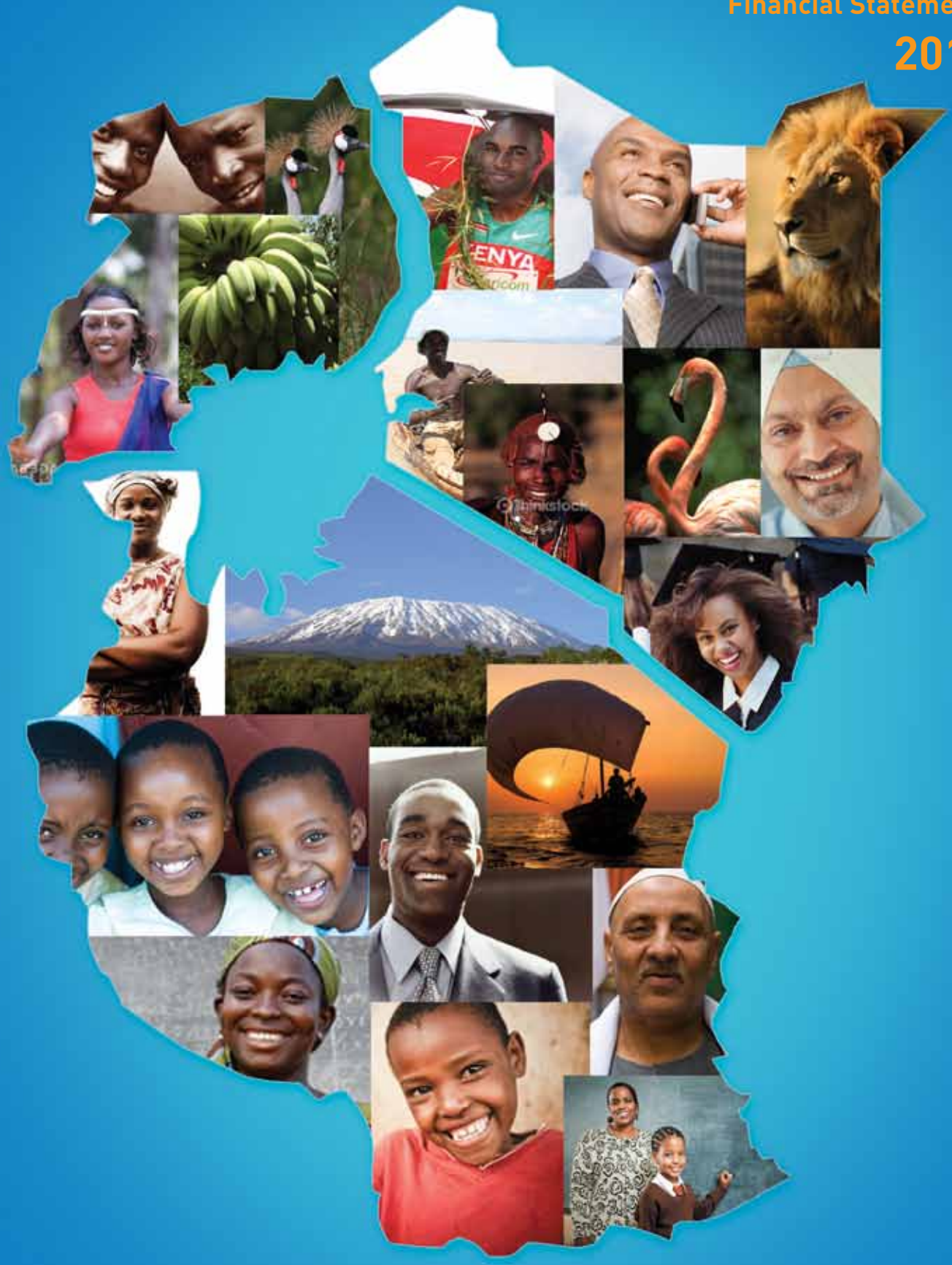
NIC BANK LIMITED
Annual Report and Financial Statements
2011



one life NIC BANK one bank

Finally, a bank that gives you just what you want.

Everything.

PERSONAL

- Personal Current Accounts
- Personal Savings Accounts
- Credit Cards
- Foreign Currency Accounts

BUSINESS & CORPORATE

- Loans and Overdrafts
- Bank Guarantees
- Letter of Credit
- Forex Deals
- Asset Finance
- Investment Banking
- Trade Finance

- Bancassurance
- Insurance Premium Financing
- Stock Brokerage Services

OUR VALUES

Integrity
Being honest and having strong moral principles

Professionalism
Showing confidence and skill

Responsiveness
Turnaround time is key - exceed expectations

Passion
Showing boundless enthusiasm for what we do

Innovation
Coming up with fresh new ways of doing things

OUR MISSION

To be the leading financial services provider to our target market; we are committed to the highest standards of service and to exceeding our stakeholders' expectations.

OUR VISION

To establish long term, profitable customer relationships through the provision of a complete range of banking and financial services.

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WHO WE ARE

NIC Bank Ltd (formerly National Industrial Credit Bank Limited) was incorporated in Kenya on 29th September 1959 as a joint venture between Mercantile Credit Limited and Standard Bank. It was among the first non-bank financial institutions formed to provide hire purchase and installment credit finance facilities in Kenya.

NIC Bank went public by listing on the Nairobi Securities Exchange (NSE) in 1971. Barclays Bank (K) Limited (BBK) acquired 51% of NIC Bank's total shares through the acquisition of Mercantile Credit Limited in the 1970's and thereafter Standard Bank's shareholding in the 1980's. Between 1993 and 1996, BBK divested all of its shares in NIC Bank by selling them to the public through the NSE. In order to effectively diversify into mainstream commercial banking, NIC Bank merged with African Mercantile Bank Limited (AMBank) in November 1997, through a share swap.

In 2003, NIC launched "MOVE", a retail banking proposition that changed the banking scene in Kenya by offering the first "flat fee" current account in the market. In 2007, NIC Bank repositioned itself as a 'One Stop Shop' financial services supermarket. Diversification, both by geography and business lines, remains one of the pillars of NIC Bank Group's strategy, with the overall objective of achieving significant and sustainable earnings in each business line. The product range currently on offer includes the following;

PERSONAL BANKING

- **Move Current Account**

  This is a current account for both salaried and self employed individuals. With a choice of either paying a flat fee per month or paying-as-you-go, this account gives easy and quick access to customer's money whilst also giving access to modern banking channels of NIC Mobile and NIC Online.

- **Gold Account**

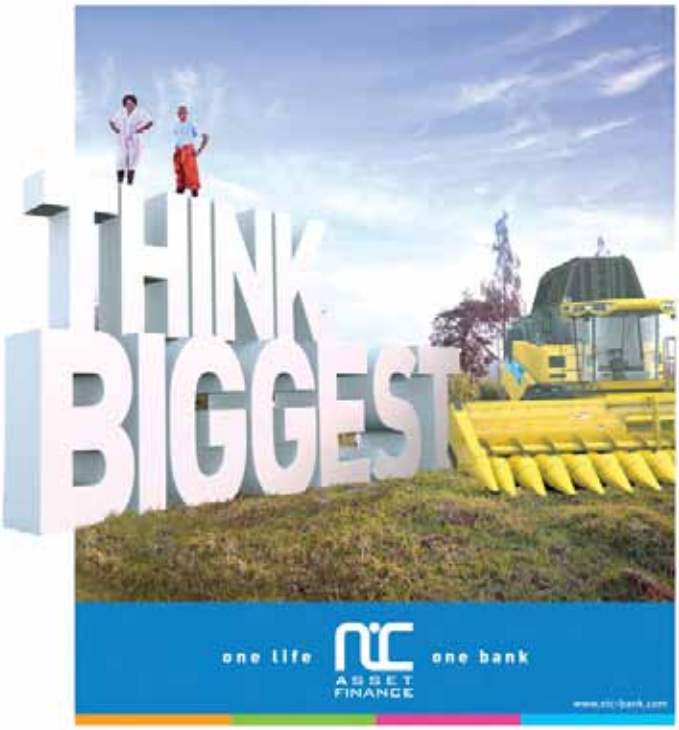
  This is a superior banking proposition that takes into consideration the lifestyles of professional and business people with busy lifestyles and endeavors to make banking more convenient by offering a Gold Pack during the on-boarding process, a Gold Visa Card, access to a Relationship Officer and exclusive service at Gold Corners at selected branches in Nairobi and Mombasa.

- **Platinum Account**

  This account offers a premium proposition for the high end market that offers exclusive VIP banking with a host of benefits including access to a Relationship Manager, a personalized Welcome Pack, preferential rates on mortgages and other bank loans and negotiated rates for cash deposits and Forex transactions.

- **Credit Cards**

  NIC Retail Banking offers renowned service with the Freedom Credit Card and the Gold Credit Card though it's



Card Centre. These cards offer the possibility of transacting with convenience and the security of being cash free. The Credit Cards also have an added value feature of SMS notifications for transactions done that enhance the security features of the product and ensure customers are aware of authorized transactions.

- **NIC Saver Account**

  NIC Bank offers a wide variety of savings accounts to suit individual tastes and convenience. These include the NIC Saver Account, which is targeted at the general customers with a keen interest on saving their money.

- **NIC High Yield Deposit Account**

  This account offers big rewards in terms of interest rates for big savers. The account offers tiered interest rates that are paid half yearly and also offers cash secured loans against deposits.

- **Young Movers Savings Account**

  This is a children's account specifically tailored to encourage saving on a regular basis and are opened by parents and guardians.

BUSINESS BANKING

- **NIC Entrepreneur**

  This is a contemporary business service from NIC that provides customized business solutions for clients' individual business needs. There is a wide range of banking products to suit clients' businesses, regardless of the industries in which they operate. The NIC Entrepreneur solution is designed to

give clients a central point of reference to ensure that all their needs ranging from transactional, cash flow management, insurance, asset finance and investments, are addressed.

Included in the proposition is the NIC Entrepreneur Club which brings together business people across industries through Entrepreneur Workshops that aim at providing a networking opportunity while providing clients with business skills that build their capacity to grow as a business.

CORPORATE BANKING

- **Corporate Overdrafts**

  This product caters for the financing of customer's working capital cycle taking into account the lead times in procurement of stocks, the manufacturing process and any terms of supplier credit including credit extended to customers.

- **Term Loans**

  Due to the long term nature of capital expenditure for companies, financing is required for a matching term. Revenue from projects and equipment on term funding is usually generated after completion; hence the need to match repayments to the customer's future cash flow. NIC Bank will finance clients in such cases.

- **Trade Finance**

  NIC provides the advice and services that importers and exporters need to achieve their international business objectives. The Bank offers an extensive range of trade related products including:

  - Documentary Credits
  - Bills for Collection
  - Open Accounts
  - Advance Payments
  - Guarantees and Indemnities
  - Letters of Credit

- **Bond and Guarantees**

  This product caters for the customer whose business requires tendering for contracts which warrant support from reputable banks in the form of bid and performance guarantees.

- **Letters of Credit**

  This product caters for the customer whose business requires sourcing of raw materials or finished goods from external markets and requires the Bank's support in establishing a facility that will allow flexible terms.

INSTITUTIONAL BANKING

NIC's Institutional Banking targets non-borrowing corporate organizations and not-for-profit institutions including local and international Non-Governmental organizations, donor-funded Government parastatals, donor-funded Government ministries, diplomatic missions and their affiliate donor/aid entities, faith-based organizations and local and multinational corporate organizations.

ASSET FINANCE

We offer asset financing for movable assets as well as leasing services for equipment and vehicles. Financing is available to customers and non customers.

INSURANCE PREMIUM FINANCING (IPF)

We offer Insurance Premium Financing by paying insurance in lump-sum for our clients and then the clients pay to us in installments over time.

CUSTODIAL SERVICES

Services offered include storing and safekeeping of client securities (assets) which include cash, title documents and deeds for pension schemes, with maintenance of accurate records of ownership. We also collect dividends, interests and any other entitlements due to a scheme (scheme management). We are regulated by the Retirement Benefits Authority (RBA) and Capital Markets Authority (CMA).

TREASURY SERVICES

- **Cash Transactions or Bureau De Change**

  Bureau De Change transactions are over the counter transactions for purchase and sale of foreign currency. We accept over-the-counter cash for United States Dollars (USD),

Great Britain Pounds (GBP), Euros (EUR) and South African Rands (ZAR).

Other products on offer under include;

- Spot Foreign Exchange Operations
- Inward foreign remittances
- Outward foreign remittances
- Foreign Demand Drafts
- FX Accounts
- FX Deposits
- Forward Exchange Contract

INVESTMENT BANKING THROUGH NIC CAPITAL

NIC Capital is a subsidiary of NIC Bank and has its origins in 2006 when the directors resolved to establish an investment bank that would support the ever growing advisory and financing needs of Kenyan corporates. NIC Capital, through its debt and equity platforms, has the capability to advise companies on optimal capital raising alternatives with key considerations being the current market sentiments as well as the client's short and long term objectives. Furthermore, the Investment Bank is uniquely qualified and remains firmly committed to assist Kenyan corporates in performing mergers & acquisitions, de-mergers, sale of stake, capital structure advisory as well as in pursuing any capital raising initiatives – both in the private and public realms of debt and equity instruments.

STOCK BROKERAGE THROUGH NIC SECURITIES

NIC Securities Limited is a Capital Markets Authority licensed brokerage and a member of the Nairobi Securities Exchange. It is a limited liability company registered in Kenya under the Companies Act (Cap 486) of the laws of Kenya. NIC Securities looks to provide investors with a secure platform from which to participate in a diversified array of investments in the equity and bond markets, backed by solid advice from the research and advisory teams, to enable clients meet their return objectives.

BANCASSURANCE THROUGH NIC INSURANCE AGENTS

We offer insurance for all through our insurance brokerage function available at all outlets and branches. Products on offer include Health Insurance i.e inpatient and outpatient medical covers; Business Risks Insurance which covers property damage, Group Personal Accident covers; Travel Insurance which covers medical expenses, loss of luggage, emergency evacuation for travelers; Home Insurance for household property including personal effects and Motor Vehicle Insurance for both private and commercial vehicles.

VALUE ADDED SERVICES

- **Online Banking**

  Customers have access to the NIC Online Banking service from anywhere in the world as long as they can access the internet. The following are some features that clients enjoy once they have signed up on NIC Online:

  - Checking account statements and balances;
  - Making Funds Transfers – EFTs both within NIC and to other banks;
  - Request Bankers Cheques;
  - File uploads - ePay specific for salary & Supplier payment processing;
  - Analysis - conduct a 'what if' analysis for loans and investment options; and
  - M-Pesa functionality – Customers can make transfers to an M-Pesa account directly from their account.

- **Mobile Banking**

  NIC Mobile Banking is a USSD based delivery channel which gives customers access to their bank account at their convenience. It has a robust functionality that allows clients to check account balances, enquire on Forex rates, top-up airtime and make cash transfers including to and from their M-Pesa account at their convenience.

- **M-Pesa Connectivity**

  NIC Bank has seamlessly integrated Safaricom's mobile money transfer service, M-Pesa, with its various service delivery channels making it more convenient for you to access your funds through NIC ATMs, Online Banking or Mobile Banking.

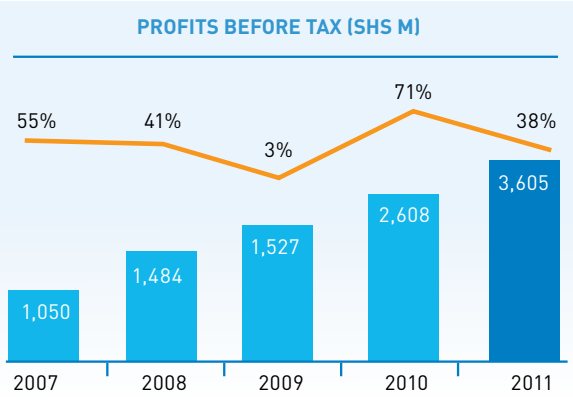
FIVE YEAR FINANCIAL REVIEW

	2007 Shs`000	2008 Shs`000	2009 Shs`000	2010 Shs`000	2011 Shs`000
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Assets					
Government securities	2,411,997	3,974,918	4,332,080	5,074,031	7,500,288
Loans and advances to customers	22,209,186	29,954,948	32,511,082	40,754,979	56,624,621
Property and equipment	506,813	673,997	798,255	750,530	967,988
Others	6,153,022	8,015,256	9,916,824	12,434,382	13,891,108
Total assets	**31,281,018**	**42,619,119**	**47,558,241**	**59,013,922**	**78,984,005**
Liabilities					
Customer Deposits	24,805,595	35,238,381	39,514,275	48,492,224	66,293,053
Line of credit	650,100	663,275	465,202	303,284	190,280
Other liabilities	1,087,590	1,151,713	786,510	1,865,185	1,977,719
Total liabilities	**26,543,285**	**37,053,369**	**40,765,987**	**50,660,693**	**68,461,052**
Total equity	**4,737,733**	**5,565,750**	**6,792,254**	**8,353,229**	**10,522,953**
Total liabilities and equity	**31,281,018**	**42,619,119**	**47,558,241**	**59,013,922**	**78,984,005**
CONSOLIDATED INCOME STATEMENT					
Interest income	2,799,924	3,747,301	4,425,440	4,757,544	6,456,142
Interest expense	1,159,829	1,732,079	2,011,376	1,543,893	2,552,092
Net interest income	**1,640,095**	**2,015,222**	**2,414,064**	**3,213,651**	**3,904,050**
Non-interest income	736,294	1,149,231	1,427,014	1,999,829	2,698,684
Operating income	**2,376,389**	**3,164,453**	**3,841,078**	**5,213,480**	**6,602,734**
Operating expenses	1,226,415	1,485,728	1,850,801	2,288,448	2,739,635
Impairment on loans and advances	100,067	194,551	463,484	316,640	258,151
Operating expenses	**1,326,482**	**1,680,279**	**2,314,285**	**2,605,088**	**2,997,786**
Profit before Tax	**1,049,907**	**1,484,174**	**1,526,793**	**2,608,392**	**3,604,948**
Income tax expense	304,220	446,493	441,075	744,474	897,811
Profit for the year	**745,687**	**1,037,681**	**1,085,718**	**1,863,918**	**2,707,137**
Less profit attributable to non-controlling interests	**-**	**1,918**	**6,601**	**46,686**	**54,679**
Profit attributable to equity holders of the Bank	**745,687**	**1,037,681**	**1,085,718**	**1,817,232**	**2,652,458**
Earnings Per Share (Shs)	1.89	2.63	2.75	4.60	6.72
Dividend Per Share (Shs)	0.80	0.50	0.50	0.50	0.50
OTHER DISCLOSURES					
Non-performing loans and advances					
a) Non-performing loans and advances	967,724	1,031,988	1,548,270	1,570,797	1,961,277
b) Allowance for impairment	479,884	621,360	1,134,091	1,420,444	1,690,526
c) Net non-performing loans and advances (a-b)	**487,840**	**410,628**	**414,179**	**150,353**	**270,751**
Number of Employees	**290**	**375**	**484**	**514**	**596**
Number of Branches	**10**	**12**	**15**	**16**	**23**
KEY PERFORMANCE INDICATORS					
Return on equity (ROE)	22.16%	26.67%	22.48%	31.23%	34.26%
Non-interest income to operating income	30.98%	36.32%	37.15%	38.36%	40.87%
Non-performing loans to total loans	2.20%	1.37%	1.31%	0.43%	0.48%
Return on total assets	3.36%	3.48%	3.21%	4.42%	4.56%

FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE

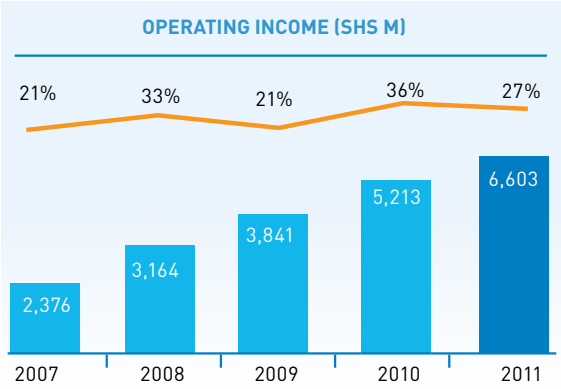
Profit Before Tax (PBT)

- PBT grew by 38% to Shs 3,605m, driven mainly by growth in lending and non-funded income.
- Most of the Group's subsidiaries contributed positively to the growth in pre-tax profits. One of the pillars of the Group's strategy is the diversification of its revenue sources.



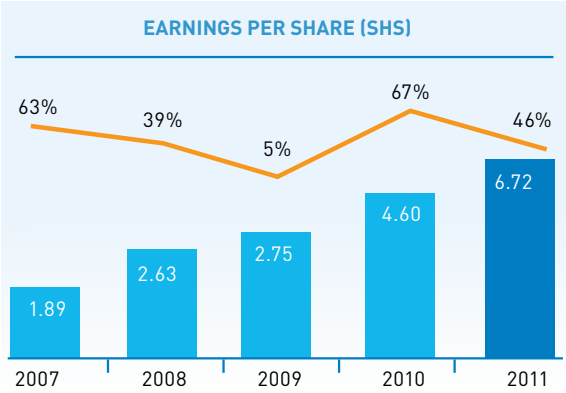
Operating Income

- Operating Income increased by Shs 1,390m or 27% to Shs 6,603m in 2011, following growth of 36% in 2010 and 21% in 2009.
- Repeated high growth reflects consistent execution of our strategy and diversification of our revenue streams.



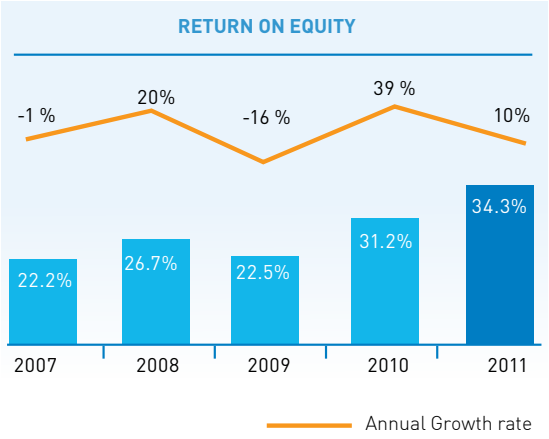
Earnings Per Share (EPS) Growth

- EPS grew 46% to Shs 6.72 in 2011. Net income attributable to common shareholders increased by Shs 835m to Shs 2,652m, while the average number of common shares outstanding increased modestly.
- EPS growth was driven by strong growth in revenues while maintaining a tight lid on expenses, and lower provisions for credit losses.



Return on Equity (ROE)

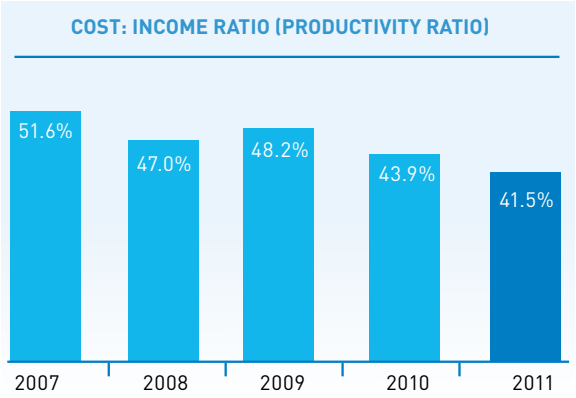
- ROE improved from 31.2% to 34.3% in 2011, primarily due to an increase of Shs 835m in earnings available to common shareholders, while we continued to enhance our strong capital position.
- ROE was 34.3% in a difficult year, reflecting the Group's relative strength and stability, as the industry felt the effects of the difficult operating environment.



FINANCIAL PERFORMANCE AND CONDITION AT A GLANCE (Continued)

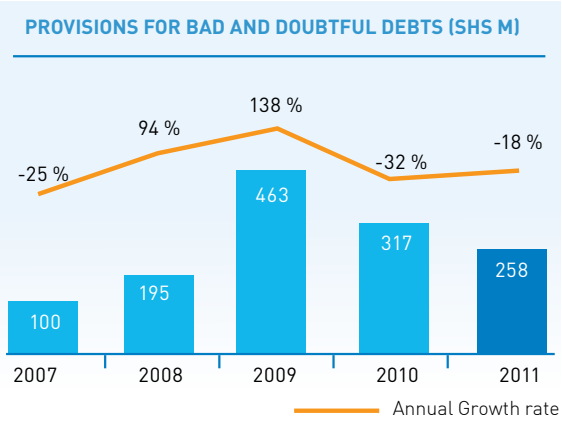
Cost: Income Ratio (Productivity Ratio)

- The cost: income ratio was 41.5% in 2011 and improved by 2.4% from 2010.
- The improvement was due to strong revenue growth combined with effective expense management.
- The Group's cost: income ratio is one of the lowest in the industry.



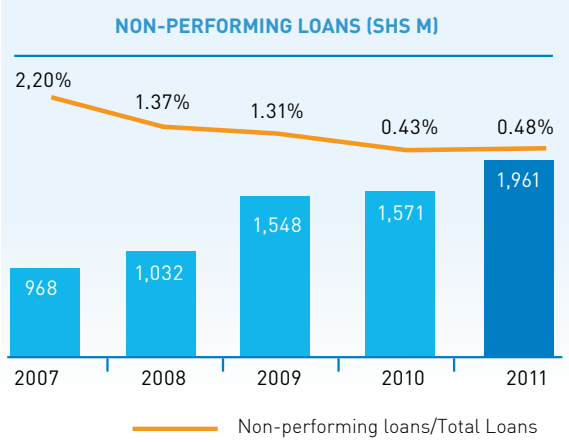
Impairment on loans and advances

- Impairment on loans and advances declined by 18% from Shs 317m in 2010 to Shs 258m in 2011 despite the growth in the loan book by Shs 15.9b or 39%. This follows a reduction of 32% between 2009 and 2010.
- Impairment on loans and advances as a percentage of average net loans and advances fell to 53 basis points from 86 basis points a year ago, and is currently one of the lowest in the banking industry.



Non-performing loans

- Total non-performing loans have increased slightly due to the deterioration in the economic environment.
- Ratio of non-performing loans to total loans has been reducing consistently and remains one of the lowest in the industry.



CHAIRMAN'S STATEMENT

It gives me great pleasure to present the NIC Bank Group Annual Report and Financial Statements for the year ended 31 December 2011.

ECONOMY AND BUSINESS ENVIRONMENT IN 2011

The resilience of the Kenyan economy was extensively tested in 2011 in the face of various global and domestic political, economic and social challenges. However, despite these challenges the economy is estimated to have grown by a respectable 4.3% which though lower than the 5.6% growth rate that was recorded in 2010, in the circumstances, is commendable.

Having started the year on a sound footing, following the strong momentum generated in 2010, the Kenyan economy faced significant and unanticipated turbulence. The events in the Middle East and North Africa challenging long established regimes were accompanied by social unrest and geopolitical uncertainty that led to the escalation of oil prices. At the same time, Kenya was coming out of a drought that led to food shortages and an increase in the demand for imported food.

The decline in local food supply and the increase in the price of crude oil in the world markets led to a steep increase in headline inflation, which rose from a low of 5.4% in January 2011 to peak at 19.7% in November 2011. The average annual inflation rate for 2011 was 14.0% compared to 4.1% in 2010. Increased domestic consumption and investment driven by significant growth in private sector credit also contributed significantly to the increase in inflation.

The increase in the prices of crude oil, high domestic consumption and investment, and increased demand for imported food as well as fuel for power generation also led to a significant decline in the value of the Kenya Shilling against all major currencies. The pressure on the Shilling was further driven by falling exports. The prevailing drought adversely affected the production of tea, coffee and horticultural produce, which account for a significant portion of our exports. On the other hand, the economic difficulties in Western Europe, one of our largest export markets, curtailed the demand of our exports. Furthermore the Euro-zone debt crisis and the upheaval associated with the Arab Spring led to a global flight to the U.S. Dollar and assets considered by investors to be safe. As a result of all these factors by October 2011, the exchange rate between the Shilling and the U.S. Dollar had declined by 25% to 107 KSH / USD, and the Shilling at one point won the unenviable distinction of being recognised as one of the worst performing currencies in the world.

In order to halt the depreciation of the Shilling and tame the high inflation, the Central Bank of Kenya (CBK) implemented a series of monetary policy measures which included rapidly increasing the Central Bank Rate (CBR) from 5.75% to 18% and aggressively mopping up liquidity from the money markets. The tighter money market liquidity led to a spike in short-term interest rates. The 91 - days, 182 - days and 364 - days Treasury bill rates shot up from a monthly average of 2.5%, 2.7% and 3.7% in January 2011 to 18.3%, 18.3% and 21.0% respectively in December 2011. In January 2011, the interbank lending rates stood at an average of 1.2% and spiked to end the year at an average rate of 21.8%.

By the close of the year, the CBK had succeeded in reversing the decline in the value of the Shilling and U.S. Dollar injections through the International Monetary Fund's (IMF) Extended Credit Facility (ECF) further boosted the local currency during the fourth quarter. The exchange rate on 31st December 2011 closed at a mean of 85.1 SHS / USD.

While the very firm measures by the CBK have achieved their immediate objectives, focus must now shift to the current high interest rate regime which is unsustainable in the long term and detrimental to economic growth. Of particular concern to the banking sector is the effect that these will have on the capacity of customers and borrowers to meet their obligations and service their facilities, potentially leading to a higher incidence of non-performing loans.

More fundamentally, many of the structural challenges that have led to the adverse balance of payments position remain unresolved. The high cost of doing business in Kenya makes local production uncompetitive leading to the importation of a significant portion of manufactured and consumer goods. Inefficiencies in the agricultural sector have meant that even after a year of exceptional rainfall there are food supply deficits necessitating importation. In addition Kenya has relied for

too long on tourism and traditional primary exports with little value-addition which now constrains our ability to earn the much required foreign exchange. Until bold policy actions are implemented to address these challenges the country will continue to experience the debilitating effects of an increasing balance of payments problem.

The equities market experienced subdued performance from the beginning of 2011 due to the "flight to safety" experienced in the global financial markets which was occasioned by the Euro-zone debt crisis and the experiences of foreign investors in the North African markets. In the second half of the year, this adverse performance was exacerbated by the escalating interest rates that prompted investors to shift their funds to higher yielding instruments. Equity valuations fell across the board leading to a 30% decline in the NSE-20 Share Index to close at 3,123 points on 31st December 2011 from 4,465 points at the beginning of the year. Market activity at the Nairobi Securities Exchange (NSE) also declined significantly as total turnover fell by 29% to Shs 78 billion in 2011 from Shs 110 billion in 2010.

The bond market was not immune to the upheavals in the money markets. The general increase in interest rates and increased illiquidity due to the tight monetary policy led to significant book valuation and trading losses on most bond portfolios. The high interest rate environment that offered better returns on money market instruments discouraged corporate bond issuers with a number postponing their capital raising activities.

The Kenyan banking industry performed relatively well in 2011 mainly driven by strong credit growth despite the macroeconomic challenges related above. During the first three quarters of 2011, the total loans and advances in the banking sector registered impressive growth to peak at Shs 1.18 trillion in October 2011, a growth of 31% from the closing position in December 2010. Due to the high interest rates, private sector credit growth started contracting in November 2011 falling to Shs 1.17 trillion in December 2011 and is expected to contract further as a result of the slowdown in credit uptake.

The banking industry's total assets grew by 26% to Shs 2.1 trillion as at 31st December 2011. Growth in the balance sheet was mainly driven by growth in lending and deposits, branch expansion across the banking industry, capital injections and retention of profits.

On the regional front the Tanzanian economy is estimated to have grown by 6.5% in 2010/11 (2009/10 – 7.3%). The growth rate would have been considerably higher were it not for the economic crisis in Europe and North America that led to a reduction in donor financing, the energy crisis prevailing in the country and accelerating inflation. The Tanzanian economy has proven highly resilient to the global financial crisis due partly to its relative insulation from international financial markets and a large fiscal stimulus package that was implemented by the Government. In 2012, the economy is expected to slow down due to the Government's plans to cut spending and increase taxes so as to reduce the budget deficit, high interest rates which will discourage spending and investment, and the costs associated with the ongoing energy crisis.

NIC BANK GROUP FINANCIAL RESULTS

The NIC Bank Group achieved a Profit Before Tax of Shs 3.6 billion for the year ended 31st December 2011 representing an increase of 38% from the Shs 2.6 billion registered in the previous year. This result marks a new record in the Group's performance and one that has been attained despite the unprecedented volatility in the economic environment and financial markets.

Total income grew by 27% to Shs 6.6 billion, an increase of Shs 1.4 billion, which was well ahead of the growth in expenses. This performance was driven by the expansion of the balance sheet by Shs 19.9 billion (or 34%), and the growth in non-funded income.

Lending is a fundamental part of what the Group does to support customers and the country's economic growth. In 2011, total lending to households and businesses in Kenya and Tanzania increased by 39% to Shs 57 billion from Shs 41 billion reported in the prior year. To fund this growth in advances, the deposit base increased to Shs 66 billion as at December 2011, reflecting a 37% growth from the Shs 49 billion reported in December 2010.

Total non-funded income grew by 35% to Shs 2.7 billion in 2011, up from Shs 2.0 billion the previous year. Non-funded income contributed 41% of the total operating income. The growth in non-funded income is the outcome of continued focus on cross sales and efficient balance sheet utilisation, and is in line with Group's long term strategy to fully diversify its revenues sources.

Total operating expenses for the year, excluding provisions for loan losses, stood at Shs 2.7 billion, being an increase of 20% largely attributable to the branch expansion program and increased staff complement to support the growth in balance sheet. Despite the increase in expenses, the Group's cost income ratio declined year on year from 44% to 41%, a clear demonstration of the efficient return the Group is earning from the investments and expenditure made in the business.

The impairment on loans and advances reduced by 18% from Shs 317m in December 2010 to Shs 258m in December 2011. The credit selection, appraisal and approval processes, complemented by strong relationships with customers have ensured that potential credit delinquencies are identified and managed at an early stage. This arrangement has proved to be beneficial to the Group and customers, especially in light of the challenges that they are facing in the prevailing difficult economic environment.

The improved profitability raised the Group's capital base to over Shs 10 billion, a growth of Shs 2.1 billion, with all key banking regulatory performance indicators reporting favorable trends.

DIVIDEND, BONUS ISSUE AND RIGHTS ISSUE

The NIC Bank Group declared and paid in October 2011, an interim dividend of Shs 0.25 per share (Shs 99m).

CHAIRMAN'S STATEMENT

The directors now recommend a final dividend for 2011 of Shs 0.25 per share (Shs 99m) bringing the total cash dividend for the year to Shs 198 million. (2010 - Shs 179 million)

Further, the directors recommend a bonus issue in the proportion of one (1) new ordinary share for every ten (10) fully paid up ordinary shares held.

Taken together, the cash dividend and bonus issue amount to Shs 396 million.

In arriving at these recommendations the Board took careful account to the capital position of the Group alongside the current and planned growth strategies. Upon detailed consideration it was concluded that NIC Bank Group's strong capacity should be enhanced further and therefore directors have also recommended for approval at the Annual General Meeting the raising of additional capital of Shs 2 billion through a rights issue.

The rights issue and the bonus issue are subject to approval by the Capital Markets Authority.

SUBSIDIARIES AND DIVERSIFICATION

One of the pillars of the Group's strategy to achieve and sustain greater strength and stability is the development of a business with diverse revenue sources, business segments, customer and client types, and geographic exposure.

The overall objective is to responsibly achieve significant and sustainable earnings in each business line and I am glad to report that all subsidiaries reported profits in 2011, thus positively contributing to the Group's performance.

The continued improvement in the performance of NIC Bank Tanzania is a welcome return on the considerable investment we have made in enhancing the capacity of our first cross border investment. In 2011, the subsidiary recorded a profit equivalent to Shs 157m compared to Shs 133m in 2010. We expect the performance of NIC Bank Tanzania to improve further as the business continues to expand its branch network and introduces new products and services. The implementation of the new core banking system, T24, will further facilitate the integration of regional operations and services and the realization of group synergies.

The Group's investment bank NIC Capital performed very well with profit almost doubling to Shs 60m (2010 - Shs 32m). The subsidiary now holds a leading position in corporate finance advisory, and continues to build significant market share in both the equity and debt capital markets.

The brokerage business NIC Securities succeeded in growing its market share but was adversely affected by the bear market at the Nairobi Securities Exchange and reported pre-tax profits of Shs 11m (2010 – Shs 20m). The subsidiary is however now well positioned to report better results once the stock market recovers.

The bancassuance subsidiary, NIC Insurance Agents, posted a commendable profit of Shs 17m (2010 - Shs 5m).

Overall, the Group subsidiaries contributed 7% (or Shs 244m) of the year on year increase in the Group's Profit Before Tax.

The satisfactory results reported by our subsidiaries, in particular NIC Bank Tanzania, and the continued integration of the East African Community prompted the Group to look for additional opportunities for regional expansion. After a thorough feasibility study, the Board recommended the establishment of a commercial banking subsidiary in Uganda. The new subsidiary, named NC Bank Uganda Limited, will see the Group extend its geographical footprint in three members of the East African Community. The establishment of this subsidiary with an initial capital of Shs 961 million (Uganda Shillings 25 billion) is subject to the ratification by the shareholders at the Annual General Meeting.

SERVICE DELIVERY AND PRODUCTS

The Group is committed to availing convenient and efficient financial services within its expanding footprint, and has therefore continually invested in improving its technological capacity.

A new core banking system T24 provided by Temenos is presently being implemented. This state of the art system will enable the Group to provide world class efficient service to customers and be a platform from which an even more comprehensive range of products and innovations shall be launched. The system is also being implemented in the subsidiaries and this will mean that the full suite of NIC products and services will be available on one platform to customers across the region.

The Branch expansion program continued on course, buoyed by the favorable reception and goodwill from customers. In 2011 the Group opened seven branches in the region to capitalize on high-potential market opportunities. To ensure that customers across the expanding Nairobi metropolitan area enjoy easier access to the Group's services, new branches have been opened at Village Market, Sameer Business Park, Galleria Mall, Karen Office Park and Taj Mall (Embakasi). We also opened a branch in Eldoret to cater for the wider North Rift region while the Nyali branch has been conveniently relocated. To be of greater convenience and service to customers banking hours have been extended at selected branches.

Regionally, a second branch has been opened in Dar es Salaam to cater for the business traffic around Kariokor and Ilala commercial centres. The Ilala branch with the other existing branches in Arusha and Mwanza brings the number of branches in Tanzania to four and plans are at an advanced stage to open another branch in the greater Kahama region.

The Group's electronic service delivery platforms NIC Mobile Banking and NIC Online Banking have also been enhanced with features such as M-Pesa connectivity in both channels. The Group now has full mobile and internet banking solutions that allow customers to connect with us when and how they want.

With the wide geographical spread of the Group's customers an agency banking arrangement has been entered into with Postbank. This agreement, which has received regulatory approval from the CBK, enables NIC to provide banking services to customers through Postbank's network of ninety four (94) branches spread across the country in a highly efficient and cost effective manner.

The need to address emerging customer needs and developments in the banking industry has continued to drive NIC's innovation in new products and customer offerings. The Entrepreneur Club workshops, in addition to empowering budding entrepreneurs, have continued to be a source of knowledge on customer expectations that inform the development of additional products targeting the Business Banking/SME segment. Existing products have been revamped and various awareness campaigns launched to ensure that our customers remain informed and updated on various developments.

EMPLOYEES

NIC Bank Group has an enormous focus on attracting and developing talent to ensure it has the best possible team for current and future business needs. The dedication of employees has enabled the Group achieve strong results over the years. It is employees who build relationships with customers, who identify the opportunities – both large and small – and who provide the service that ensures NIC continues to grow and improve as an organization.

There is a structured approach to managing and motivating employees that includes such components as career and succession planning, competitive remuneration packages, training and development and clear feedback.

Through hard work and focus, the employees of NIC Bank Group, numbering 596 as at 31st December 2011, strive to provide world-class financial services while upholding the corporate values of being professional, innovative, passionate, responsive, and of absolute integrity.

CORPORATE GOVERNANCE

NIC Bank Group believes in strong corporate governance. The Board employs a comprehensive, integrated governance framework as the basis for its oversight responsibilities of the management of the business and affairs of the Group. This framework, greater details of which are in the Corporate Governance section of this report, ensures that both the Board and management goals are aligned and focused on their responsibilities to shareholders.

The Group's governance achievements continue to be recognized by a number of external organizations renowned for their assessment of responsible businesses. I am pleased to report that during 2011, NIC Bank Group won, for the second year in a row, the overall Champion of Governance award, which was co-sponsored by the Institute of Certified Public Secretaries of Kenya (ICPSK), Central Bank of Kenya, Retirement Benefits Authority and Insurance Regulatory Authority, amongst others. NIC Bank Group was also declared winner in the International Financial Reporting Standards (IFRS) category and the first runners up in the Banking category under the Financial Reporting (FiRe) Awards promoted jointly by the Nairobi Securities Exchange (NSE), the Institute of Certified

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Public Accountants of Kenya (ICPAK), and the Capital Markets Authority (CMA).

SOCIAL RESPONSIBILITY

NIC Bank Group views corporate social responsibility as being a fundamental part of the way it does business. The Group aims to create value for the Company's shareholders and to make a positive contribution to the environment and the financial and social well-being of customers, employees, and the communities within which it operates.

In 2011, the Group continued to support initiatives in the areas of Education, Environment and Sports, as well as other emerging needs.

Under education, NIC partnered with various institutions including Palm House Foundation and Edumed Trust that further the education of the less privileged and gifted children in the country. By supporting these children through secondary school and providing mentorship, NIC Bank Group gives them a chance to make a better life for themselves and their families.

Through Junior Achievement Kenya, which is part of Junior Achievement Worldwide, the Group supported young Kenyans to attain career readiness, develop entrepreneurial skills and gain financial literacy through participation in the JA programs.

NIC Bank Group further offers internship programs to students annually. These internships provide an environment where youth are equipped on how to be gainfully employed or start their own business and help drive the country's economic development.

In terms of the environment in 2011, and for the third year running, the Group had the "Tupande Pamoja" tree planting initiative during the Christmas season. "Tupande Pamoja" is an initiative that partners NIC staff with the UNEP and the Kenya Forestry Service in helping to replenish the depleted natural resources in the Aberdares Forest.

NIC Bank Group has also taken up the sponsorship of Golf as one way of promoting the development of sports in the country. Such initiatives include sponsorship of 6 Kenyan professionals during the European Challenge Tour Kenya Open in April 2011. Through the Kenya Golf Union, and in conjunction with the Ministry of Youth and Sports, NIC supported the Kenya Team's participation in the Africa Amateur Golf Team Championship in South Africa by offering a cash donation and Travel Insurance Cover for all team members. The same support was provided during the East African Open held in Arusha Tanzania.

WELL POSITIONED FOR GROWTH

The operating environments in the markets in which we operate are expected to be particularly challenging in 2012. The external and domestic economic shocks which have resulted in high inflation and increased volatility in the financial markets, both of which present difficulties, will also slow down the growth momentum of the East African economies. Among other factors of concern and where care must be taken is the preservation of political stability ahead of general elections and regional security challenges.

That said in 2011 the NIC Bank Group made significant changes and investments in enhancing its capacity and made strides in strengthening its competitive position for the future. Therefore while uncertainties persist, the Group has shown it is a resilient, integrated and customer focused financial institution and has reason to be cautiously optimistic for 2012. NIC Bank Group has a prudent risk profile that should protect and cushion it from the worst of the economic and financial market volatility while the anticipated recovery of the regional economies will bring new business and long term growth opportunities.

APPRECIATION

Your Board is pleased with what NIC Bank Group accomplished in 2011, both in terms of financial performance as well as strong corporate governance.

Many customers faced challenges in 2011 and they chose to turn to the Group to provide them with financial services and solutions that were appropriate for their circumstances. The financial results for the year are a good indication of the health and strength of NIC's customer relationships and I would like to thank each and every one of our customers for their continued patronage and confidence in our ability to fulfill their requirements.

The Group's enduring success is also attributable to the great effort and dedication of employees. I would like to thank them for their continued commitment, initiative, enthusiasm and dedication which have all contributed to achieving the record results for 2011.

I also greatly appreciate the co-operation availed to the Group by our regulators, the Central Bank of Kenya, Bank of Tanzania, Bank of Uganda, Nairobi Securities Exchange and the Capital Markets Authority.

Last but not least of all, I would like to thank the shareholders, for continuing to believe in the NIC Bank Group's vision for growth which requires reinvesting of profits; and to appreciate the great role played by the directors of all our Group companies who have tirelessly endeavored to steer our Group to great heights.

J P M Ndegwa

Chairman

22 February 2012

Inanifurahisha sana kuwasilisha kwenu Taarifa ya kila Mwaka ya Benki ya NIC na Taarifa ya kifedha ya Mwaka uliomalizikia tarehe 31 Disemba, 2011.

MAZINGIRA YA KIUCHUMI NA KIBIASHARA YA MWAKA WA 2011

Mategemeo makubwa ya Uchumi wa taifa la Kenya yaliathirika pakubwa katika mwaka wa 2011 kutokana na changamoto kubwa la kisiasa, kiuchumi na kijamii. Hata hivyo, licha ya changamoto hizo, uchumi ulitarajiwa kukua kwa asilimia 4.3 chini ya kiwango cha asilimia 5.6 iliyopatikana mwaka wa 2010, hii ikiwa ni kulingana na mazingira ya kiuchumi yalivyokuwa.

Baada ya kuanza mwaka kwa hatua nzuri kutokana na kasi na mwamko uliokuwepo mwaka wa 2010, uchumi wa Kenya uliathirika kutokana na ghasia ama vurugu huko katika Milki ya Nchi za Kiarabu na Afrika Kaskazini pamoja na jamii kutoelewana na hali ya kisiasa ambayo ilisababisha kupanda kwa bei ya mafuta. Na ni wakati huo huo ambapo tulikuwa tumekabiliwa na janga la ukame lililosababisha uhaba wa chakula na ongezeko la vyakula kuagizwa kutoka nchi za nje.

Kutokana na upungufu wa chakula nchini na ongezeko la bei ya mafuta ambayo hayajasafishwa kwenye masoko ulimwenguni yalisababisha mfumuko wa bei ambao uliongezeka kutoka asilimia 5.4 kwenye mwezi Januari, 2011 hadi asilimia 19.7 kwenye mwezi wa Novemba, 2010. Kiwango cha wastani cha mfumuko wa bei kwenye mwaka wa 2011 kilikuwa asilimia 14.0 kikilinganishwa na asilimia 4.1 kwenye mwaka wa 2010. Ongezeko la matumizi ya kinyumbani na uwekezaji uliochangiwa na ukuaji katika sekta za kibinafsi za mkopo pia ulichangia kwa kiasi kikubwa katika mfumko wa bei.

Kutokana na ongezeko la bei ya mafuta ambayo hayajasafishwa, matumizi ya hali ya juu ya kinyumbani, uwekezaji na ongezeko la mahitaji ya chakula kutoka nchi za nje na vilevile mafuta ya kuzalisha umeme yalisababisha kuanguka kwa thamani ya shilingi ya Kenya dhidi ya sarafu nyingine kuu za kimataifa. Isitoshe, kuanguka kwa thamani ya shilingi kulisababishwa pia na kuzorota kwa biashara ya nje ya nchi. Wakati huo ukame uliathiri vibaya sana uzalishaji wa chai, kahawa na bidhaa za kilimo cha bustani hali inayojumuisha kiwango kikubwa cha mazao tunayo safirisha nje ya nchi. Kwa upande mwingine, kuzorota kwa uchumi katika ukanda wa magharibi mwa Bara-Yuropa ambalo ndilo miongoni mwa masoko yetu makuu, yalipunguza mahitaji ya bidhaa zetu kutoka humu nchini. Kwa upande mwingine, athari za madeni na misukosuko katika baadhi ya mataifa ya Uarabuni, ilisababisha kudhoofika kwa Dola ya Marekani na rasilimali zilizotazamiwa na wawekezaji kuwa salama. Kutokana na mambo hayo yote kufikia Oktoba 2011, kiwango cha kubadilisha shilingi dhidi ya Dola ya Marekani kilipungua hadi asilimia 25 kwa shilingi 107 kwa Dola ya Marekani na ilifikia wakati shilingi ya Kenya ilitambuliwa kuwa yenye thamani dhaifu zaidi ulimwenguni.

Ili kusimamisha kuzorota kwa thamani ya shilingi ya Kenya na kuzuia mfumko wa bei, Benki Kuu ya Kenya (BKK) ilitekeleza msururu wa hatua za sera za kifedha ambazo zilihusisha kuongeza kwa haraka kwa Viwango vya Benki Kuu kutoka asilimia 5.75 hadi asilimia 18 ili kuthibiti tatizo la kubanwa kwa mzunguko wa fedha nchini na katika masoko ya uwekezaji. Tatizo hilo sugu la mzunguko wa fedha lilisababisha kupanda kwa ghafla kwa viwango vya riba. Viwango vya hazina ya fedha kwa siku 91, siku 182 na siku 364 viliongezeka kwa wastani wa kila mwezi wa asilimia 2.5, 2.7 na 3.7 katika mwezi wa Januari, 2011 hadi asilimia 18.3, 18.3 na 21.0 mwezi wa Disemba, 2011 mtawalia. Mwezi wa Januari, 2011 viwango vya mikopo katika benki kwa benki vilisimamia katika kiwango cha wastani cha asilimia1.2 na zikaazimia kumaliza mwaka zikiwa na kiwango cha wastani cha asilimia 21.8.

Kufikia mwisho wa mwaka, Benki Kuu ya Kenya ilikuwa imefaulu kurudisha hadhi ya shilingi yake na Dola ya Marekani kupitia kwenye hazina ya fedha ulimwenguni. Huduma ya Ziada ya Upatikanaji wa Mkopo pia iliboresha zaidi thamani ya shilingi ya Kenya katika robo ya nne ya mwaka. Kiwango cha ubadilishanaji wa fedha kufikia mwisho wa mwaka wa 2011 kilifikia kiwango cha wastani wa shilingi 85.1 dhidi ya Dola ya Marekani.

Wakati ambapo hatua thabiti zilipochukuliwa na Benki Kuu ya Kenya na kuleta mafanikio katika kuyatimiza malengo yake ya kuboresha thamani ya shilingi ya Kenya, wakati huu, ni lazima kuzingatia katika utawala wa viwango vya juu vya riba ambavyo haviwezi kumudu ukuaji wa uchumi wa mda mrefu na hasara iliyopo. Hali hii hususan itaathiri Sekta ya Benki ambapo baadhi ya wateja na wenye kukopa watashindwa kutimiza malengo yao na kuhudumia mikopo yao ipasavyo na kusababisha matukio mengi ya kuwa na mikopo mingi isiyolipwa.

Swala la kimsingi zaidi, changamoto nyingi ambazo zimesababisha mtafaruku huu wa malipo bado haujashughulikiwa. Gharama ya juu ya kufanya biashara nchini Kenya imefanya uzalishaji wa bidhaa za humu kutokuwa na ushindani na kusababisha kuagizwa kwa bidhaa za wanunuzi na zile zilizotengenezwa nje ya nchi kuletwa kutoka huko ughaibuni. Kutokuwa na ufanisi katika sekta ya kilimo imemaanisha kuwa hata baada ya mwaka wa mafanikio ya kuwepo kwa mvua nyingi bado kuna uhaba wa chakula na kusababisha umuhimu wa kuagiza chakula kutoka nchi za nje. Nikiongezea ni kuwa Kenya kwa mda mrefu sasa imekuwa ikitegemea sana utalii na kuuza bidhaa za msingi za kitamaduni ambazo zina thamani ndogo, jambo ambalo linatufungia uwezo wetu wa kupata kiwango cha juu cha pesa za kigeni. Ikiwa sera na hatua thabiti hazitatekelezwa ili kuzithibiti changamoto hizo, basi nchi hii itazidi kuathirika kiuchumi kutokana na matatizo ya usawa wa malipo.

Matokeo ya soko la hisa yalikandamiza mafanikio kuanzia mwanzo wa mwaka wa 2011 kutokana na "mabadiliko ya kanuni za uwekezaji kwa wajasirili-amali" yaliyoonekana kwenye masoko ya kifedha ulimwenguni ambayo yalisababishwa na tatizo la viwango vya mikopo huko barani Yuropa na kuwepo kwa wawekezaji wa kigeni katika masoko ya Afrika Kaskazini. Katika sehemu ya pili ya mwaka, matokeo haya yasiyofaa yalipaliliwa makaa na viwango vya juu vya riba ambavyo vilisababisha wawekezaji kuhamisha hazina zao kwenye bidhaa bora za uzalishaji. Ubora wa hisa ulianguka kila mahali na kusababisha kupungua kwa asilimia 30 katika kiwango cha hisa cha Soko la Ubadilishanaji wa Hisa la Nairobi (NSE-20) na kufikia kiwango cha mwisho cha alama 3,123 mwaka huo wa 2011 kutoka kwa

alama 4,465 mwanzo wa mwaka huo. Shughuli za soko katika Soko la Ubadilishanaji wa Hisa la Nairobi zilipungua kwa kuwa mapato ya mwaka yalikuwa asilimia 29 kwa shilingi bilioni 78 mwaka wa 2011 kutoka kwa shilingi bilioni 110 mwaka wa 2010.

Kadhalika, soko la dhamana liliathirika kwenye mageuzi ya masoko ya kifedha. Kutokana ongezeko la jumla la viwango vya riba na kubanika kwa mzunguko wa fedha kutokana na sera thabiti za kifedha vilisababisha makadirio wazi ya vitabu na hasara ya biashara kwenye baadhi ya dhamana ya fedha zilizowekwa kwa faida. Mazingira ya viwango vya juu vya riba vilivyoleta mafanikio bora kwenye soko la bidhaa za kifedha liliwavunja moyo washirika wenye dhamana huku baadhi yao wakiahirisha shughuli za kuongeza mtaji wao.

Licha ya changamoto nyingi za kiuchumi ambazo tumeziangazia, kitengo cha Benki za Kenya kilikuwa na ufanisi mzuri mwaka wa 2011 kutokana na uimarishaji wa ukuaji wa mikopo. Kwenye robo tatu ya mwaka wa 2011 mikopo na malipo ya awali katika sekta ya benki iliandikisha ukuaji mzuri kufikia shilingi trillion 1.18 katika mwezi wa Oktoba mwaka wa 2011 kwa ukuaji wa asilimia 31 kutoka kwenye nafasi ya kufunga mwaka wa 2010. Kutokana na viwango vya juu vya riba, viwango vya ukuaji vya mikopo katika Sekta za kibinafsi vilianza kupungua mnamo mwezi wa Novemba mwaka wa 2011 na kuanguka hadi shilingi trillion 1.17 mwezi wa Disemba mwaka wa 2011 na ilitarajiwa kupungua zaidi kutokana na kudorora kwa wateja kuchukua mikopo.

Rasilimali za kitengo cha Benki ziliongezeka kwa asilimia 26 hadi shilingi trillion 2.1 kufikia mwisho wa mwaka wa 2011. Ukuaji katika maelezo ya kibiashara ya mwaka ulitokana na ukuaji wa ukopeshaji na amana, kupanua matawi kila mahali katika sekta ya Benki, uongezaji wa mtaji na kuweka faida.

Kwenye rubaa za kimataifa, uchumi wa Tanzania unakisiwa kukua kwa asilimia 6.5 katika mwaka 2010/11 (2009/10 – 7.3) kiwango cha ukuaji kingekuwa juu zaidi isingelikuwa hali mbaya ya kudorora kwa uchumi iliyokuwepo huko Bara Yuropa na Marekani Kaskazini, hali iliyosababisha kupungua kwa ufadhili wa kifedha, hali ya ukosefu wa nishati ya kutosha iliyokuwepo nchini na pia kuongezeka kwa mfumko wa bei. Uchumi wa Tanzania ulidhihirisha wazi kuimarika kwake kutokana na mikakati iliyochukuliwa na Serikali Kuu ya kujihami katika masoko ya kimataifa na kuthibitiwa kwa kichocheo cha hazina kubwa kilichotekelezwa na serikali. Inatarajiwa kuwa katika mwaka wa 2012, uchumi utapungua kutokana na mipango ya serikali ya kupunguza matumizi na kuongeza kodi ili kupunguza hasara ya bajeti, viwango vya juu vya riba ambavyo vitazuia matumizi, uwekezaji na gharama zote zinazohusiana na matatizo ya upatikanaji wa nishati yaliyopo kwa sasa.

MATOKEO YA KIFEDHA YA SHIRIKA LA BENKI YA NIC

Shirika la Benki ya NIC lilifaulu kupata faida ya shilling bilioni 3.6, kabla ya kutozwa kodi iliyokuwa ya mwaka huo uliomalizika 2011 ikiwasilisha ongezeko la asilimia 38 kutoka kwa shilingi bilioni 2.6 zilizoandikishwa mwaka uliotangulia. Matokeo haya yanaashiria rekodi mpya ya mafanikio ya Shirika hilo na ambayo yemepatikana licha ya hali mbaya iliyotokea ya mazingira ya kiuchumi na masoko ya kifedha.

Mapato yote kwa ujumla yalikua kwa asilimia 27 hadi shiling bilion 6.6, ongezeko la shiling bilion 1.4 ambalo lilikuwa zaidi ya ukuaji wa matumizi. Mafanikio haya, yalitokana na kupanua kwa maelezo ya kifedha ya biashara kwa shilling bilioni 19.9 (ama asilimia 34) na pia ukuaji wa mapato ambayo hayajagharamiwa.

Kukopesha ni sehemu moja ya kimsingi sana ambayo Shirika halisaidii wateja wake na ukuaji wa uchumi wa chi hii. Katika mwaka wa 2011, jumla ya mikopo ya kinyumbani na biashara nchini Kenya na Tanzania iliongezeka kwa asilimia 39 hadi shilingi bilion 57 kutoka shilingi bilioni 41 zilizoripotiwa mwaka uliotangulia. Ili kugharamia ukuaji kwenye malipo ya awali, amana iliongezeka kwa shilingi bilioni 66 kufikia mwisho wa mwaka wa 2011 ambayo iliashiria ukuaji wa asilimia 37 kutoka kwa shiling bilion 49 zilizoripotiwa mwishoni mwa mwaka wa 2010.

Mapato yote ya jumla ambayo hayajagharamiwa yalikua kwa asilimia 35 hadi shilingi bilioni 2.7 katika mwaka wa 2011 kutoka shilingi bilioni 2.0 mwaka uliotangulia. Mapato ambayo hayajagharamiwa yalichangia kwa asilimia 41 kwenye mapato ya uendeshaji wote wa kibiashara. Ukuaji kwenye mapato ambayo hayajagharamiwa ndio matokeo ya kuzingatia mauzo kila mahali na ubora wa kutumia vyema maelezo ya kifedha ya kibiashara na ambayo ndiyo mikakati ya kudumu ya Shirika hilo ili kupanua njia zake za mapato.

Gharama zote za jumla za kuendeshea shughuli za biashara za mwaka huo, ukiondoa masharti ya hasara ya mikopo, zilisimamia kwenye shilling bilioni 2.7 ikiwa ni ongezeko la asilimia 20 ambayo ilitokana na mipango ya kupanua matawi yake na kuongeza idadi ya wafanyikazi ili kusaidia kwenye ukuaji katika maelezo ya fedha ya kibiashara. Licha ya ongezeko la matumizi, kiwango cha gharama ya mapato ya Shirika kilipungua mwaka baada ya mwaka kutoka asilimia 44 hadi asilimia 41, hali ambayo inaashiria ufanisi wa mapato ya Shirika linayopata kutokana na uwekezaji na matumizi yanayotokana na biashara.

Masharti ya kulingania viwango vya hasara za mikopo yalipungua kwa asilimia 18 kutoka shilling million 317 kwenye mwaka wa uliomalizikia Disemba 2010 hadi shilling million 258 kwenye mwaka uliomalizikia Disemba 2011. Hatua za kuchagua mikopo, utaratibu wa ukaguzi wa mikopo hiyo na njia mahususi za kupitisha maombi ya mikopo hiyo zikihusishwa na uhusiano thabiti kwa wateja baada ya kuhakikisha kwamba mikingamo ya mikopo inafahamika vyema na kushughulikiwa mapema. Mpango huu umeonyesha kuwa na mafanikio kwenye Shirika na wateja, hususan kwenye changamoto ambazo zinawakumba katika hali ngumu za mazingira ya kiuchumi.

Ongezeko la mapato liliongeza mtaji wa Shirika kwa zaidi ya shilling bilioni 10, kwa ukuaji wa shilling bilioni 2.1 huku viashiria vikuu vya kanuni za Sekta ya Benki, vikifanikiwa kuripoti matokeo ya kufurahisha.

MGAO, GAWIO LA ZIADA KWA MWENYE HISA NA GAWIO LA HAKI KWA MWENYE HISA

Shirika la Benki ya NIC lilitoa na kulipa mgao wa shiling 0.25 kwa kila hisa (shillingi milioni 99) katika mwezi wa Oktoba

2011, mgao ambao uliokuwa haujaidhinishwa kikamilifu.

Wakurugenzi sasa wanapendekeza mgao wa mwisho wa mwaka wa 2011 wa shilling 0.25 kwa kila hisa (Shilingi milioni 99) ili kujumlisha mgao taslim wa mwaka huo wa shilingi milioni 198. (2010 – Shilingi milioni 179)

Zaidi ya hayo, wakurugenzi wanapendekeza gawio la ziada kwa mwenye hisa kwenye sehemu ya hisa moja (1) ya kawaida kwa kila hisa kumi (10) za hisa za kawaida ambazo zimelipiwa kabisa.

Ukijumlisha pamoja mgao taslim na gawio la ziada kwa mwenye hisa ni shilingi milioni 396.

Ili kufikia mapendekezo haya, kamati ilichukua hatua za kimsingi na umakinifu za nafasi ya mtaji wa shirika pamoja na mipango na mikakati ya ukuaji iliyopo. Baada ya mazingatio ya kina, iliafikiwa kuwa Kiwango imara cha Shirika la Benki la NIC kiboreshwe zaidi na hivyo basi wakurugenzi wakapendekeza idhini ya kuongeza mtaji wa shilingi bilioni 2 wa gawio la haki kwa kila mwenye hisa kwenye Mkutano Mkuu wa Mwaka.

Gawio la ziada na lile la haki kwa kila mwenye hisa hutegemea kuidhinishwa na Mamlaka ya Mtaji wa Masoko.

MASHIRIKA-TANZU NA MAZINGIRA YA UANUAI WA KIBIASHARA

Moja wapo ya nguzo ya mikakati ya Shirika inayonuiwa kudumisha, uimarisha na kuthibiti ni kukuza biashara yenye njia mbalimbali za mapato, vitengo vya kibiashara, aina za wateja na kujipanua kwenye maeneo mbalimbali.

Lengo la jumla ni kuwajibika katika kupata mapato makuu na yanayodumu katika kila eneo la kibiashara na nina furaha kuripoti kuwa matawi ya biashara yalifanikiwa kupata faida katika mwaka wa 2011, hivyo basi, kuchangia pakubwa katika mafanikio ya Shirika hili.

Ubora uliopatikana kwenye utenda kazi wa benki ya NIC Tanzania ni wa faida ukilinganishwa na kuwekeza kwetu kwa mara ya kwanza katika mataifa ya nje. Katika mwaka wa 2011, biashara zetu zilileta faida sawa na milioni 153 ikilinganishwa na shilingi milioni 133 katika mwaka wa 2010. Twatarajia utendakazi wa benki ya NIC Tanzania utakuwa bora zaidi jinsi matawi ya mitandao ya kibiashara inavyozidi kupanuka na kuanzisha bidhaa na huduma mpya. Utekelezaji wa mfumo mpya halisi wa benki, T24, utawezesha kujumuishwa kwa shughuli na huduma za kimaeneo katika kutambua uwezo wa Shirika.

Mtaji wa uwekezaji kwenye Shirika la Benki ya NIC ulitia fora zaidi huku ukipata faida ya karibu maradufu sawa na milioni 60 (2010-shs 32m). Biashara hizi sasa zaongoza katika ushauri wa kifedha na zinazidi kujenga soko la hisa katika masoko ya hisa na mtaji wa mikopo.

Kitengo cha Udalali wa Biashara cha NIC Securities uliendelea katika soko la hisa lakini uliathirika sana na wanunuzi wa hisa wa jumla katika soko la hisa la Nairobi (Nairobi securities Exchange)na kupata faida ya shilingi milioni 11 kabla ya kutozwa ushuru (2011-shs 20m) Kampuni tanzu hii sasa zaweza kupata mapato bora pindi soko la hisa likifidia gharama zake.

Kampuni tanzu za maswala ya fedha, ikiwepo NIC Insurance Agents, walipata faida ya kupigiwa mfano ya shilingi milioni 17 (2010- shs milioni 5)

Kwa jumla, kampuni-tanzu za shirika zilichangia asilimia 7% (au shilingi milioni 244) ya mwaka katika kuongezeka kwa faida ya Shirika kabla ya kutozwa ushuru.

Matokeo ya kuridhisha kutoka kwa kampuni-tanzu zetu, hususan, benki ya NIC Tanzania, na muungano unaoendelea wa Jumuiyya ya Afrika Mashariki ulichochea shirika kutafuta nafasi zaidi katika upanuzi kwenye maeneo mapya ya kuwekeza. Baada ya upembuzi yakinifu, kamati ilipitisha kuanzisha kwa kampuni-tanzu ya benki ya biashara nchini Uganda. Kampuni-Tanzu mpya ya benki ya NC Uganda itawezesha shirika kupanuka kijiografia katika mataifa matatu ya Muungano wa Afrika Mashariki. Kuanzishwa kwa kampuni-tanzu hii kwa mtaji wa shilingi milioni 961 (shilingi bilioni 25 pesa za Uganda) kutategemea kuidhinishwa rasmi na wenye hisa katika Mkutano wa Mkuu kila mwaka.

UTOAJI WA HUDUMA NA BIDHAA

Shirika limeamua kutoa huduma za kifedha zitazopatikana kwa urahisi na zinazofaa kwenye upanuzi wa maeneo na hivyo basi limeendelea kuboresha uwezo wake wa kiteknolojia.

Mfumo madhubuti wa utekelezaji wa shughuli za benki na unaofahamika kama T24, na uliotoka kwa shirika la Temenos, ndio sasa unaendelea kutekelezwa. Mfumo huu wa kifahari utawezesha shirika hili kutoa huduma zinazofaa na za kimataifa kwa wateja na uwe msingi wa bidhaa nyingine bora na mageuzi yatakayozinduliwa. Mfumo huu pia unashughulikiwa kwenye kampuni-tanzu na hii ni ishara kwamba bidhaa na huduma zote za NIC zitapatikana katika maeneo yote.

Kwa sasa, mpango wa kupanua matawi unaendelea. Hata hivyo mpango huu unaendelea kufaulu baada ya kupokelewa vyema na wateja. Katika mwaka wa 2011 shirika lilifungua matawi saba kwenye eneo hilo ili kutumia na kuwahi nafasi muruwa za uwekezaji kwenye soko, na kadhalika kuhakikisha kwamba wateja katika mji mkubwa na unaopanuka wa Nairobi wanafuraahia na kufikia kwa urahisi huduma za shirika.Matawi mapya yamefunguliwa katika maeneo ya Village Market, Sameer Business Park, Galleria Mall, Karen Office Park na Taj Mall (Embakasi). Pia tulifungua tawi katika mji wa Eldoret ili kushugulikia eneo kubwa la Bonde la Ufa ambapo tawi la Nyali lilihamishiwa sehemu inayofaa zaidi. Kwa faida na manufaa ya wateja muda wa huduma za benki umeongezwa kwenye baadhi ya matawi.

Kwenye eneo la Afrika Mashariki, shirika limefungua tawi la pili huko jijini Dar es Saalam kwa lengo la kushughulikia msongomano wa biashara karibu na mtaa wa Kariokor na vituo vya biashara vya Ilala. Tawi la Ilala na matawi mengine ya zamani katika miji ya Arusha na Mwanza kufikisha idadi ya

matawi manne nchini Tanzania na tuko mbioni kufungua tawi jingine katika eneo la Kahama.

Kitengo cha shirika cha Utoaji wa Huduma za kielektroniki – kikiwepo kile cha 'NIC Mobile Banking na NIC Online Banking', vimeimarishwa na kuongezewa kiungo muhimu cha M-pesa, ambacho kinaunganisha vitengo vyote viwili kwa mpigo. Shirika hili sasa lina mifumo miwili madhubuti ya kielectroniki iliyo na utendakazi wa shughuli za benki kwa kutumia rununu na mtandao. Mifumo hii miwili inawapatia wateja wetu fursa muafaka ya kupata huduma yoyote mahali popote.

Kulingana na wingi wa wateja na kijiografia, shirika hili limefanya mkataba wa uwakala na benki ya Posta. Mkataba huu ambao umeidhinishwa na Benki kuu ya Kenya na ambao unawezesha benki ya NIC kutoa huduma kwa wateja wake kupitia mitandao ya matawi 94 kote nchini kwa njia inayofaa na isiyo na gharama ya juu.

Sababu kuu ya kutaka kuyashughulikia matatizo na maendeleo ya katika Sekta ya Benki, yameendelea kuzalia mageuzi ya NIC katika bidhaa na zabuni nyingine kwa wateja. Mafunzo ya Klabu ya Mjasiriamali, pamoja na kuwatia shime wajasiriamali chipukizi, imeendelea kuwa chanzo cha kupokea Elimu na maarifa katika matarajio ya wateja – hali inayopelekea kuongezewa kwa bidhaa zaidi kaatika kitengo cha Biashara ndogo ndogo za benki (SME). Shirika limebadilisha na kurekebisha bidhaa zilizoko na pia kuzindua kampeini zitakazohakikisha kwamba wateja wetu wanaendelea kuzifahamu vyema bidhaa zetu zote kadri zinavyokua.

WAFANYAKAZI

Shirika la benki ya NIC lina mpango mkubwa wa kuwavutia na kukuza vipawa ili kuhakikisha kuwa lina wafanyikazi walio bora zaidi kwa mahitaji ya kibiashara ya sasa na ya siku sijazo. Bidii ya kazi kutoka kwa wafanyakazi zimeliwezesha shirika kupata matokeo bora katika miaka iliyotangulia. Waajiriwa wake hujenga uhusiano mwema na wateja, wanaotambua nafasi za kibiashara – zikiwepo kubwa na ndogo – na wanaotoa Huduma zinazowezesha NIC kukua na kuimarika kama shirika thabiti la benki.

Kuna mfumo uliopendekezwa wa kusimamia na kuwapa motisha wafanyakazi kama vile mpango wa kujiendeleza kikazi na pia njia ya kutwaa majukumu katika nafasi mpya za kazi , malipo bora , mafundisho na kujiendeleza vilevile kupata maoni kuhusu utendakazi.

Kupitia bidii ya mchwa na uzingativu,wafanyikazi 596 wa shirika la benki ya NIC kufikia tarehe 31 Desemba mwaka wa 2011, walijitahidi mno ili kutoa huduma za kimataifa za kifedha huku wakizingatia pia maadili ya ujumla ya kuwa wataalamu, wabunifu, wenye moyo, wenye kufuata na wenye uadiliifu wa hali ya juu.

USIMAMIZI BORA WA KIUSHIRIKA

Benki ya NIC ina imani kubwa katika usimamizi wa kiushirika. Kamati Kuu imeandaa mfumo imara wa uongozi ili uwe kama kigezo cha jumla cha majukumu ya usimamizi wa kibiashara na maslahi mengine ya shirika. Ni katika mfumo huu ambapo maelezo ya kina yanapatikana katika kitengo cha usimamizi cha pamoja kwenye ripoti hii ili kuhakikisha kwamba malengo ya kamati na yale ya usimamizi yameainishwa na majukumu yao yote yanawalenga washika dau wote.

Mafanikio ya usimamizi wa shirika katika utawala wake unazidi kutambulika na baadhi ya mashirika ya kigeni yanayojulikana katika kutathmini kwa biashara zilizowajibika. Ninafuraha kuwaeleza kwamba katika mwaka wa 2011 , shirika la benki ya NIC lilishinda ,sasa kwa mwaka wa pili mfululizo, Tuzo la Jumla la Mabingwa wa Utawala na Usimamizi Bora, lililodhaminiwa na ICSPAK, Benki Kuu Ya Kenya, Halmashauri ya Manufaa Baada ya Kustaafu na Halmashauri ya Kuthibiti Bima, na wengine wengi. Benki ya NIC pia ilitangazwa kuwa mshindi katika kitengo cha Viwango vya Ubora vya Kimataifa vya Utoaji wa Ripoti za Kifedha (IFRS) pia waliibuka wa pili katika shindalo la Tuzo la (FiRE), shindano ambalo liliandaliwa na Soko la Hisa la Nairobi (NSE), Taasisi Ya Wahasibu ya Kenya (ICPAK) na Halmashauri ya Masoko ya Mtaji (CMA).

JUKUMU LA KIJAMII

Kuwajibikia jamii huwa ni kiungo muhimu sana katika kanuni za utendakazi za Benki ya NIC. Shirika linanuia kuwapa thamani washika dau na wabia wake wote na kadhalika kuchangia ipasavyo katika mazingira, kifedha na maslahi ya kijamii kwa wateja, wafanyakazi wake, na wanajamii ambao ndio nguzo kuu ya biashara ya Benki ya NIC.

Katika mwaka wa 2011, shirika liliendelea kusaidia kwenye hatua za masomo, mazingira na michezo. Hali kadhalika, lilijitwika jukumu la kuyashughulikia mahitaji mengine yanayochipuka.

Katika sehemu ya Elimu, shirika hili liliingia ubia na asasi muhimu ikiwepo ile ya Palm House Foundation na Edumed Trust, mashirika yanayowasaidia watoto kifedha ili kuendelea kimasomo. Hawa huwa ni watoto werevu na wenye vipawa lakini hawana uwezo wa kifedha. NIC huchukua jukumu la kuwasaidia wanajamii kupitia kwa mashirika hayo mawili. Kwa kuwasaidia watoto hawa katika shule za upili na kuwapa ushauri, shirika la benki ya NIC huwapa nafasi ya kuboresha maisha yao na ya familia zao.

Kupitia 'Junior Achievements Kenya' ambayo ni sehemu ya 'Junior Achievements Worldwide', shirika lililosaidia vijana wa Kikenya ili kuwawezesha kujiandaa kikazi kwa siku za usoni, kuwapa maarifa na kuwafunza mbinu za ujasiri-amali kupitia kwa miradi ama programu za JA.

Kadhalika, Shirika la Benki ya NIC huwapatia wanafunzi nafasi za masomo ya kila mwaka ya huko nyanjani. Masomo haya ya nyanjani huwawezesha mwanafunzi kuyazoea mazingira ya kuajiriwa

Kuhusu mazingira katika mwaka wa 2011 ukiwa mwaka wa tatu mfululizo, shirika lilihusika katika kampeini ya ''Tupande Pamoja" shughuli ya kupanda miti kwenye msimu wa Krismasi. Tupande paamoja ni kampeini iliyowashirikisha wafanyakazi wa NIC na wale wa UNEP , vile vile shirika la Misitu nchini kwa

lengo la kuhifadhi, kuhuisha na kurejesha ubora wa mali-asili kwenye msitu wa Aberdare.

Kadhalika Benki ya NIC imechukua hatua ya kudhamini mchezo wa gofu kamanjia mojawapo ya kukuza mchezo huo nchini. Hatua hizo ni kama vile kuwadhamini Wakenya sita (6) katika shindano la European Challenge Tour Kenya Open katika ziara itakayofanyika mnamo mwezi April 2011. Kupitia shirika la Kenya Golf Union, wakishirikiana na Wizara ya Vijana na Michezo, NIC ilidhamini timu ya Kenya ili kuiwakilisha Kenya kwenye Africa Amateur Golf Team Championship itakayochezewa huko Afrika Kusini. Benki ya NIC iliwapatia kikosi kizima mchango wa fedha na Bima ya Usafiri. Walitoa mchango kama huo tena katika shindano la East African Open mjini Arusha -Tanzania.

MAANDALIZI BORA YA UKUAJI WA BENKI YA NIC

Mazingira ya utendakazi katika soko letu yanatarajiwa kuwa na changamoto katika mwaka wa 2012. Mtitigo wa kiuchumi wa nje na ndani ya masoko yetu ulisababisha mfumko na kuongeza uvukivu katika masoko ya fedha hatimaye yanaelekea kuleta ugumu na pia utapunguuza mwendo na ukuaji wa uchumi wa Afrika Mashariki. Mambo mengine ya kushughulikiwa ni kuimarisha siasa kabla ya uchaguzi mkuu na changamoto za usalama wa majanibu mbali mbali.

Katika mwaka wa 2011, shirika la benki ya NIC lilifanya mabadiliko makubwa na kuwekeza katika kuimarisha na kujitahidi kuboresha mbinu za ushindani katika siku za usoni. Huku tukifahamu vyema magumu ya shughuli zetu, NIC inajikakamua ili kuwa shirika thabiti, taasisi bora ya kifedha na inayojali wateja wake na hali kadhalika shirika lenye matarajio makuu ya mwaka wa 2012. Shirika la NIC lina mikakati kabambe ya kupambana na hatari ama mazingira yasiyotarajiwa ya uvukivu au mfumko wa kifedha huku tukiwa na matarajio makuu ya kuboresha uchumi na biashara mpya na npia nafasi za kipindi kirefu cha ukuaji wa kibiashara.

SHUKRANI

Kamati yenu imefurahishwa mno matokeo ya shirika hili ya mwaka wa 2011. Hii ikiwa ni katika matokeo mazuri ya kifedha na usimamizi bora wa benki ya NIC.

Wateja wengi walikumbwa changamoto kwenye mwaka wa 2011 na ikawabidi kutafuta ushauri na msaada kutoka NIC na hatimaye wakapata huduma za kifedha ambazo ziliwapatia suluhisho kamili kwa matatizo waliokuwa nayo. Matokeo ya kifedha ya mwaka yalikuwa ni ishara tosha ya mtagusano mzuri wa shirika hili na wateja wake, na kufuatia hatua hiyo ningependa nitoe shukurani zangu za dhati kwa kila mmoja wenu na kila mteja wetu kwa kudumisha uteja mwema, kuamini kwamba tunaweza kuwapatia Huduma bora na kwamba NIC ina uwezo wa kuwatimizia matakwa yenu yote ya kibiashara.

Ufanisi na matokeo bora ya NIC yametokana na bidii ya mchwa ya utendakazi wa wafanyakazi wote. Kadhalika ningependa kuwashukuru kwa kujitolea kwenu, maamuzi yenu thabiti, shauku na bidii ambazo zimechangia kufanikisha matokeo haya ya mwaka wa 2011.

Nataka pia niushukuru ushirikiano wa dhati uliokuwepo katika ya wahusika wa Benki ya NIC na wasimamizi wa sekta hii, miongoni mwao wakiwa ni Benki Kuu Ya Kenya, 'Benk of Tanzania', 'Benk of Uganda', Soko la Hisa la Nairobi na hali kadhalika Halmashauri ya Soko la Mtaji.

Nikihitimisha, ningependa kuwashukuru washikadau wote kwa kuwa na imani katika maazimio ya ukuaji na utendakazi wa Shirika hili la Benki ya NIC hasa katika sehemu ya kutaka kuwekeza zaidi kwenye faida tulizopata. Hali kadhalika nataka kuwashukuru wakurugenzi wakuu kwa kazi yao kubwa waliyofanyia shirika hili huku wakiwa na azma ya kupeperusha bendera ya benki ya NIC hadi katika upeo wa juu kabisa kiuchumi.

J P M Ndegwa

Mwenyekiti

22 Februari 2012

BOARD OF DIRECTORS

1. **James P M Ndegwa -** Chairman (Non-Executive)
   Mr. Ndegwa, aged 48, holds an MA (Hons) degree from Oxford University, UK, and is an Associate of the Chartered Insurance Institute, UK. He is the Chairman of First Chartered Securities Limited (FCS) and a director of several companies. Prior to his present position, he was the Managing Director of Lion of Kenya Insurance Company until 2003. He joined the NIC Board on 19 November 2003 and was appointed Chairman in 2005.

2. **Frederick M Mbiru -** Vice Chairman (Non-Executive, Independent)
   Mr. Mbiru, aged 74, holds a BA (Hons) degree from Makerere University and is an Associate of the Chartered Institute of Bankers. He is currently a management consultant and a director of several companies having retired as General Manager of Barclays Bank of Kenya in 1993. He joined the NIC Board on 16 February 1993.

3. **James W Macharia -** Group Managing Director (Executive)
   Mr. Macharia, aged 52, holds a B. Comm (Hons) degree from University of Nairobi and an MBA from Henley Management College, UK. He is a Chartered Accountant (Institute of Chartered Accountants in England and Wales), as well as a Certified Public Accountant (Institute of Certified Public Accountants of Kenya). He has been Managing Director of various companies within the African Banking Corporation (ABC) Group in both Zambia and Tanzania. He joined NIC Bank in May 2005 as Managing Director and was appointed to the NIC Board on 1 May 2005.

4. **Alan J Dodd -** Director (Executive)
   Mr Dodd, aged 56, has a BA (Hons) degree in Economics from Portsmouth University, UK. He has extensive regional and international banking experience covering East and Southern Africa, the Middle East and Asia. He joined NIC Bank in January 2006 as Director, Corporate Banking, and was appointed to the NIC Board on 22 February 2006.

5. **George A Maina -** Director (Non-Executive, Independent)
   Mr. Maina, aged 60, holds a B. Tech (Hons) degree in Aeronautical Engineering and Design from Loughborough University, UK. He is currently a business consultant and a director of several companies. He has extensive experience in the oil industry in Africa, the Caribbean and Central America including being Managing Director of Kenya Shell and BP Kenya Limited from 1998 to 2002. He joined the NIC Board on 1 June 2002.

6. **Francis N Mwanzia -** Director (Non-Executive, Independent)
   Mr Mwanzia, aged 67, has a B Com degree from University of Nairobi and is a qualified member of the Association of Chartered Certified Accountants, UK and Chartered Institute of Secretaries and Administrators, UK. He is also a member of ICPAK and ICPSK. He is currently a businessman having retired as Group Financial Controller and Company Secretary of NAS Airport Services in 1999. He joined the NIC Board on 3 August 1995.

7. **Andrew S M Ndegwa -** Director (Non-Executive)
   Mr Ndegwa, aged 44, holds a BA (Hons) degree in Philosophy, Politics and Economics from Oxford University, UK. He is the Executive Director of First Chartered Securities Limited (FCS) and a director of several companies. He previously worked for Citibank and AMBank until 1995. He joined the NIC Board on 23 April 1997.

8. **I Ochola - Wilson -** Director (Non-Executive, Independent)
   Mrs. Ochola-Wilson, aged 63, holds a BA degree from Dar-es-Salaam University and an MBA from University of British Columbia, Canada. She is currently a business consultant having retired as a Project Manager for DFID's Business Partnership Programme in 2005. She joined the NIC Board on 5 November 1999.

9. **Michael L Somen -** Director (Non-Executive, Independent)
   Mr. Somen, aged 75, is a Barrister-at-Law, Grays Inn, England, and holds an MBA (Hons) degree from Brasenose College, Oxford. He is an Advocate of the High Court of Kenya. He retired in 2002 as Senior Partner of Hamilton Harrison & Mathews Advocates but remained as a consultant with the firm until 2010. He joined the NIC Board on 21 February 2001.

10. **Paras V Shah -** Director (Non-Executive, Independent)
    Mr Shah, aged 38, is a lawyer by profession and a Certified Public Secretary. He holds an LLB (Hons) degree, from King's College London, Diploma in legal practice from the College of Law, London, Diploma in Legal practice from Kenya School of Law and Diploma in Management from Henley School of Management. He is an Advocate of the High Court of Kenya and currently a partner of Hamilton Harrison & Mathews Advocates. He joined the NIC Board on 23 February 2010.

11. **Livingstone Murage -** Group Company Secretary
    Mr Murage, aged 54, has a B Com (Hons) degree from University of Nairobi and is a Certified Public Accountant and a Certified Public Secretary. He is also a member of ICPAK and ICPSK. He previously worked for Price Waterhouse and Mobil Oil, before joining the banking sector in 1986. He was appointed Company Secretary on 2 September 1999.

CORPORATE INFORMATION

DIRECTORS

J P M Ndegwa - Chairman
F M Mbiru - Vice Chairman
J W Macharia - Group Managing Director
A Dodd*
G A Maina
F N Mwanzia
A S M Ndegwa
I Ochola-Wilson
M L Somen
P V Shah

* British

AUDIT COMMITTEE

F N Mwanzia - Chairman
F M Mbiru
I Ochola-Wilson

NOMINATIONS COMMITTEE

J P M Ndegwa - Chairman
G A Maina
M L Somen
I Ochola-Wilson

CREDIT RISK COMMITTEE

F M Mbiru - Chairman
F N Mwanzia
A S M Ndegwa
M L Somen
P V Shah

HUMAN RESOURCES AND COMPENSATION COMMITTEE

I Ochola-Wilson - Chairman
F M Mbiru
A S M Ndegwa

EXECUTIVE COMMITTEE

A S M Ndegwa - Chairman
G A Maina
M L Somen

REGISTERED OFFICE

NIC House
Masaba Road
P O Box 44599
Nairobi - GPO 00100

RISK MANAGEMENT COMMITTEE

G A Maina - Chairman
F M Mbiru
I Ochola-Wilson

REGISTRARS AND TRANSFERS OFFICE

Custody & Registrars Services Limited
6th Floor, Bruce House,
Standard Street
P.O Box 8484
Nairobi - GPO 00100

GROUP COMPANY SECRETARY

L Murage
Certified Public Secretary (Kenya)
NIC House, Masaba Road
P O Box 44599
Nairobi - GPO 00100

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P O Box 40092
Nairobi - GPO 00100

The Board is committed to ensuring that the business is run in a professional, transparent, just and equitable manner so as to protect and enhance shareholder value and satisfy the interests of other stakeholders. The principles and standards adhered to by the Board have been developed with close reference to guidelines on corporate governance issued by the Centre for Corporate Governance, the Capital Markets Authority for publicly listed companies in Kenya, the Central Bank of Kenya for the banking industry and other best practices.

During 2011, the Board's focus was geared towards the achievement of compliance with the qualitative aspects of good governance whilst ensuring that implementation matches the needs of the business.

Board Size, Composition and Appointments

The Board consists of ten directors, eight of whom are non-executive directors (including the Chairman) and two executive directors. Among the non-executive directors are six independent directors. The membership of the Board remained unchanged in 2011.

The non-executive directors are independent of management. Their role is to advise, constructively challenge and monitor the success of management in delivering the agreed strategy within the risk appetite and control framework that is set by the Board.

The Board is well composed in terms of the range and diversity of skills, background and experience of directors, and that it has an appropriate balance of executive, non executive and independent directors. Consideration will be given at the next Annual General Meeting to amend the Company's Articles of Association to permit the appointment of additional directors beyond the present maximum of 10 persons so as to further enhance diversity and to allow for orderly succession planning.

The directors' abridged biographies appear on page 19 of this Annual Report.

All the non-executive directors are subject to retirement by rotation and must seek re-election by shareholders at least once every three years in accordance with the Articles of Association. Any director appointed during the year is required to retire and seek re-election at the next Annual General Meeting.

Board Responsibilities

The Board's principal duty is to promote the long-term success of the Group by creating and delivering sustainable shareholder value. The Board Charter defines the governance parameters within which the Board exists and operates, sets out specific responsibilities to be discharged by the Board, its committees and directors collectively, as well as certain roles and responsibilities incumbent upon directors as individuals.

A summary of the Board's responsibilities is as follows:

- Providing entrepreneurial leadership to the Group within a framework of prudent and effective controls which enable risk to be assessed and managed,
- Strategy formulation and ensuring that there are adequate policies, systems and structures to successfully implement the Group strategies,
- Monitoring the Group's performance against strategic plans and objectives on an ongoing basis, as well as through mandatory quarterly meetings,
- Approval for publication of quarterly financial statements,
- The selection, appointment and appraisal of senior executive officers who are qualified and competent to manage the affairs of the Group effectively,
- Approval of the risk management framework and ensuring that there are adequate structures and systems to identify, measure and monitor the key risks facing the Group, including compliance related risks,
- Reviewing the effectiveness of the systems for monitoring and ensuring compliance with laws and regulations,
- Determining the terms of reference of all Board committees and reviewing of reports and minutes of the committees.
- Reviewing the Group's capital levels to ensure that there is adequate capacity for the planned growth and expansion within the strategic cycle.

Chairman and Group Managing Director

The roles and responsibilities of the Chairman of the Board and the Group Managing Director remain distinct and separate. The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board decisions. The Group Managing Director is responsible to the Board and takes responsibility for the effective and efficient running of the Bank and its subsidiaries on a day-to-day basis.

The Deputy Chairman deputises for the Chairman at meetings of the Board and supports him in his role.

Board Remuneration

Non executive-directors are paid a monthly fee, together with a sitting allowance for every meeting attended. They are not eligible for pension scheme membership and do not participate in any of the Company's remuneration schemes.

Details of the directors' fees for the non-executive directors and remuneration of the executive directors paid in 2011 are set out on page 92.

Directors' Shareholding

None of the directors as at the end of year 2011 held shares in their individual capacity that was more than 1% of the Company's total equity.

Board and Strategy Meetings

The Board and its committees meet regularly in accordance with business requirements.

The Board Work Plan together with the calendar of meetings for 2011 was fixed in advance and provided to all directors. Adequate notice was given for each meeting and directors received in good time detailed papers on the issues to be discussed. In 2011 four scheduled Board meetings were held, in addition to a special Board meeting convened to review and approve the implementation of a new core banking computer system.

During 2011 the full Board also attended a two day retreat to review the achievements of the 2009/2011 Strategic cycle and also develop the 2012/2014 Strategic Plan.

The Board has ownership over the Group's strategic direction. At each Board meeting progress towards the targets of the approved business plans is reviewed and guidance provided to senior management as appropriate. The Board receives regular reports and presentations from the Group Managing Director on the macroeconomic environment and the impact on banking business, a review of the financial services industry and the regulatory environment, strategy and business development and the financial performance of the banking industry.

The summary of the Board meetings and attendance is shown on page 26.

Directors' External Activities and Conflicts of Interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group. Business transactions with all parties, directors or their related parties are carried out at arms' length.

In 2011 the directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to the attention of a director that a matter concerning the Bank may result in a conflict of interest, they are obliged to declare the same and will exclude themself from any discussion or decision over the matter in question.

- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the Group, the director will be obliged to offer their resignation.

- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed on page 92.

Board Structure

The Board operates under a comprehensive structure made up of committees established to assist it in discharging its responsibilities and obligations. The committees assist the Board in carrying out its functions and ensuring that there is independent oversight of internal control and risk management.

The Board has determined the purpose and number of committees required to support it in carrying out its duties and responsibilities and in guiding management. These committees have been established with sets of specific terms of reference, which were reviewed and updated in 2011. The appointment of the members to these committees draws on the skills and experience of individual directors.

The Board committees namely: Audit; Credit Risk; Executive; Human Resources & Compensation; Nominations and Risk Management are supported by five key management committees: Executive Management (Excom), Management (Mancom), Assets and Liabilities Management (ALCO), Credit Risk Management and Senior Risk Committees.

At every meeting of the Board the chair of each committee presents an update of its activities, decisions and recomendations of their respective committees since the previous Board meeting.

Membership of the various Board committees is shown on page 20.

The Group Company Secretary sits in all the Board and committee meetings and is responsible for monitoring and coordinating the completion and dispatch of Board and committee agenda, papers and other briefing materials.

Management and external service providers and experts attend by invitation as circumstances dictate. Directors' attendance of these committees is provided on page 26.

Details of these committees are given here below.

- **Audit Committee**

  The committee plays a vital role in ensuring the integrity of the financial statements prior to the review and approval by the Board. The committee continually evaluates the effectiveness of the internal control systems and receives reports on the findings of the internal and external auditors and management's corrective actions in response to the findings.

  The committee meets quarterly and the external auditors are invited to attend whenever necessary but at least once in a year.

- **Credit Risk Committee**

  The committee reviews and oversees the overall lending policies of the Group and approves credit applications that are above the approval limits for management. It ensures that there are effective procedures to identify and manage irregular and problem facilities, minimize credit loss and maximize recoveries.

The committee recommends to the Board discretionary credit limits for the Board, Credit Risk Committee and Management Credit Risk Committee.

- **Executive Committee**

  The committee assists the Board in discharging its responsibilities relative to strategy, human resources and general operations oversight. The committee meets regularly to review and recommend for Board approval major capital projects, periodic strategic plans and key policy guidelines as developed by management.

- **Human Resources and Compensation Committee**

  The committee reviews the Human Resources policies and procedures and ensures that they adequately support the Group's strategy. It ensures that the Group's policy of providing remuneration packages that fairly reward staff for their contribution to the business, whilst considering the need to attract, retain and motivate staff of the highest caliber.

  The committee ensures succession plans are in place for senior executive management of the Group.

- **Nominations Committee**

  The Nominations Committee provides an efficient, effective and reliable mechanism that identifies and recommends to the Board the appointment of individuals to serve as directors of the Bank. It conducts regular reviews of the required mix of skills and experience of directors of the Bank in order to ensure the effectiveness of the Board and its committees in meeting the needs of the business.

- **Risk Management Committee**

  The Risk Management Committee is responsible for setting the strategic risk parameters through policies / guidelines, tolerance limits, and approving the risk management strategy, significant policies and programs. Thereafter, it monitors compliance with the risk policies, limits and programs. It also reviews the adequacy of the risk management framework in relation to the risks faced by the Group and in comparison to the approved tolerances. The committee is assisted in these functions by the various risk management committees that are also concerned with risk which undertake both regular and ad-hoc reviews of the Group's risk management environment, the results of which are reported at appropriate levels for review and action.

  The risk management policies which are reviewed by the committee are detailed on pages 54-67 and are in line with International Financial Reporting Standards.

Management Committees

A significant factor in the Group's ongoing success is the strength of the management team. Members of the management team bring together a vital combination of leadership skills and extensive banking experience from both local and international exposure. To harness that strength, the Group Managing Director has established committees to assist him in the management of the Group. These committees are chaired by the Group Managing Director and include the respective Heads of Department, with other senior managers being co-opted on a need basis. These committees include:-

- **The Executive Management Committee (EXCOM)**

  This committee meets regularly and at least monthly to discuss strategy formulation and implementation, policy matters and financial performance. It is also charged with the responsibility of ensuring compliance with the regulatory framework and guidelines and adherence to company policy and procedures. This committee also serves as a link between the Board and management.

- **The Management Committee (MANCOM)**

  This committee meets monthly to review operational issues of the Group, with emphasis on the assessment and monitoring of the institution's operational risks.

- **The Assets and Liabilities Management Committee (ALCO)**

  This committee meets every month or more frequently when necessary. ALCO, a risk management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposit withdrawals can be met as and when they fall due, and that the Group will not encounter difficulties in meeting its obligations or financial liabilities as they fall due. This includes management of operational risks, interest rate, market and exchange rate risks and ensuring compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, and investment policies.

- **The Management Credit Risk Committee**

  This committee meets regularly to approve new credit applications and renewals within the delegated limits set by the Board. The committee also regularly makes recommendations to the Board Credit Risk Committee on the revision of limits. All approvals are independent of the originating business unit.

- **The Senior Credit Risk Committee**

  This committee meets monthly to review the performance of the Bank's lending book and determines the level of provisions required in accordance with the approved policies and regulatory guidelines.

Board and Directors Evaluation in 2011

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees an annual self evaluation review is undertaken. The self evaluation reviews, the capacity, functionality and effectiveness of the Board and directors during the financial year. The review is also in

accordance with the requirements of the Central Bank of Kenya Prudential Guidelines on Corporate Governance.

The evaluation which is also in accordance with the requirements of the Central Bank of Kenya Prudential Guidelines on Corporate Governance, measures the performance of the Board against its key duties and responsibilities, that of its committees and individual members of the Board.

The evaluation, process is conducted through questionnaires and then collated by the Chairman who takes up specific matters with individual directors.

Overall it is considered that in 2011 the Board and its committees;

- Carried out their roles and responsibilities satisfactorily and effectively.
- Regularly reviewed, formulated and approved the strategic direction of the Group in light of the business environment and regulatory framework.
- Developed appropriate policy guidelines to assist management in decision making.
- Fulfilled their role to the Group's various stakeholders.
- Generally guided and supported the management which has been responsive to the advice provided.

A report on the overall evaluation assessment was submitted to the Central Bank of Kenya in accordance with the Prudential Guidelines on Corporate Governance.

Code of Conduct

In 2011, the Board reviewed and revised the Code of Conduct that binds both the directors and employees. The NIC Bank Group takes cognizance of the fact that its success is dependent on the environment and the communities in which it operates. The Group policy ensures that its activities meet and exceed the social, economic and environmental expectations of its stakeholders.

The Code of Conduct also introduced a new chapter on Governance Risk and Compliance that highlights the Group's commitment to having an integrated risk management framework.

The Code of Conduct was signed by all directors and staff.

Relationship with Shareholders

The Group is committed to relating openly with its shareholders by providing regular information on its performance and addressing any areas of concern. This is achieved through quarterly publication of extracts of its financial performance in the daily newspapers in line with the Central Bank of Kenya requirements, distribution of annual audited accounts and holding of the Annual General Meeting. The most recently published results are also available on the Bank's website, www.nic-bank.com.

The Bank has engaged the services of a registrar, Custody & Registrar Services, who together with the Group Company Secretary, regularly address issues raised by the shareholders.

Internal Control

The directors acknowledge their responsibility as set out on page 31 for the Group's system of internal financial control, including taking reasonable steps to ensure that adequate systems are being maintained. Internal control systems are designed to meet the particular needs of the Group, and the risks to which it is exposed with procedures intended to provide effective internal financial control. However, it is to be recognized that such a system can only provide reasonable, but not absolute, assurance against material misstatement.

The Board has reviewed the Group's internal control policies and procedures and is satisfied that appropriate controls and procedures are in place.

The Board has put in place a comprehensive risk management framework to identify all key risks, measure these risks, manage the risk positions and determine capital allocations. The policies are integrated in the overall management reporting structure. The Head of the Risk Management and Compliance Department reports directly to the Board's Risk Management Committee.

The Group's performance trend is reported regularly to the Board and includes an analysis of performance against budget and prior periods. The financial information is prepared using appropriate accounting policies which are applied consistently.

The Group has an Internal Audit Department which is an independent function that reports directly to the Board Audit Committee and provides independent confirmation that the Group's business standards, policies and procedures are being complied with. Where found necessary, corrective action is recommended.

The Group also has a Compliance Department that reviews the compliance framework and ensures adherence to the company and regulatory requirements.

Going Concern

The Board confirms that it is satisfied that the Group has adequate resources to continue in business for the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

The Company, through its Registrar, 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 31st December 2011 was 25,186 (2010 – 25,250).

A. Principal Shareholders

The top 10 major shareholders, based on the Bank's share register as at 31st December 2011 are as follows:

NAME	No. of Shares	%
First Chartered Securities Ltd	62,561,440	15.84
ICEA Asset Management Ltd A/C 2000	35,789,788	9.06
Livingstone Registrars Ltd	32,096,974	8.13
Rivel Kenya Ltd	30,524,188	7.73
Saimar Ltd	16,313,623	4.13
Amwa Holdings Ltd	7,808,893	1.98
Duncan Nderitu Ndegwa	6,143,453	1.56
Thuthuma Limited	5,036,131	1.28
Makimwa Consultants Ltd	4,980,091	1.26
Standard Chartered Nominees A/C 9230	4,380,076	1.11
Total	**205,634,657**	**52.08**

B. Distribution Schedule

CATEGORY	No. of Shareholders	No. of Shares	%
1-500 shares	7,557	1,501,074	0.38
501-5,000 shares	14,390	26,771,432	6.78
5,001-10,000 shares	1,536	11,583,103	2.93
10,001-100,000 shares	1,435	42,139,544	10.67
100,001-1,000,000 shares	234	66,800,998	16.92
1,000,001 and over	34	246,101,411	62.32
Total	**25,186**	**394,897,562**	**100.00**

C. Shareholder Profile

CATEGORY	No. of Shareholders	No. of Shares	%
Local individual investors	23,453	89,960,364	22.78
Local institutional investors	1,577	298,937,056	75.70
Foreign individual investors	141	2 ,619,012	0.66
Foreign institutional investors	15	3 ,381,130	0.86
Total	**25,186**	**394,897,562**	**100.00**

STATEMENT ON CORPORATE GOVERNANCE (Continued)

BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE RECORD - 2011

Director	Classification	Designation		Board	Audit	Credit Risk	Human	Executive	Strategy	Risk
J P M Ndegwa	Non-executive	Chairman	Membership	√					√	
		Board	Attendance	5/5				1/4	1/1	
F M Mbiru	Non-executive	Chairman	Membership	√	√	√	√		√	√
		Credit Risk Committee	Attendance	5/5	4/4	10/10	2/2		1/1	3/3
J W Macharia	Executive	Group Managing Director	Membership	√		√	√	√	√	√
			Attendance	5/5	4/4	10/10	2/2	4/4	1/1	3/3
G A Maina	Non-executive	Chairman	Membership	√				√	√	√
		Risk Management Commmitee	Attendance	5/5				4/4	1/1	3/3
F N Mwanzia	Non-executive	Chairman	Membership	√	√	√			√	
		Audit Committee	Attendance	5/5	4/4	8/10			1/1	
A S M Ndegwa	Non-executive	Chairman	Membership	√	√	√	√	√	√	
		Evecutive Committee	Attendance	5/5	1/4	9/10	2/2	4/4	1/1	
I Ochola-Wilson	Non-executive	Chairman	Membership	√	√		√		√	√
		Human Resources and Compensation Committee	Attendance	5/5	3/4		2/2		1/1	2/3
M L Somen	Non-executive		Membership	√		√		√	√	
			Attendance	5/5		9/10		4/4	1/1	
P V Shah	Non-executive		Membership	√		√			√	
			Attendance	5/5		9/10			1/1	
A Dodd	Executive		Membership	√		√	√	√	√	√
			Attendance	5/5	4/4	10/10	2/2	4/4	1/1	3/3

Notes:

√ - Member of respective committee

- When a director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Board Chairman or Chairman of the respective Board Committee in advance of the scheduled meeting.
- The Chairman attended one meeting of the Executive Committee by invitation.
- The Group Managing Director and the Executive Director are not members of the Audit Committee but attend by invitation.
- A S M Ndegwa stepped down as a member of both the Audit and the Risk Management Committees with effect from 1 March 2011.
- The Nominations Committee did not hold a formal meeting during the year.

SUSTAINABILITY STATEMENT 2011

As NIC Bank Group, we consistently take cognizance of the fact that our sustainability and success is dependent upon the environment and the communities in which we operate. It remains our Group policy, therefore, to ensure that our activities meet and exceed the social, economic and environmental expectations of our stakeholders.

The Group primarily targets initiatives geared towards the environment, education and financial literacy, emerging needs and sports. This report on the performance of NIC Bank Group in these areas during the year 2011 is part of our commitment to transparency and accountability.

Environment

Through a network of environment-conscious civil societies, NIC Bank Group engaged Tupande Pamoja partners, namely, The East Africa Wildlife Society, Kenya Forests Working Group, Nature Kenya and the United Nations Environmental Programme in a partnership dubbed "Building a Corporate Social Responsibility Partnership for a Greener Kenya during the 2011 International Year of Forests."

While most of 2010 had been spent on monitoring the seedlings that were planted the previous year, 2011 saw the Group join hands with Tupande Pamoja partners to increase the forest's acreage by a further 10,000 seedlings covering five hectares, and we have now covered 15 hectares since 2009. The initiative, in which the Group has so far invested Shs 2 million, recognizes the importance of the community in undertaking spot checks to ensure the seedlings have taken root.

The NIC Bank Group also supported the "Rhino Ark Trust", another initiative aimed at the conservation of the environment, by sponsoring teams to the 2011 Rhino Charge. This is an annual off-road motorsport competition that has been held in Kenya since 1989. The event is held to raise funds for a very noble cause – the conservation of Kenya's Aberdare Ecosystem. In 2011 Shs 75 million was raised during this event.

Education

In 2011 NIC Bank Group continued to channel its educational support through established trusts, foundations and organizations while also undertaking its own activities as detailed below;

a) Palmhouse Foundation:

The foundation sponsors bright students from families that are financially challenged who have gained admission to national and provincial secondary schools and most of whom have attended poorly equipped rural primary schools.

NIC Bank Group increased its sponsorship during the year to Shs 600,000 and an additional 8 students were included in the programme. The foundation currently has 20 students on NIC Scholarships spread throughout Kenya.

b) Edumed Trust:

This is a Kenyan Christian charitable trust which supports education and medical needs of bright students from needy families. The Group sponsored a further 10 students by donating Shs 300,000.

c) Junior Achievement:

Junior Achievement Kenya is a member of Junior Achievement Worldwide, one of the world's largest and fastest growing not-for-profit organizations committed to inspiring and preparing young people to succeed in a global economy.

Their programs are based on the three pillars:

- Entrepreneurship
- Work readiness
- Financial literacy

The Group donated Shs 300,000 towards their programs and also participated in the Job Shadow program which gave high school students a chance to experience 'a day

in the life' of an NIC Banker. A total of 97 students were hosted in NIC Bank's branches across the country.

d) NIC Entrepreneur Club

In 2010, the Group launched the NIC Entrepreneur Club whose objective is to help build capacity for the club members who are mostly Small and Medium Sized Businesses, whilst allowing them to network amongst themselves.

The club, whose operations are fully funded by the Group, invites speakers who are respected authorities in their fields to impart their business skills and experiences. Participants are therefore able to gain industry insights that they can thereafter apply with the aim of growing their businesses.

So far, over 2,000 entrepreneurs have benefitted from the financial clinics and the Group continues to witness tremendous progress in their businesses. In 2011, the Group held the workshops in Nairobi, Mombasa, Kisumu, Nakuru and Eldoret and had a good turnout of entrepreneurs from these regions.

e) Nairobi Securities Exchange (NSE) Investment Challenge

NIC Securities Limited, a subsidiary of NIC Bank Group, partnered with the Nairobi Securities Exchange (NSE) Investment Challenge for the third year running for the annual online competition which is a simulation of the activities that happen around trading in securities (bonds & stocks) listed on the NSE.

Participants, who are drawn from over 100 universities across Kenya, were given Shs 1 million virtual start up capital to trade with using live data from NSE for a period of three months. They received mentorship from the NSE and the NIC Securities team. The NIC Securities Limited and NIC Capital Limited teams were involved in the judging process and cash prizes, and internships were offered to the winning students.

In addition to these activities NIC Bank Group further offers paid-up internships to university graduates annually. The internships are a training ground to produce better equipped youth who can be gainfully employed or start their own businesses and help drive the country's economic development.

Emerging needs

In addition, as a socially responsible corporate, NIC Bank Group participates in emerging needs as they arise, some of the initiatives undertaken under this category include:

- **Kenyans for Kenya**

  NIC Bank Group donated Shs 1.5 million towards the Kenya-led famine relief initiative, geared towards saving over 3 million Kenyans from starvation following the severe drought that affected the country and especially the North Eastern region.

- **The Mater Heart Run 2011**

  Over 50 members of staff once again participated in the 2011 Mater Heart Run that was flagged off at The Nyayo Stadium. This is an annual event that seeks to raise funds towards the treatment of needy children with heart complications.

- **Keino Sports Marketing – Chizi Gazelle Initiative**

  The Group supported this initiative that seeks to encourage development of athletics and education among primary school-going children in Eldoret and its environs by donating Shs 250,000.

Sports

NIC Bank Group has also taken up the sponsorship of Golf as one way of promoting the development of sports in the country. Such initiatives include sponsorship of 6 Kenyan professionals during the European Challenge Tour Kenya Open in April 2011. Through the Kenya Golf Union, and in conjunction with the Ministry of Youth and Sports, NIC supported the Kenya Team's participation in the Africa Amateur Golf Team Championship in South Africa by offering a cash donation and travel insurance cover for all team members. The same support was provided during the East African Open held in Arusha Tanzania.

Employees

As at 31 December 2011, NIC Bank Group employed 596 employees on a full time basis compared to 514 in 2010. These employees strive to provide world class financial services while upholding the corporate values of being professional, innovative, passionate, responsive and of absolute integrity.

- **Ethical Standards**

  The NIC Bank Group conducts business in compliance with high ethical standards of business practice. The Group has a Code of Conduct which outlines the principles and policies that govern the activities of the Group, and to which the employees must adhere. All employees and directors have committed to follow NIC Bank's Code of Conduct.

  Upon engagement, new directors and members of staff are required to sign the Code of Conduct acknowledging that they have read it and are committed to abide by it.

- **Communication**

  The NIC Bank Group encourages dialogue and participation from all employees through the internal intranet and through cross functional team-building initiatives. Further, the Group holds an annual staff conference where all staff members meet to discuss the Group's progress and strategic direction.

  In 2011, many change management initiatives that emanated from the 2010 staff engagement survey were fully implemented in response to employees' expectations. The aim of the survey was to facilitate the development of an enabling work environment through positive engagement with employees.

  Employees' view of the organization is an important management tool that provides information useful for creating a work place where people contribute, grow and succeed.

- **Staff Training & Development**

  Staff training and development remains at the heart of employees' growth. The Group firmly believes that the growth of the business is inextricably bound with the growth of its employees.

  In 2011, training continued to focus on departmental technical competencies and people management skills at all levels, including:

  - Exceptional Customer Service is considered as one of the Group's core competencies and training continued for new and existing staff throughout the year.

  - E-learning was introduced as the latest training medium as the Group embraces technological advancements to communicate, educate and to exceed stakeholders expectations . In the course of 2012, we will introduce mandatory E-learning courses for core banking skills such as credit skills and relationship management for both liabilities and assets.

  - With the implementation of a new computer software, T24 provided by Temenos, it has been necessary to train and retrain all the staff to ensure that everyone is prepared for T24 when it goes live.

  - Capacity building has been and will continue to be a key deliverable for the Human Resource department. In the past year, we focused training resources on developing technical competencies and induction for new employees to ensure that they joined the business seamlessly.

  In order to improve the training needs analysis, discussions on skills development have been delinked from the appraisal process to allow for better focus on development needs. The objective is to create a direct link between skills development, career growth and succession planning so that employees pay more attention to their training needs.

  Performance management is a key process and underpins staff engagement initiatives by ensuring that hard work is recognized and rewarded, everybody gets a fair chance, everybody does their fair share and everyone plays by the same rules.

  To provide staff with international exposure, the Group has identified overseas strategic partners where high potential, high performing employees are attached and developed.

  With the current employee skill-base, the Group is well positioned to effectively compete both locally and internationally.

- **Health and Safety at work**

  The maintenance of appropriate health and safety standards remains a key responsibility of all the line managers and the Group is committed to proactively managing all health and safety risks associated with the business. Our objective is to identify, remove, reduce or control material risks relating to fires and accidents or injuries to employees and visitors.

  We have a Health and Safety Policy which contains instructions and recommendations aimed at ensuring the health, safety and welfare of employees and other persons lawfully present in the Group's premises.

  It is the Group's policy to provide working conditions which ensure the health, safety and well-being of the staff. The line managers ensure that the policy is carried out and at the same time all members of staff must be aware of their individual responsibilities for the health and safety of themselves and their colleagues, customers and any other persons who may be affected by their activities at work.

REPORT OF THE DIRECTORS

The Board of directors has pleasure in submitting their annual report together with the audited financial statements for the year ended 31 December 2011 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses, the state of affairs of the Group and the Bank.

1. ACTIVITIES

The principal activities of the Group are the provision of retail and corporate banking, brokerage, bancassurance and investment banking services.

2. RESULTS FOR THE YEAR

The Group profit for the year of Shs 2,707,137,000 (2010: Shs 1,863,918,000) has been added to revenue reserves.

3. DIVIDENDS

An interim dividend of Shs 0.25 per share amounting to Shs 98,724,000 was paid to shareholders on 5 October 2011.

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, scheduled for 2 May 2012, the payment of a final dividend for the year of Shs 0.25 (2010: Shs 0.25) for every ordinary share of Shs 5. The dividends will be payable to the shareholders registered on the company's register at the close of business on 29 March 2012 and will be paid on or after 2 May 2012. The register will remain closed for one day on 30 March 2012.

4. REGIONAL EXPANSION

In line with its regional expansion strategy, the Board of Directors has approved the establishment of a commercial banking subsidiary in Uganda. The establishment of this subsidiary is subject to the ratification by the shareholders at the Annual General Meeting. The capital injection for this investment is Shs 961m (Uganda Shillings 25 billion).

5. CAPITAL

The directors recommend for approval at the upcoming Annual General Meeting an increase in the authorized share capital and the raising of additional capital of Shs 2 billion through a rights issue. The increase in the authorized share capital and the rights issue are also subject to the necessary regulatory approvals.

6. DIRECTORS

The directors who held office during the year and to date are shown on page 20. In accordance with articles 108, 109 and 110 of the Articles of Association, M L Somen, P V Shah and F N Mwanzia retire by rotation and, being eligible offer themselves for re-election.

7. AUDITORS

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

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 22 February 2012.

BY ORDER OF THE BOARD

L. Murage

Group Company Secretary

Nairobi

22 February 2012

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors accept responsibility for 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 and financial performance of the Group and the Bank. 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 and its subsidiaries will not remain a going concern for at least the next twelve months from the date of this statement

J P M NDEGWA
Chairman

J W MACHARIA
Group Managing Director

22 February 2012

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

Tel: +(254 - 20) 423 0000
+(254 - 20) 444 1344/05 - 12
Fax: +(254 - 20) 444 8966
Dropping Zone No. 92
E-mail: admin@deloitte.co.ke
www.deloitte.com

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NIC BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of NIC Bank Limited and its subsidiaries, set out on pages 33 to 98, which comprise the consolidated and Bank statements of financial position as at 31 December 2011, and the consolidated and Bank statements of comprehensive income, consolidated and Bank statements of changes in equity and consolidated and Bank statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the Bank and its subsidiaries as at 31 December 2011, and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

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

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

Deloitte & Touche
Certified Public Accountants (Kenya)
22 February 2012
Nairobi

Partners: S. O. Onyango F. O. Aloo H. Gadhoke* N. R. Hira* B. W. Irungu I. Karim J. M. Kiarie D. M. Mbogho A. N. Muraya J. Nyang'aya J. W. Wangai
*British

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

BANK 2011 Shs'000	BANK 2010 Shs'000		Note	GROUP 2011 Shs'000	GROUP 2010 Shs'000
5,935,433	4,399,859	Interest income	7	6,456,142	4,757,544
(2,337,059)	(1,433,515)	Interest expense	8	(2,552,092)	(1,543,893)
3,598,374	**2,966,344**	**NET INTEREST INCOME**		**3,904,050**	**3,213,651**
883,737	595,483	Fee and commission income		1,016,583	683,050
(51,257)	(51,363)	Fee and commission expense		(58,400)	(54,705)
832,480	**544,120**	**NET FEE AND COMMISSION INCOME**		**958,183**	**628,345**
1,280,926	975,069	Net trading income	9	1,387,158	1,092,901
164,792	135,557	Other operating income	10	353,343	278,583
5,876,572	**4,621,090**	**OPERATING INCOME**		**6,602,734**	**5,213,480**
(249,166)	(290,145)	Impairment on loans and advances	11 (c)	(258,151)	(316,640)
(1,326,585)	(1,119,672)	Employee expenses	12	(1,598,250)	(1,342,130)
(178,831)	(162,849)	Depreciation and amortisation	13 (a)	(198,788)	(174,819)
(761,388)	(632,082)	Other operating expenses	13 (b)	(942,597)	(771,499)
(2,515,970)	**(2,204,748)**	**OPERATING EXPENSES**		**(2,997,786)**	**(2,605,088)**
3,360,602	**2,416,342**	**PROFIT BEFORE TAX**		**3,604,948**	**2,608,392**
(827,554)	(685,945)	Income tax expense	14 (a)	(897,811)	(744,474)
2,533,048	**1,730,397**	**PROFIT FOR THE YEAR**		**2,707,137**	**1,863,918**
		OTHER COMPREHENSIVE INCOME:			
(340,569)	(96,595)	Fair value loss on available for sale investments net of deferred tax		(340,569)	(92,441)
-	-	Exchange differences on translation of foreign operation		(8,371)	(38,592)
(340,569)	**(96,595)**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX**		**(348,940)**	**(131,033)**
2,192,479	**1,633,802**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**2,358,197**	**1,732,885**
		Profit attributable to:			
2,533,048	1,730,397	Equity holders of the Bank		2,652,458	1,817,232
-	-	Non-controlling interests		54,679	46,686
2,533,048	**1,730,397**			**2,707,137**	**1,863,918**
		Total comprehensive income attributable to:			
2,192,479	1,633,802	Equity holders of the Bank		2,303,518	1,686,199
-	-	Non-controlling interests		54,679	46,686
2,192,479	**1,633,802**			**2,358,197**	**1,732,885**
		EARNINGS PER SHARE			
Shs 6.41	**Shs 4.38**	**- BASIC**	**15**	**Shs 6.72**	**Shs 4.60**
Shs 6.41	**Shs 4.38**	**- DILUTED**	**15**	**Shs 6.72**	**Shs 4.60**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2011

BANK 2011 Shs'000	BANK 2010 Shs'000		Note	GROUP 2011 Shs'000	GROUP 2010 Shs'000
		ASSETS			
4,764,626	4,064,614	Cash and balances with Central Banks	16	5,638,916	4,698,737
250,024	285,701	Items in the course of collection	17	281,796	295,760
4,486,475	4,611,935	Due from banking institutions	18	5,692,655	6,374,825
7,216,755	4,846,408	Government securities	19	7,500,288	5,074,031
474,068	3,323	Derivative assets held for risk management	20	474,068	3,323
52,025,475	38,340,879	Loans and advances to customers	21	56,624,621	40,754,979
246,508	168,826	Other assets	22	335,487	214,894
-	-	Current income tax recoverable	14 (c)	8,690	8,180
1,360,846	481,712	Due from group companies	23	-	-
1,147,786	1,147,786	Investments	24	52,932	51,703
348,946	-	Deferred tax asset	25	361,842	11,839
851,768	688,266	Property and equipment	26	967,988	750,530
400,544	129,357	Intangible assets	27	1,037,222	767,496
7,500	7,625	Operating lease prepayments	28	7,500	7,625
73,581,321	**54,776,432**	**Total assets**		**78,984,005**	**59,013,922**
		LIABILITIES			
62,008,953	45,317,661	Customer deposits	29	66,293,053	48,492,224
206,149	101,479	Due to banking institutions	30	788,647	733,452
190,280	303,284	Line of credit	31	190,280	303,284
322,115	264,818	Due to group companies	32	-	-
223,321	174,215	Current income tax payable	14 (c)	229,538	179,344
674,738	658,926	Other liabilities	33	903,629	892,194
55,905	50,181	Unclaimed dividends	34	55,905	50,181
-	10,014	Deferred tax liability	25	-	10,014
63,681,461	**46,880,578**	**Total liabilities**		**68,461,052**	**50,660,693**
		EQUITY			
		Capital and reserves attributable to equity holders of the Bank			
1,974,488	1,794,989	Share capital	35 (a)	1,974,488	1,794,989
-	28,848	Share premium	35 (a)	-	28,848
159,864	164,645	Revaluation surplus on property	35 (b)	159,864	164,645
(437,164)	(96,595)	Investments revaluation reserve	35 (c)	(437,164)	(96,595)
-	-	Foreign currency translation reserve	35 (d)	(79,084)	(70,713)
507,519	366,056	Statutory credit risk reserves	35 (e)	533,581	369,372
7,695,153	5,637,911	Revenue reserves	35 (f)	7,902,122	5,748,216
9,899,860	**7,895,854**	**Total capital and reserves attributable to equity holders of the Bank**		**10,053,807**	**7,938,762**
-	-	Non-controlling interests	36	469,146	414,467
9,899,860	**7,895,854**	**Total equity**		**10,522,953**	**8,353,229**
73,581,321	**54,776,432**	**Total liabilities and equity**		**78,984,005**	**59,013,922**

The financial statements on pages 33 to 98 were approved and authorised for issue by the Board of Directors on 22 February 2012 and were signed on its behalf by:

J P M NDEGWA
(Chairman)

J W MACHARIA
(Group Managing Director)

F N MWANZIA
(Director)

L MURAGE
(Group Company Secretary)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

		Non-distributable						Distributable			
	Note	Share capital Shs'000	Share premium Shs'000	Revaluation surplus on property Shs'000	Investments revaluation reserve Shs'000	Foreign currency translation reserve Shs'000	Statutory credit risk reserves Shs'000	Revenue reserves Shs'000	Capital and reserves attributable to equity holders of the Bank Shs'000	Non-controlling interests Shs'000	Total equity Shs'000
At 1 January 2010		**1,631,808**	**192,600**	**169,426**	**(4,154)**	**(32,121)**	**293,161**	**4,173,753**	**6,424,473**	**367,781**	**6,792,254**
Profit for the year		-	-	-		-	-	1,817,232	**1,817,232**	46,686	**1,863,918**
Other comprehensive income for the year:											
Fair value loss on available-for-sale financial assets	35 (c)	-	-	-	(92,441)	-	-	-	**(92,441)**	-	**(92,441)**
Exchange differences on translation of foreign operation	35 (d)	-	-	-	-	(38,592)	-	-	**(38,592)**	-	**(38,592)**
Transfer of excess depreciation		-	-	(6,830)	-	-	-	6,830	-	-	**-**
Deferred tax on excess depreciation		-	-	2,049	-	-	-	(2,049)	-	-	**-**
Transfer to statutory reserve	35 (e)	-	-	-	-	-	76,211	(76,211)	-	-	**-**
Total comprehensive income for the year		**-**	**-**	**(4,781)**	**(92,441)**	**(38,592)**	**76,211**	**1,745,802**	**1,686,199**	**46,686**	**1,732,885**
Transactions with owners, recorded directly through equity											
Bonus issue of shares	35 (a)	163,181	(163,181)	-	-	-	-	-	-	-	**-**
Bonus share issue expenses	35 (a)	-	(571)	-	-	-	-	-	**(571)**	-	**(571)**
Dividends paid:		-									
- Final for 2009	34	-	-	-	-	-	-	(81,590)	**(81,590)**	-	**(81,590)**
- Interim 2010	34	-	-	-	-	-	-	(89,749)	**(89,749)**	-	**(89,749)**
At 31 December 2010		**1,794,989**	**28,848**	**164,645**	**(96,595)**	**(70,713)**	**369,372**	**5,748,216**	**7,938,762**	**414,467**	**8,353,229**
At 1 January 2011		**1,794,989**	**28,848**	**164,645**	**(96,595)**	**(70,713)**	**369,372**	**5,748,216**	**7,938,762**	**414,467**	**8,353,229**
Profit for the year		-	-	-	-	-	-	2,652,458	**2,652,458**	54,679	**2,707,137**
Other comprehensive income for the year:											
Prior year deferred tax adjustment on available-for- sale financial assets net of deferred tax	25	-	-	-	(28,979)	-	-	-	**(28,979)**	-	**(28,979)**
Fair value loss on available-for- sale financial assets net of deferred tax	35 (c)	-	-	-	(311,590)	-	-	-	**(311,590)**	-	**(311,590)**
Exchange differences on translation of foreign operation	35 (d)	-	-	-	-	(8,371)	-	-	**(8,371)**	-	**(8,371)**
Transfer of excess depreciation		-	-	(6,830)	-	-	-	6,830	**-**	-	**-**
Deferred tax on excess depreciation		-	-	2,049	-	-	-	(2,049)	**-**	-	**-**
Transfer to statutory reserve	35 (e)	-	-	-	-	-	164,209	(164,209)	**-**	-	**-**
Total comprehensive income for the year		**-**	**-**	**(4,781)**	**(340,569)**	**(8,371)**	**164,209**	**2,493,030**	**2,303,518**	**54,679**	**2,358,197**
Transactions with owners, recorded directly through equity											
Bonus issue of shares	35 (a)	179,499	(28,848)	-	-	-	-	(150,651)	**-**	-	**-**
Dividends paid:											
- Final for 2010	34	-	-	-	-	-	-	(89,749)	**(89,749)**	-	**(89,749)**
- Interim 2011	34	-	-	-	-	-	-	(98,724)	**(98,724)**	-	**(98,724)**
At 31 December 2011		**1,974,488**	**-**	**159,864**	**(437,164)**	**(79,084)**	**533,581**	**7,902,122**	**10,053,807**	**469,146**	**10,522,953**

BANK STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2011

		Non-distributable					Distributable	
	Note	Share capital Shs'000	Share premium Shs'000	Revaluation surplus on property Shs'000	Investments revaluation reserve Shs'000	Statutory credit risk reserves Shs'000	Revenue reserves Shs'000	Total equity Shs'000
At 1 January 2010		**1,631,808**	**192,600**	**169,426**	**-**	**286,086**	**4,154,042**	**6,433,962**
Profit for the year		-	-	-	-	-	1,730,397	**1,730,397**
Fair value loss on available-for- sale financial assets	35 (c)	-	-	-	(96,595)	-	-	**(96,595)**
Transfer of excess depreciation		-	-	(6,830)	-	-	6,830	**-**
Deferred tax on excess depreciation		-	-	2,049	-	-	(2,049)	**-**
Transfer to statutory reserve	35 (e)	-	-	-	-	79,970	(79,970)	**-**
Total comprehensive income for the year		**-**	**-**	**(4,781)**	**(96,595)**	**79,970**	**1,655,208**	**1,633,802**
Transactions with owners, recorded directly through equity								
Bonus issue of shares	35 (a)	163,181	(163,181)	-	-	-	-	**-**
Bonus share issue expenses	35 (a)	-	(571)	-	-	-	-	**(571)**
Dividends paid:								
- Final for 2009	34	-	-	-	-	-	(81,590)	**(81,590)**
- Interim 2010	34	-	-	-	-	-	(89,749)	**(89,749)**
At 31 December 2010		**1,794,989**	**28,848**	**164,645**	**(96,595)**	**366,056**	**5,637,911**	**7,895,854**
At 1 January 2011		**1,794,989**	**28,848**	**164,645**	**(96,595)**	**366,056**	**5,637,911**	**7,895,854**
Profit for the year		-	-	-	-	-	2,533,048	**2,533,048**
Prior year deferred tax adjustment on available-for- sale financial assets net of deferred tax	25	-	-	-	(28,979)	-	-	**(28,979)**
Fair value loss on available-for- sale financial assets net of deferred tax	35 (c)	-	-	-	(311,590)	-	-	**(311,590)**
Transfer of excess depreciation		-	-	(6,830)	-	-	6,830	-
Deferred tax on excess depreciation		-	-	2,049	-	-	(2,049)	-
Transfer to statutory reserve	35 (e)	-	-		-	141,463	(141,463)	**-**
Total comprehensive income for the year		**-**	**-**	**(4,781)**	**(340,569)**	**141,463**	**2,396,366**	**2,192,479**
Transactions with owners, recorded directly through equity								
Bonus issue of shares	35 (a)	179,499	(28,848)	-	-	-	(150,651)	**-**
Dividends paid:								
- Final for 2010	34	-	-	-	-	-	(89,749)	**(89,749)**
- Interim 2011	34	-	-	-	-	-	(98,724)	**(98,724)**
At 31 December 2011		**1,974,488**	**-**	**159,864**	**(437,164)**	**507,519**	**7,695,153**	**9,899,860**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2011

BANK 2011 Shs'000	BANK 2010 Shs'000		Note	GROUP 2011 Shs'000	GROUP 2010 Shs'000
		CASH FLOWS FROM OPERATING ACTIVITIES			
1,061,287	2,067,579	Cash generated from operations	38 (a)	692,663	2,093,270
(950,051)	(483,033)	Income tax paid	14 (c)	(1,020,833)	(502,270)
111,236	**1,584,546**	**Net cash generated from / (used in) operating activities**		**(328,170)**	**1,591,000**
		CASH FLOWS FROM INVESTING ACTIVITIES			
(307,052)	(57,980)	Purchase of equipment	26	(375,026)	(102,043)
(306,759)	(95,173)	Purchase of intangible assets	27 (a)	(311,238)	(101,357)
990	1,115	Proceeds from sale of motor vehicle & equipment	38 (c)	1,012	2,402
(612,821)	**(152,038)**	**Net cash used in investing activities**		**(685,252)**	**(200,998)**
		CASH FLOWS FROM FINANCING ACTIVITIES			
(182,749)	(164,983)	Dividends paid	34	(182,749)	(164,983)
-	(571)	Bonus share issue expenses paid	35 (a)	-	(571)
(182,749)	**(165,554)**	**Net cash used in financing activities**		**(182,749)**	**(165,554)**
(684,334)	**1,266,954**	**NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS**		**(1,196,171)**	**1,224,448**
6,863,687	5,596,733	**CASH AND CASH EQUIVALENTS AT 1 JANUARY**		8,254,584	7,087,017
-	-	Effect of foreign exchange rate changes		(2,771)	(56,881)
6,179,353	**6,863,687**	**CASH AND CASH EQUIVALENTS AT 31 DECEMBER**	**38 (b)**	**7,055,642**	**8,254,584**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2011

1) Reporting Entity

NIC Bank Limited (The "Bank / Parent") and its subsidiaries (together, the Group) provide retail, corporate banking, brokerage, bancassurance and investment banking services. NIC Bank Limited is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya. The Bank's shares are listed on the Nairobi Securities Exchange (NSE). NIC Bank Limited and its subsidiaries operate in Kenya and in Tanzania through its subsidiary NIC Bank Tanzania Limited (formerly Savings & Finance Commercial Bank Limited).

The address of its registered office is as follows:

LR Plot No.8182
NIC House, Masaba Road
P O Box 44599
Nairobi-GPO 00100

2) Standards and interpretations affecting the reported results or financial position

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

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

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

Amendments to IAS 1 Presentation of Financial Statements (as part of Improvements to IFRSs issued in 2010)	The amendments to IAS 1 clarify that an entity may choose to disclose an analysis of other comprehensive income by item in the statement of changes in equity or in the notes to the financial statements. The Group continued to disclose such items in the statement of changes in equity and the amendment had no effect on the Group's financial statements.
IAS 24 Related Party Disclosures (as revised in 2009)	IAS 24 (as revised in 2009) has been revised on the following two aspects: (a) IAS 24 (as revised in 2009) has changed the definition of a related party and (b) IAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities. The Group is not a government-related entity. The application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.
Amendments to IAS 32 Classification of Rights Issues	The amendments address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. Under the amendments, rights, options or warrants issued by an entity for the holders to acquire a fixed number of the entity's equity instruments for a fixed amount of any currency are classified as equity instruments in the financial statements of the entity provided that the offer is made pro rata to all of its existing owners of the same class of its non-derivative equity instruments. Before the amendments to IAS 32, rights, options or warrants to acquire a fixed number of an entity's equity instruments for a fixed amount in foreign currency were classified as derivatives. The amendments require retrospective application. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement	IFRIC 14 provides guidance on when refunds or reductions in future contributions should be regarded as available in accordance with paragraph 58 of IAS 19; how minimum funding requirements might affect the availability of reductions in future contributions; and when minimum funding requirements might give rise to a liability. The amendments now allow recognition of an asset in the form of prepaid minimum funding contributions. The application of the amendment had no effect on the Group's financial statements.

2) Standards and interpretations affecting the reported results or financial position (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

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

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	The Interpretation provides guidance on the accounting for the extinguishment of a financial liability by the issue of equity instruments. Specifically, under IFRIC 19, equity instruments issued under such arrangement will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the consideration paid will be recognised in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.
Improvements to IFRSs issued in 2010	The application of Improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the Group's financial statements

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

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 1, First-time Adoption of International Financial Reporting Standards – replacement of 'fixed dates' for certain exceptions with 'the date of transition to IFRSs'; and additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 1, First-time Adoption of International Financial Reporting Standards – Additional exemption for entities ceasing to suffer from severe hyperinflation	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about transfers of financial assets	1 July 2011
IFRS 7, Financial Instruments: Disclosures – Amendments enhancing disclosures about offsetting financial assets and financial liabilities	1 January 2013
IFRS 7, Financial Instruments: Disclosure – Amendments requiring disclosures about initial application of IFRS 9	1 January 2013 or otherwise when IFRS 9 is first applied
IFRS 9, Financial Instruments – Classification and Measurement of financial assets	1 January 2015
IFRS 9, Financial Instruments – Accounting for financial liabilities and derecognition	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 1, Presentation of Financial Statements – presentation of items of other comprehensive income	1 July 2012
IAS 12, Income Taxes - Limited scope amendment (recovery of underlying assets)	1 January 2012
IAS 19, Employee Benefits (2011)	1 January 2013
IAS 27, Separate Financial Statements (2011)	1 January 2013
IAS 28, Investments in Associates and Joint Ventures (2011)	1 January 2013
IAS 32, Financial Instruments: Presentation – Amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
New interpretation	
IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

2) Standards and interpretations affecting the reported results or financial position (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

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

- **IFRS 9: Financial Instruments**

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

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

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

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

The directors anticipate that IFRS 9 will be adopted in the Group's financial statement for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have a significant impact on the amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practical to provide a reasonable estimate of that effect until a detailed review has been completed.

- **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 Group will apply this amendment prospectively.

- **IFRS 11: Joint Arrangements**

IFRS 11 replaces IAS 31 'Interests in Joint Ventures'. It requires a party to a joint arrangement to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and then account for those rights and obligations in accordance with that type of joint arrangement.

Joint arrangements are either joint operations or joint ventures:

2) Standards and interpretations affecting the reported results or financial position (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

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

- **IFRS 11: Joint Arrangements (continued)**
  - A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint operators recognise their assets, liabilities, revenue and expenses in relation to their interest in a joint operation (including their share of any such items arising jointly)
  - A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (joint venturers) have rights to the net assets of the arrangement. A joint venturer applies the equity method of accounting for its investment in a joint venture in accordance with IAS 28 'Investments in Associates and Joint Ventures (2011)'. Unlike IAS 31, the use of 'proportionate consolidation' to account for joint ventures is not permitted.

  The standard is effective for annual periods beginning on or after 1 January 2013. The Group will apply this amendment prospectively. The directors anticipate no material impact to the Group's financial statements currently. However, the Group would have to apply this standard to any such arrangements entered in the course of its expansion strategy.

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

  IFRS 12 requires the extensive disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

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

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

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

  The directors anticipate that IFRS 12 will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the new standard would result in more extensive disclosures in the financial statements.

- **IFRS 13: Fair Value Measurements**

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

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

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

  - Level 1 - quoted prices in active markets for identical assets or liabilities that the entity can access at the measurement date;

2) Standards and interpretations affecting the reported results or financial position (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

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

- **IFRS 13: Fair Value Measurements (Continued)**
  - Level 2 - inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
  - Level 3 - unobservable inputs for the asset or liability.

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

  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 Group 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 Statements (2011)**

  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.

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

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

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

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

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

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

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

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

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

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

2) Standards and interpretations affecting the reported results or financial position (continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (continued)

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

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

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

  The amendments:

  - Preserve the amendments made to IAS 1 in 2007 to require profit or loss and OCI to be presented together, i.e. either as a single 'statement of profit or loss and comprehensive income', or a separate 'statement of profit or loss' and a 'statement of comprehensive income' – rather than requiring a single continuous statement as was proposed in the exposure draft

  - Require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified

  - Require tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

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

- **IAS 19 (as revised in 2011)- Employee Benefits**

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

  The amendments to IAS 19 are effective for annual periods beginning on or after 1 January 2013 and require retrospective application with certain exceptions. The directors anticipate that the amendments to IAS 19 will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the amendments to IAS 19 will not have an impact on the financial statements.

(iv) Early adoption of standards

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

3) Summary of significant accounting policies

a) Statement of compliance

The Group's consolidated financial statements for the year 2011 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board [IASB]. Additional information required by the regulatory bodies is included where appropriate.

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.

b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting except for property that is measured at revalued amounts and the following financial instruments, measured at fair value:

- Derivative financial instruments
- Financial instruments at fair value through profit or loss
- Available for sale financial instruments
- Certain investments in equity instruments at fair value through profit or loss

3) Summary of significant accounting policies (continued)

c) Presentation of financial statements

The consolidated financial statements comprise the consolidated and Bank statements of comprehensive income, consolidated and Bank statements of financial position, the consolidated and Bank statements of changes in equity, the consolidated and Bank statements of cash flows and the notes to the financial statements.

The Group classifies its expenses by the nature of expense methodology.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 4.

The consolidated and Bank statements of cash flows show the changes in cash and cash equivalents arising during the period from operating, investing and financing activities.

d) Foreign currencies

i) Functional and presentation currency

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional and presentational currency.

Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

ii) Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the respective functional currencies of the operations using the exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.

iii) Group companies

The results and financial position of Group entities that have a functional currency different from the presentation currency are retranslated into the presentation currency as follows:

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Kenyan shillings using exchange rates prevailing at the reporting date. Income and expense items of foreign operations are retranslated at average exchange rates for the period.

Foreign currency exchange differences are reported as 'exchange differences on translations of foreign operations' and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

e) Use of estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates and assumptions about future conditions. The use of available information and the application of judgement are inherent in the formation of estimates. The preparation of financial statements also requires management to exercise its judgement in the process of applying the Group's accounting policies. Actual results in future may differ from estimates upon which financial information is prepared.

3) Summary of significant accounting policies (continued)

Siginificant asumptions and estimates to the financial statements and areas involving a higher degree of judgement or complexity are disclosed in note 5.

f) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and all its subsidiaries for the year ended 31 December, 2011. A list of the Bank's subsidiaries is set out in note 24(b).

Subsidiaries are those companies in which the Bank has power to exercise control over the operations of the entities. Subsidiaries are included in the consolidated financial statements from the date the Group gains effective control. Entities controlled by the Group are consolidated until the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

The acquisition method of accounting is used when subsidiaries are acquired by the group. The cost of an acquisition in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the consideration transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquired identifiable assets and the liabilities assumed are generally measured and recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

In the event that the amounts of net assets acquired is in excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of Group's previously held equity interest, the difference is recognised immediately in the profit or loss as a bargain purchase.

In a business combination achieved in stages, the previously held equity interest is re-measured at the acquisition-date fair value with the resulting gain or loss recognised in the profit or loss. Changes in the Group's ownership interest in a subsidiary that do not result in a loss of control are treated as transactions between equity holders and are reported in equity.

Non-controlling interests that present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

g) Income recognition

I. Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the statement of comprehensive income on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial instrument.

The calculation of the effective interest rate includes all fees and points paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument.

3) Summary of significant accounting policies (continued)

g) Income recognition (continued)

I. Interest income and expense (continued)

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

II. Fee and commission income and expenses

In the normal course of business, the Group 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 instrument are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees, brokerage fees, bancassurance fees, and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

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

III. Net trading income

Net trading income arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. It comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

h) Financial instruments

I. Recognition

The Group initially recognises loans and advances, deposits and debt securities issued on the date that they are originated. All other financial instruments are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

II. Classification

1. Financial assets

The Group classifies its financial assets into the following categories:

- At fair value through profit or loss
- Loans, advances and receivables
- Held-to-maturity
- Available-for-sale

Management determines the appropriate classification of its investments at initial recognition.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets classified as held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial instruments included in this category are recognised initially at fair value, transactions costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss.

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

II. Classification (continued)

1. Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting measurement mismatch or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis.

Financial assets for which the fair value option is applied are recognised in the statement of financial position as Financial assets designated at fair value'. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

Loans, advances and receivables

Loans and advances to customers and trade receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and which the Group does not intend to sell immediately or in the near term. Loans and advances to customers are recognised when cash is advanced to borrowers.

Held-to-maturity

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

Available-for-sale financial assets

Available-for-sale financial assets are assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Available for sale financial assets are initially recognised at fair value and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of;

- impairment losses
- interest calculated using the effective interest rate method
- foreign exchange gains and losses on monetary assets which are recognised in profit or loss.

2. Financial liabilities

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost using effective interest rate method. Financial liabilities will include deposits from banks or customers, trade payables from the brokerage and lines of credit for which the fair value option is not applied.

III. Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or substantially all the risks and rewards of ownership incidental to the financial asset are transferred. A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished.

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

IV. Measurement

Financial instruments are initially recognised at fair value plus transaction costs.

Financial assets at 'fair value through profit and loss' are subsequently carried at fair value. Gains and losses arising from changes in the fair value in those assets are recognised in profit or loss.

Gains and losses arising from changes in the fair value of 'available-for-sale financial assets' are recognised in other comprehensive income in the period in which they arise and accumulated in the investment revaluation reserves.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in the investment revaluation reserves are reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unquoted securities), the Group establishes fair value by using valuation techniques that include the use of most recent arm's length transactions.

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

Financial liabilities are subsequently measured at amortised cost.

V. Impairment of financial assets

1. Amounts carried at amortised costs

The Group reviews regularly, on a case-by–case basis, whether any objective evidence exists of impairment, individually for financial assets that are significant and individually or collectively for financial assets that are not individually significant. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset and that the loss event has an impact on the future cash flows of the asset that can be estimated reliably.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss as 'impairment loss on loans and receivables'. When a loan or receivable is uncollectible, it is written off against the related allowance account. Subsequent recoveries of amounts previously written off are credited through profit or loss.

Objective evidence that loans and receivables are impaired can include significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue), the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the Group are considered indicators that the loans or receivable is impaired.

In assessing impairment losses, the Group considers the following factors, in each category:

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

V. Impairment of financial assets (continued)

1. Amounts carried at amortised costs (continued)

i) Individually assessed loans

- The aggregate exposure to the Group.
- The viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flows to meet its debt obligations.
- The realisable value of the security (or other mitigants) and likelihood of successful repossession net of any costs involved in recovery of amounts.
- The amount and timing of expected receipts and, in cases of liquidation or bankruptcy, dividend available.
- The extent and complexity of other creditors commitment ranking pari passu with the Group and the likelihood of other creditors continuing to support the customer.

ii) Collectively assessed

- For loans not subject to individual assessment, to cover losses which have been incurred but have not yet been identified.
- For homogeneous groups of loans that are not considered individually significant, where there is objective evidence of impairment.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, or in other cases, when the portfolio size is small or when information is insufficient or not reliable enough, the Group adopts a formulaic approach which allocates progressively higher percentage loss rates in line with the period of time for which a customer's loan is overdue. Loss rates are calculated from the discounted expected future cash flows from a portfolio. These rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Loan write – offs

An uncollectible loan is written off against the relevant provision for impairment, either partially or in full, when there is no realistic prospect of recovery and the proceeds from realising the security have been substantially or fully recovered.

Restructured loans

Restructured loans, whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum required number of payments under the new arrangement have been received.

2. Amounts classified as available for sale

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

VI. Impairment of non financial assets

At the end of each reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss.

If objective evidence on impairment losses exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. In cases where the asset is carried at revalued amount, the impairment loss is treated as a revaluation decrease.

In determining the recoverable amount, the Group considers the higher of the fair value of the asset less costs to sell, and value in use. In estimating value in use, the Group is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Intangible assets with indefinite useful life are tested for impairment annually, and when there is indication that the asset may be impaired.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, unless such asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation income.

i) Offsetting

Financial instruments are offset and the net amount reported in the statement of financial position when, and only when, there is a legal right to set off the amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

j) Employee expenses

I. Retirement benefit obligations

The Group operates a defined contribution plan under which the Group pays fixed contributions into a separate entity. The Group has no obligation, legal or constructive, to pay further contributions if the scheme does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and the employees.

In addition, the Group also contributes to the National Social Security Fund in Kenya and Parastatal Pension Fund in Tanzania, which are defined contribution scheme registered under respective Acts of Parliament in the respective countries.

The Group's contributions to the defined contribution schemes are charged to the profit or loss in the year in which they relate.

Contract staff are entitled to gratuity payment at the completion of the contract. Provision is made for gratuity in line with the contracts.

II. Short-term benefits

Short-term employee benefit obligations (e.g medical reimbursements and insurance) are measured on an undiscounted basis and are expensed as the as the employee renders service.

The monetary benefits for employee accrued leave entitlement at the reporting date are recognised as an expense accrual.

k) Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised on straight line basis over the period of the lease.

3) Summary of significant accounting policies (continued)

l) Income tax expense

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable profit for the year using currently enacted tax rates, and any adjustment to tax payable in respect of previous years.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred tax is provided using the liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Currently enacted tax rates are used to determine deferred tax.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

m) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding adjusted for the effects of all potentially dilutive ordinary shares.

n) Dividends on ordinary shares

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.

o) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. These includes notes and coins on hand, unrestricted balances held with Central Banks, items in the course of collection from other banks, deposits held at call with banks, net of deposits and balances due to banking institutions and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

p) Leases

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease within loans and receivables. All other lessees are classified as operating leases.

Minimum lease payments made under finance leases are apportioned between the finance income and the reduction of the outstanding principal. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the asset.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Rentals payable under operating leases are charged to profit or loss over the terms of the relevant lease.

3) Summary of significant accounting policies (continued)

q) Repurchase agreements

When the Group purchases a financial asset and simultaneously enters into an agreement to re-sell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or receivable, and the underlying asset is not recognised in the Group's financial statements.

r) Property and equipment

I. Recognition and measurement

Items of fixtures and equipment are stated at historical cost less accumulated depreciation. Buildings comprising mainly of the head office are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss for the year.

II. Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are charged to profit or loss for the year as incurred.

In relation to buildings, revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair value at the reporting date. Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus on property. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus on property; all other decreases are charged to the profit or loss for the year.

III. Depreciation

Depreciation which is recognised in profit or loss is calculated on a straight-line basis to allocate the costs or revalued amounts over their estimated useful lives as follows:

Building	2.5%
Furniture, fittings and equipment	20.0%
Motor vehicles	20.0%
Computers	33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus on property to revenue reserves, net of deferred tax.

3) Summary of significant accounting policies (continued)

s) Intangible assets

I. Goodwill

Goodwill arises on business combinations through acquisition of subsidiaries when the cost of acquisition exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in profit or loss.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that the cash-generating unit may be impaired, by comparing the present value of the expected future cash flows from a business with the carrying value of its net assets, including attributable goodwill. Goodwill is stated at cost less accumulated impairment losses which are charged to profit or loss.

II. Computer software

Acquired computer software and related licences are stated at cost less accumulated amortisation. Subsequent expenditure on software products is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred. Where software is not an integral part of the related hardware it is recognised as an intangible asset.

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful life of the software, from the date that it is available for use. The estimate useful life of software is three to five years.

III. License

Separately acquired licences in business combination are initially recognised at their fair value at the acquisition date (which is regarded as cost). Licences with an indefinite useful life are not amortised and are reviewed at each reporting date to determine whether events and circumstances continue to support an indefinite useful life assessment of the asset. Where the Group re-assesses the useful life of an intangible asset as finite rather than indefinite, the asset may be considered to be impaired. The Group tests the asset for impairment annually and whenever there is an indication that the intangible asset may be impaired by comparing it's recoverable amount, with the carrying amount and recognising any excess of the carrying amount over the recoverable amount as an impairment.

t) Legal and other claims

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

u) Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

v) Statutory credit risk reserve

IAS 39 requires the Group to recognise an impairment loss when there is objective evidence that loans and receivables are impaired. However, prudential guidelines issued by banking regulators require the Group to set aside amounts for impairment losses on loans and receivables based on their guidelines. Extra losses over and above those already recognised under IAS 39 are accumulated under statutory reserves through appropriations of revenue reserves.

3) Summary of significant accounting policies (continued)

w) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds, which are credit-related instruments are generally given by the Group to support performance by a customer to third parties. Nominal principal amounts represent amounts at risk should the Group be required to meet these obligations in the event the customer defaults. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

x) Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

y) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives are intended to acquire, increase, reduce or alter exposure to market risks. The Group uses derivatives for its customers and on its own account to manage exposure to market risks. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

z) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Group executive commitee). The management then allocates resources to each operating segment of the Group and assesses their performance. The operating segments are based on the Group's management and internal reporting structure. In accordance with IFRS 8, Operating Segments, the Group has the following business segments; corporate and institutional banking, treasury dealing and brokerage, retail banking, asset finance and investment banking and others (see note 6).

aa) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information.
Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

4) Financial risk management objectives

Group risk management framework and governance structures

Risk management overview

In the financial services sector, sustainable growth in profitability involves selectively taking and managing risks. The Group's goal is to earn, on behalf of the stakeholders, an optimal, stable and sustainable rate of return for every shilling of risk we take, while continually investing in our business to meet our future growth objectives. The risk management resources and processes are designed to identify, understand, measure and report risks that the Group's businesses are exposed to, and develop governance, controls, and risk management frameworks necessary to mitigate these risks as appropriate. These resources and processes are strengthened by the Group's culture which emphasises transparency and accountability for managing risk.

The Group defines risk as an event or events of uncertainty which can be caused by internal or external factors resulting in the possibility of losses (downside risk). However, the Group appreciates that some risk events may result into opportunities (upside risk) and should therefore be actively sought and enhanced.

The Group operates in an environment of numerous risks as shown below that may cause financial and non-financial results to differ significantly from anticipated objectives. The Group has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the organisation. These risks are classified as follows:

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

Risk management overview (continued)

Financial risks:

- Credit & counterparty risk
- Liquidity & funding risk
- Market risks that fall within:
  - Interest rate risk
  - Foreign exchange risk
  - Price risk

How we manage risk

Risk management in the Group is integrated with the strategic agenda and closely tied to the capitalisation levels of Group. This is intended to align risks incurred in pursuit of strategic objectives to shareholder expectations and acceptable international best practices. Through an integrated risk management framework, the Group has embedded a strong risk management culture and ensures its alignment with enterprise – wide strategic goals.

The Group is governed by the following complementary risk principles:

i. Enterprise-wide in scope – Risk management spans all areas of the Group activities, including strategic alliances, and all boundaries, both geographic and regulatory.

ii. Enhanced accountability – Risks are explicitly owned, understood and actively managed by the business units' management and all employees, individually and collectively.

iii. Independent oversight – Risk policies, procedures, and reporting will be established independently and objectively.

iv. Integrated risk and control culture – Risk management disciplines will be integrated into the daily routines, decision-making and strategy of the Group.

v. Attainment of strategic balance – Risk will be managed to an acceptable level of exposure, recognising the need to enhance shareholder value whilst protecting shareholder equity and other stakeholders at all times.

vi. Transparent and effective Communication – Matters related to risk will be communicated and escalated in a timely, accurate and forthright manner.

The Group's risk management approach is comprehensive, proactive and continuous. It combines the experience and specialised knowledge of individual business units, risk professionals, and the corporate oversight functions. In managing risk, the Group:

a) Defines acceptable risk appetite within a comprehensive framework, through the determination and maintenance of appropriate risk management policies, limits, guidelines and practices. Adherence to this framework is primarily managed by individual business units [risk owners] and assessed or monitored through independent oversight arms of management i.e Risk Management and Internal Audit Departments. Key risk management objectives form a substantial input in performance appraisal across the Group.

b) Actively monitor internal and external risk events to determine and implement effective internal controls to withstand risk shocks. Each business unit and oversight functions periodically identifies and assesses its own key risks and internal controls through structured risk models.

c) Allocates capital by thoroughly interrogating the risk faced and potential impact on capital adequacy. This is through the use of appropriate and validated risk measurement methodologies developed internally or/and from existing regulatory framework.

d) Communicate quantitative and qualitative elements of the risk profile to senior management, Board of Directors and other relevant stakeholders through an integrated risk management information system.

e) Periodically employ stress testing approaches to access /understand applicability and continued relevance of risk mitigants on potential vulnerabilities.

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

NIC Bank Group's risk management framework

The framework has five main components which are continually reviewed and updated to ensure that they are consistent and appropriate to risk taking activities, and that they remain relevant to the Group's business and strategies. The framework consists of the following:

Policies & limits

These define the Group's overall risk appetite, and are developed based on the requirements of regulatory authorities and input from the Board of Directors and senior management. The policies also provide guidance to the business units by setting boundaries on the types and levels of risks the Group is prepared to assume.

Guidelines

These are directives provided to implement policies and limits as set out above. They describe the facility types, aggregate facility exposures and conditions under which the Group is prepared to do business. Risk taking outside these guidelines has to be approved by senior management of the Group, or by the Board of Directors, depending on set approval limits.

Processes & standards

These are activities associated with identifying, evaluating, documenting, reporting and controlling risk. They define the breadth and quality of information required to make decisions and the expectation in terms of quality of analysis and presentation. At the operating level these are the activities that must be achieved before risk decisions are taken.

Measurement, monitoring & reporting

Measurement and reporting tools quantify risks across products, activities and business units and are used among other things, to determine risk exposures. The Risk management department is responsible for developing and maintaining an appropriate suite of such tools to support the operations of the various business units. Measurement information is compared against approved policies, limits and guidelines and presented to senior management and the Board of Directors to enable them to understand the Group's risk profile. A comprehensive summary of the Group's risk profile and performance against defined tolerance goals is presented to senior management and the Board Risk Management Committee for their review, action and guidance.

Independent review

The Internal audit department and the external auditors independently monitor the effectiveness of the risk management programs and internal controls through periodic testing of the design and operations of processes related to identification, measurement or assessment, monitoring, controlling and reporting of risks. Additionally, the Group's internal audit programs are derived from a risk based assessment so as to focus its audit assessment attention to risk areas of the business units deemed high on probability or impact.

The notes below provide high-level information on each of the key risk classes we face in line with the Group's objectives, policies and programs for identifying, measuring or assessing, monitoring, controlling and reporting / communicating those risks to stakeholders. It also elucidates the Group's management of its capital taking into account the approved risk appetite and profile.

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

a) Credit and counterparty risk

Credit risk is the potential for loss due to the Group's customers' or counterparties' failure or unwillingness to meet their contractual credit obligations. It is the single largest financial risk that the Group faces.

It arises principally from, but is not limited to, commercial and retail loans and advances, commitments from forward foreign exchange contracts , financial guarantees, letters of credit and acceptances, investments in debt securities and other exposures arising from trading and settlement activities with market counterparties.

The amounts presented in these financial statements are net of impairment allowances based on prudent assessment of customers' or counterparties' abilities to meet their contractual obligations.

The Group's lending principles are laid out in an elaborate series of corporate strategies, policies, standards, guidelines, directives and procedures, all of which are developed, approved and reviewed regularly by the Board Credit Risk Committee and respective Risk Management Committees. This is to ensure policies are current and consistent with the Group's risk appetite. The structure, limits, collateral requirements, ongoing management, monitoring and reporting of credit exposures are all governed by these principles.

Who manages credit & counterparty risk

The Board of Directors and senior management pay special attention to credit risk exposure at all times. The Board retains responsibility for the under-writing and independent review of the credit risk exposures through specifically constituted Board sub-committees: the Board Credit Risk Committee and the Board Risk Management Committee respectively. To facilitate the day to day management of credit risk i.e. under-writing functions, monitoring and control, there is a specialised, independent and centralized credit review/approval team headed by the Head of Credit who reports to the Group Managing Director. The Board of Directors retains the authority to approve credit facilities that are significant in size or complexity.

Effective credit risk management begins with experienced and professional lending officers who have been mandated to authorise credit exposures for the Group. These individuals are subjected to a rigorous lender qualification process and operate within a disciplined environment with clear delegation of management discretionary limits at both the individual and joint levels depending on the size and complexity of credit decisions they make.

To facilitate quick credit decisions, the Board Credit Risk Committee has granted discretionary limits to several Senior Managers (at individual and committee levels), in line with their skills, experience and ability to make sound credit decisions.

To separate the sales and credit under-writing functions from credit operations, a credit administration unit that reports directly to the Head of Technology and Operations, handles post-approval credit administration as well as the daily monitoring of credit exposures against approved limits. This together with the complete segregation of sales activities from the underwriting process, maintains an adequate governance structure that eliminates conflicts of interest that may occur in the course of business.

Credit risk management key performance indicators, including the quality of our credit portfolios, portfolio concentrations, amongst others, are independently reviewed by the Head of Risk Management & Compliance with oversight from the Board Risk Management Committee.

Regular independent audits of the approval process and adherence to credit risk management programs are carried out by the Internal Audit Department. Adverse findings are submitted to senior management and the Board Audit Committee for information and corrective action. Furthermore, audit programs are carried out using a risk based approach to concentrate activities where high probability and high impact risk events are envisaged.

How credit and counterparty risk is managed

Credit and counterparty risk measurement & assessment

The estimation of credit exposures at the individual and portfolio levels is complex and requires the use of special models, as the value of products or portfolios varies with changes in market variables, expected cash-flows and the passage of time.

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

a) Credit and counterparty risk (continued)

The assessment of a portfolio of assets' credit exposures entails further estimation of the likelihood of defaults occurring, of associated losses, and of default correlations between borrowers or counterparties, the facilities granted, and their industries. This is achieved using a credit rating model developed internally for use in the corporate business.

Credit & counterparty risk limit control and mitigation policies

The Board Credit Risk Committee regularly sets, reviews and approves exposure limits for the larger counterparties as well as tolerance limits on a portfolio basis. In turn, the Group manages the limits and controls concentrations of credit risk exposures against internal and regulatory requirements with respect to individual counterparties or related groups of counterparties, industry sectors, amongst others.

Exposures to any one borrower (including Group counterparties) are further restricted by sub-allocating limits covering separate on and off – balance sheet exposures, as well as daily delivery exposures in relation to trading items e.g. forward foreign contracts.

Lending limits are reviewed regularly in view of changing business / financial risks of the borrowers, in addition to industry and general economic conditions in which they operate. To enable prudent and consistent credit assessments at the individual level, the Group has robust approval processes and models covering different business segments. This process basically captures the borrower's financial viability, industry / economic performance, geopolitical risks and its managements' ability to steer the organisation. These models are suited to counterparties who are homogeneous in nature for ease of their use.

Limits for commercial and corporate clients are reviewed at least once annually. The credit review process ensures that an appropriate facility structure, including covenant monitoring, is in place for each client. The frequency of reviews is increased in accordance with the likelihood and size/complexity of potential credit losses, with deteriorating higher-risk situations referred to independent debt recovery units for closer attention where appropriate.

The risks in industry sectors are managed through limits and lending criteria / guidelines relevant to each particular industry. Borrower limits are set within the context of established guidelines for individual borrowers and particular industries to ensure the Group does not have excessive concentration in any related group of borrowers or industry. Through this portfolio management process, loans may be syndicated to reduce overall exposure to a single name.

Exposures against tolerance limits in relation to credit risk categories are measured and monitored periodically on an aggregated basis. Actual exposures against limits are monitored daily through the management information systems in place.

Other specific control and mitigation measures are outlined below:

Although the Group only lends to counterparties that primarily demonstrate adequate capacity to repay loans, it also employs a range of policies, guidelines and models to mitigate credit risk as follows:

i) Collateral

This is considered in those cases where the Group would want to take a credit risk mitigant. The Group has developed specific policies and guidelines for the acceptance of different classes of collateral.

Estimates of the collateral's fair values are based on the value of collateral independently and professionally assessed at the time of borrowing, and re-valued with a frequency commensurate with nature and type of the collateral and credit advanced. Collateral structures are subjected to regular review to ensure they continue to fulfil the intended purpose.

Collateral is generally not held in respect of deposits and balances due from banking institutions, items in the course of collection, and Government securities, except when securities are held for reverse purchase and securities borrowing activity.

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

a) Credit and counterparty risk (continued)

ii) Credit rating

The Group uses an internal scoring and rating system for its borrowing clients. The system sets maximum exposure limits for individual or groups of clients using a scoring rating attained by the borrowers. The system rating will also inform the basis of determining the value and classes of collateral acceptable to the borrower(s).

iii) Settlement risk

This is the risk of loss due to the failure by counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. It arises in situations where a payment in cash is made in anticipation of corresponding receipt of cash securities or other assets. Daily settlement limits are approved by the relevant authority levels and established for each counterparty to cover the aggregate of all settlement risks arising from the counterparty's market transactions on a single day. Acceptance of the counterparty's settlement risk is determined on the basis of financial strengths and other non-financial considerations subject to Board Credit Risk Committee approval.

Impairment policies

Across all its loan portfolios, the Group employs a disciplined approach to impairment allowances evaluation, with prompt identification of problem loans being a key risk management objective. The Group maintains both collective and specific impairment allowances for credit losses, the sum of which is sufficient to reduce the book value of credit assets to their estimated realisable value. Specific impairment allowances reduce the aggregate carrying value of credit assets where there is specific evidence of deterioration in credit quality. In line with regulatory guidelines, a collective allowance is maintained to cover potential impairment in the existing portfolio that cannot be associated with specific credit. These allowances are reviewed and updated on a regularly basis.

Write-off policy

The Group writes off loans and advances net of any related allowances for impairment losses when it determines that the loans are uncollectable and securities unrealisable. This determination is reached after accessing objective evidence or occurrence of significant changes in the borrower or issuer's financial position such that they are no longer able to repay the obligation, or that proceeds from the sale of collateral will not be sufficient to pay back the entire exposure. This is done after exhausting all other means including litigation. For Retail and Asset Finance loans, write off decisions are generally based on product specific days past due status and the size of balances owed per borrower.

I. Maximum exposure to credit risk before collateral held

	GROUP			
	2011 Shs'000	%	2010 Shs'000	%
Credit exposures				
On – balance sheet items				
Items in the course of collection	281,796	-	295,760	-
Deposits and balances due from banking institutions	5,692,655	7	6,374,825	10
Loans and advances to customers	56,624,621	68	40,754,979	65
Government securities	7,500,288	9	5,074,031	8
Other assets – trade receivables	59,826	-	21,992	-
	70,159,186	**84**	**52,521,587**	**83**
Off-balance sheet items				
Letters of credit	5,301,250	6	3,776,587	6
Guarantees and performance bonds	8,175,203	10	6,981,496	11
	13,476,453	**16**	**10,758,083**	**17**
	83,635,639	**100**	**63,279,670**	**100**

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

a) Credit and counterparty risk (continued)

The above represents the worst case scenario of credit exposure for both years, without taking into account collateral held or other credit enhancements/mitigants.

Loans and advances to customers and off-balance sheet items comprise of 84% (2010: 82%) of the total credit exposure. While collateral is an important mitigant to credit risk, the Group's underwriting policy ensures that loans are strictly granted on a going concern basis with adequate demonstration of repayment capacity. Other than exposures amounting to Shs 1,041,347,328 (2010 - Shs 939,551,000) that are unsecured, all other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery, amongst others. The fair value of collateral held for impaired loans and advances is Shs 270,751,000 (2010 - Shs 150,353,000). The Group is confident that its credit policies and programs provide sufficient safeguards against the credit risk exposure shown in the table below:

II. Classification of Loans & advances to customers

GROUP
2011
Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	55,102,224	-	55,102,224	97
Past due but not impaired	1,291,199	39,553	1,251,646	3
Impaired	1,961,277	1,690,526	270,751	-
Total	**58,354,700**	**1,730,079**	**56,624,621**	**100**

2010
Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	38,880,142	-	38,880,142	95
Past due but not impaired	1,789,157	64,673	1,724,484	4
Impaired	1,570,797	1,420,444	150,353	1
Total	**42,240,096**	**1,485,117**	**40,754,979**	**100**

BANK
2011
Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	50,751,921	-	50,751,921	98
Past due but not impaired	1,243,078	39,034	1,204,044	2
Impaired	1,656,671	1,587,161	69,510	-
Total	**53,651,670**	**1,626,195**	**52,025,475**	**100**

2010
Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	36,605,631	-	36,605,631	95
Past due but not impaired	1,738,344	64,673	1,673,671	4
Impaired	1,383,193	1,321,616	61,577	1
Total	**39,727,168**	**1,386,289**	**38,340,879**	**100**

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

a) Credit and counterparty risk (continued)

Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in line with internal guidelines and those issued by regulators where applicable. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory credit risk reserves.

Past due but not impaired

This category includes exposures that are between 31 – 90 days past due, where losses have been incurred but have not been identified. These exposures are graded as category 2 in line with our internal guidelines and those issued by banking regulators. A collective impairment allowance is made to cover losses which have been incurred but have not yet been identified.

Impaired loans and advances

Impaired loans and advances are those which the Group 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 agreement(s). These loans are graded between categories 3 to 5 using the Group's internal credit rating system. These clients, under guidelines issued by Central Bank of Kenya and Bank of Tanzania, are termed as non-performing loans. The Group establishes a specific allowance for impairment losses that represents the estimate of losses that will be incurred in its loan portfolio.

Concentrations of risk

The Group monitors concentration of risk exposures in its lending and other portfolios by single or group of related borrowers and industry sector concentrations in line with Board of Directors' approved limits. These limits are reviewed regularly using economic risk indicators identified in particular industrial sectors. An analysis of concentrations within the loans and advances to customers and off balance sheet items are as follows:

Loans and advances to customers

BANK			GROUP	
2011 %	2010 %		2011 %	2010 %
12	16	Wholesale and retail	11	17
4	3	Real estate	4	3
8	6	Agriculture	8	5
27	22	Social community and personal services	28	22
21	22	Manufacturing	22	22
15	18	Transport and communication	16	18
13	13	Other	11	13
100	**100**		**100**	**100**

Contingent liabilities

BANK			GROUP	
2011 %	2010 %		2011 %	2010 %
2	2	Agriculture	2	2
2	2	Business services	2	2
9	13	Wholesale and retail	9	13
9	7	Transport and communication	9	7
38	34	Manufacturing	38	34
40	42	Other	40	42
100	**100**		**100**	**100**

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

b) Liquidity and funding risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations when they fall due or to fund increases in asset without incurring unacceptable costs or losses. Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable our core business to continue operating even under adverse liquidity circumstances.

Who manages liquidity and funding risk

The Assets and Liabilities Committee (ALCO), a management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when they fall due, and that the Group will not encounter difficulties in meeting its obligations or financial liabilities as they fall due.

ALCO relies substantially on the Group's Treasury Department to coordinate and ensure discipline across the Group and business units, certify sufficient liquidity under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The Board Executive Committee has oversight over ALCOs activities through regular review of its minutes and significant reports outlining current exposures against approved risk limits. These reports are also reviewed by the Board Risk Management Committee on a quarterly basis. Liquidity policies / guidelines and limits are reviewed periodically, or as the need arises.

How liquidity and funding risk is managed

I Liquidity and funding management

The Group's liquidity and funding policies require that it:

- Enters into lending contracts subject to availability of funds.
- Projects cash flows by major currencies and consider the level of liquid assets necessary in relation thereto.
- Monitors liquidity ratios against internal and regulatory requirements and guidelines.
- Maintains an array of a diverse range of funding sources as back–up facilities.
- Monitors depositor concentration to avoid undue reliance on large individual depositors and ensure a satisfactory funding mix.
- Invests in short term liquid instruments, which can easily be sold in the market when the need arises.
- Ensure investments in large cash outlay projects e.g property and equipment purchases are budgeted for and carried out only when the Group has sufficient cash flows.
- Maintains liquidity and funding contingency plans. These plans and key risk indicators clearly identify early stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis while minimising adverse long-term implications.

II Sources of funding

The Group's major source of funding is customer deposits. To this end, the Group maintains a diversified and stable funding base comprising of the core retail and corporate customers and wholesale banking clientele. The Group places considerable importance on the stability of these deposits, which is achieved through the Group's corporate, institutional and retail banking activities and by maintaining depositor confidence in the Group's business strategies and financial strength. An analysis of concentrations within the customer deposits is as follows:

BANK			GROUP	
2011 %	2010 %		2011 %	2010 %
2	2	Co-operative societies	1	1
16	10	Insurance companies	16	10
10	14	Non profit institutions and individuals	12	14
72	74	Private enterprises	71	75
100	100		100	100

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

b) Liquidity and funding risk (continued)

III Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are;

- The ratio of net liquid assets to deposits from customers (liquidity ratio). For this purpose, net liquid assets include cash and cash equivalents and investments in securities for which there is an active and liquid market less any deposits from banks, as well as other borrowings and commitments maturing within the next month. The banking regulators require that the Group maintains a cash reserve ratio computed as percentage of eligible customer deposits.

  The banking regulations require that the Group maintains a minimum liquidity ratio of 20%. The Group complied with the liquidity requirements during the year.

  The average liquidity ratio for the year was 30% (2010 – 34%).

- The maturity analysis of assets and liabilities report (note 43 (a)). The Group uses the maturity mismatch ladders to compare cash inflows and outflows each month and over a series of time-bands. The maturity mismatch ladder shows the net cash flows of the Group in various time bands. The Group's net funding requirements are determined by analysing present and future cash flows of the entire statement of financial position at selected maturity dates, based on assumptions of the behaviour of assets, liabilities and off-balance sheet items. Calculations will include the cumulative net excess or shortfall over the time frame of the liquidity assessment.

  The Group also monitors its liquidity exposures through an array of internally developed risk indicators such as advances to deposit ratios, proportion of largest depositors to total deposits, liquidity gap analysis ratios, inter-bank borrowings as a proportion of total deposits, amongst others. This enables the Group to arrest any early warning signs and take timely corrective action.

  As part of the ALCO function, Treasury receives information from business units regarding the liquidity profile of their financial assets and liabilities plus details of other projected cash flows arising from projected future business. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment grade securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through various funding options to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

  The table in note 43 (b) presents cash flows payable by the Group under financial liabilities by remaining contractual maturities at the reporting date and the cash flows receivable from financial assets by expected maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Group manages the liquidity risk based on a different basis (note 43 (a)), not resulting in a significantly different analysis.

c) Market risk

Market risk is the risk that the values of assets and liabilities or revenues will be adversely affected by changes in market conditions or market movements. Market risks in the Group arise from movements in market prices particularly changes in interest rates, foreign currency exchange rates, fixed rate securities and equity prices which we are exposed to. It is often propagated by other forms of financial risks such as credit and market liquidity risk events. The objective of market risk management programs is to manage and control market risk exposures in order to optimise return on risk taken while maintaining a good market profile as a provider of financial products and services.

Who manages market risk

The Board Risk Management Committee reviews and approves market risk policies and limits periodically or as need arises. The Treasury department in consultation with the Risk Management Department are responsible for the development of detailed market risk management policies, subject to review and support by ALCO and approval by the Board Risk Management Committee. The Board receives quarterly reports of market risk exposures or activities through relevant ALCO minutes, and Treasury reports outlining current risk exposures against risk limits.

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

c) Market Risk (continued)

How market risk is managed

The Group's Asset & Liability Committee (ALCO) oversees the application of the framework set by the Board of Directors and monitors the Group's market risk exposures as well as activities that give rise to these exposures. Overall responsibility for the management of market risks rests with ALCO which reviews market risk activity reports monthly. Treasury is responsible for the day to day implementation of those policies or programs and limits.

In view of the fact that our market risk operations are not very complex, we basically use interest rates variance analysis models (against budget and prior month), interest rate gap analysis, proportion of interest sensitive deposits to total deposits, amongst other models and key performance indicators, appropriate for our operations. The management of market risk is supplemented by the monitoring of key market risk and economic performance variables.

The distinct market risk exposures faced by the Group are:

- Interest rate risk.
- Foreign exchange risk.
- Price risk.

I. Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to loans, debt securities, certain traded assets and liabilities, deposits, borrowings and derivative instruments. Generally, hedging instruments used by banks to mitigate such risks include related derivatives such as options and swaps.

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates, as funds are sourced and invested at both fixed and floating rates. The maturities of assets and liabilities, plus the ability to replace interest bearing liabilities at an acceptable cost as they mature, are important factors in assessing the Group's exposure to changes in interest rates.

In addition to maintaining an appropriate mix between fixed and floating rates deposit base, interest rates on advances to customers and other risk assets are mainly pegged to the Group's base lending rate (floating rates). The base lending rate is adjusted from time to time to reflect prevailing market costs of deposits.

Interest rates on customer deposits are negotiated between the Group and its customers, with the Group retaining the discretion to re-negotiate the rates at maturity in line with changes in market trends. The interest rates given or charged to clients therefore fluctuate depending on the movements in the market interest rates. The Group also invests in fixed interest rate instruments issued by the Government of Kenya or Tanzania through the Central Bank of Kenya or Bank of Tanzania. The interest rate risk assessment table is found under note 43.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group's interest rate risk. It is unusual for a bank ever to completely be matched due to the nature of business terms and types of products offered.

Interest rate risk – stress tests

The Group monitors the impact of risks associated with the effects of fluctuations in prevailing interest rates. At 31st December 2011, the following table summarises the estimated impact of an immediate hypothetical increase or decrease in interest rates of 125 basis points on consolidated profit before income tax expense, and current interest rate risk profile.

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
158,505	158,636	125 basis points increases in interest rates	175,981	148,238
(196,814)	(193,676)	125 basis points decrease in interest rates	(231,602)	(204,074)

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

c) Market Risk (continued)

II. Foreign exchange risk

Foreign currency exchange risk refers to the potential changes in current and future earnings or capital arising from movements in foreign exchange market rates. The Group, through stringent intra-day and overnight exposure limits, ensures that the potential risk of loss arising from foreign exchange fluctuations to the Group's earnings and capital is within prudential guidelines and internal policies. Any material overnight position is covered by stop loss orders with our international counter-parties.

The Group is exposed to the risk that the value of foreign financial instruments it holds will fluctuate due to changes in market foreign exchange rates. The Board of Directors periodically approves policies and limits on the maximum level of exposures by currency and in total for both overnight and intra-day positions. Foreign currency risk is addressed through the following measures:

- On a daily basis, the overall foreign exchange risk exposure is measured using spot mid-rates and does not exceed 10% of the Group's core capital.
- Any single currency exposure, irrespective of short or long positions does not exceed the limit of 10% of core capital.
- Intra-day and overnight foreign exchange positions are limited within strictly defined exposure and stop loss limits approved periodically by the Board Risk Management Committee.

The table under note 44 summarises the Group's exposure to foreign currency exchange rate risks as at 31st December 2011.

Foreign exchange risk – stress test

At 31st December 2011, if the functional currencies in the economic environment in which the Group operates in i.e the Kenya Shilling and the Tanzania Shilling had weakened or strengthened by 10% against the world's major currencies, with all other variables held constant, consolidated profit before income tax expense would have been higher or lower as depicted in below table:

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
7,655	3,741	10% depreciation/appreciation	11,875	5,497

III. Price risk

Shares quoted in the Nairobi Securities Exchange i.e "listed shares" and treasury bonds held for trading are stated at their fair value on the last day of business in the year. These values are subject to frequent variations due to changes in their market prices.

At 31st December 2011, if the prices at the Nairobi Securities Exchange had appreciated/depreciated by 5% with all other variables held constant, the impact on the shareholders equity would have been Shs 1,200,585 (2010 – Shs 2,812,816) higher/lower.

For the Treasury bonds, an increase/reduction in interest rates by 1% with all other variables held constant, will have an decrease / increase in shareholders' equity of Shs 77,112,758 (2010 Shs 56,797,000).

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

d) Capital management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by our regulators within the markets that the Group operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Group may incur in adverse market scenarios during the course of its business.

The Group's objective when managing capital is broadly covered as follows:

I Banking

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the Central Bank of Kenya (CBK) and the Bank of Tanzania (BOT).

Both CBK and BOT largely segregate the total regulatory capital into two tiers;

- Tier 1 Capital (Core Capital), which includes ordinary share capital, share premium and retained earnings. Investments in subsidiaries conducting banking business is deducted in arriving at tier 1 capital.
- Tier 2 Capital (Supplementary Capital) includes among others, 25% of property revaluation reserves (subject to regulatory approval) and collective impairment allowances.

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

BANK			GROUP	
2011 Shs'000	**2010 Shs'000**		**2011 Shs'000**	**2010 Shs'000**
9,073,356	**6,779,642**	Tier 1 capital	**9,633,972**	**7,369,264**
9,623,232	**7,187,875**	Tier 1 + Tier 2 capital	**10,209,174**	**7,783,917**
		Risk–weighted assets		
55,939,531	41,499,896	On-balance sheet	60,678,777	43,866,726
4,267,022	5,454,944	Off-balance sheet	4,577,812	5,508,056
60,206,553	**46,954,840**	**Total risk-weighted assets**	**65,256,589**	**49,374,782**

		Regulatory ratios	**(Minimum requirements %)**
14.98%	14.64%	Core capital/risk weighted assets	8%
14.68%	15.21%	Core capital/deposits	8%
15.89%	15.51%	Total capital/risk weighted assets	12%

4) Financial risk management objectives (continued)

Group risk management framework and governance structures (continued)

d) Capital management (continued)

II Investment banking and brokerage businesses

The Capital Markets Authority, which regulates the Group's Investment Banking and Brokerage businesses i.e NIC Capital Limited and NIC Securities Limited respectively, prescribes minimum capitalisation requirements and a working capital of not below 20% of the prescribed minimum shareholders funds or three times the average monthly operating costs whichever is higher. The subsidiaries maintained their capital together with the other requirements well above the minimum regulations as outlined below;

	NIC Capital Shs'000	NIC Securities Shs 000
Minimum capital	250,000	50,000
Capital held as at;		
31 December 2011	373,624	381,064
31 December 2010	331,913	369,683

e) Fair value of financial assets and liabilities

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed debt and equity instruments traded mainly on the Nairobi Securities Exchange.

ii) Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from Reuters and the Nairobi Securities Exchange.

iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs).

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

BANK				GROUP	
2011 Shs'000	2010 Shs'000		Note	2011 Shs'000	2010 Shs'000
		Level 1			
-	852,769	Treasury bonds - fair value through profit and loss.	19	267,464	852,769
4,139,032	2,413,221	Treasury bonds – available for sale	19	4,139,032	2,413,221
-	-	Investment in quoted shares at fair value.	24	25,151	50,703
		Level 2			
474,068	3,323	Derivative assets held for risk management.	20	474,068	3,323

There were no transfers between levels 1, 2 and 3 in the period.

5) Critical accounting estimates and judgments in applying the Group's accounting policies

I Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

II Held -to-maturity investments

The Group 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 Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

III Goodwill impairment

The Group's accounting policy for goodwill is described in Note 3(s). Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. When the process of identifying and evaluating goodwill impairment demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGU's estimated fair value. If this results in an estimated recoverable amount that is lower than the carrying amount of the CGU, a charge for impairment of goodwill will be recorded, thereby reducing by a corresponding amount the Group's profit for the year. Goodwill is stated at cost less accumulated impairment losses. Significant management judgement is involved in determining the cost of capital assigned to an individual CGU and in estimating its future cash flows.

IV Property and equipment

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

V Fair value of trade receivables and payables

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

VI Taxes

The Group is subjected to numerous taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Group recognises liabilities for the anticipated tax /levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

VII Impairment of available-for-sale equity investments

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Group evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

6) Operating segments

a) Geographical segments

The Group operations are within two geographical segments, Kenya and Tanzania. The table below contains segmental information provided to the Chief Operating Decision Maker (the Group Executive committee of management) for the year ended 31 December 2011.

2011

	Kenya Shs `000	Tanzania Shs `000	Total Shs `000
Net interest income	3,610,609	293,441	**3,904,050**
Net fee and commission income	2,448,824	249,860	**2,698,684**
Operating income	**6,059,433**	**543,301**	**6,602,734**
Operating expenses	(2,362,770)	(376,865)	**(2,739,635)**
Impairment on loans and advances	(249,166)	(8,985)	**(258,151)**
Profit before tax	**3,447,497**	**157,451**	**3,604,948**
Profit for the year	**2,597,567**	**109,570**	**2,707,137**
Loans and advances to customers	**52,025,475**	**4,599,146**	**56,624,621**
Customer deposits	**62,008,953**	**4,284,100**	**66,293,053**

2010

Net interest income	2,978,446	235,205	**3,213,651**
Net fee and commission income	1,766,297	233,532	**1,999,829**
Operating income	**4,744,743**	**468,737**	**5,213,480**
Operating expenses	(1,980,726)	(307,722)	**(2,288,448)**
Impairment on loans and advances	(290,145)	(26,495)	**(316,640)**
Profit before tax	**2,473,872**	**134,520**	**2,608,392**
Profit for the year	**1,771,161**	**92,757**	**1,863,918**
Loans and advances to customers	**38,340,879**	**2,414,100**	**40,754,979**
Customer deposits	**45,317,661**	**3,174,563**	**48,492,224**

6) Operating segments (Continued)

b) Business segments

The Group maintains the following business segments for allocation of resources and assessment of performance.

I. Corporate and Institutional banking

Targets medium to large corporate clientele and institutions, with a focus on liability mobilization and asset growth.

II. Treasury dealing and brokerage

Treasury dealing targets corporate clientele and institutions, with a focus on those with a foreign exchange component in their business, whereas the brokerage focuses on the execution of transactions at the Nairobi Securities Exchange on behalf of high net worth and institutional clients.

III. Retail banking

Targets the mass affluent to high net worth and business banking clientele, with a focus on becoming the customers' core deposit and transactional banker.

IV. Asset finance

Targets both the retail and corporate end of the market as the preferred financier in the motor vehicles, machinery and equipment segments in addition to Insurance Premium Financing (IPF) segment.

V. Investment banking

Targets large and medium sized companies for research, advisory and capital restructuring requirements.

The segment information provided to the executive committee of management for the reported segments is contained under note 45.

There were no changes in the reportable segments during the year.

7) Interest income

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
1,791,229	1,513,355	Finance leases	1,791,229	1,513,355
3,748,980	2,598,764	Loans and advances to customers	4,242,468	2,887,414
281,549	244,651	Government securities - Held to maturity	284,756	284,991
113,675	43,089	Deposits and balances due from banking institutions	137,689	71,784
5,935,433	**4,399,859**		**6,456,142**	**4,757,544**
7,499	**9,922**	Interest income earned on impaired financial assets	**7,499**	**9,922**

Interest income earned on impaired financial assets represents the unwinding of discounting in accordance with IAS 39.

8) Interest expense

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
2,261,284	1,412,378	Customer deposits	2,417,373	1,506,497
62,211	7,331	Deposits and balances due to banking institutions	121,155	23,590
13,564	13,806	Line of credit	13,564	13,806
2,337,059	**1,433,515**		**2,552,092**	**1,543,893**

9) Net trading income

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
851,587	430,439	Foreign exchange income	946,410	547,568
79,362	358,810	Bond trading income	79,362	358,810
-	-	Investment in quoted shares (note 24 (a))	(14,052)	703
		Interest income on government securities:		
21,108	124,549	- At fair value through profit or loss	46,569	124,549
328,869	61,271	- Available for sale	328,869	61,271
1,280,926	**975,069**		**1,387,158**	**1,092,901**

10) Other operating income

The following items are included in other operating income:

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
7,145	4,112	Rental income	3,581	4,112
574	1,066	Gain on disposal of motor vehicle & equipment	595	2,193
9,643	1,074	Bad debt recoveries	39,849	29,477
48,723	45,457	Trust and other fiduciary fees	48,723	45,457

11) Impairment on loans and advances

a) Specific allowance for impairment

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,321,616	1,025,951	At 1 January	1,420,444	1,134,091
-	-	Exchange difference on translation	(3,929)	(35,807)
274,805	306,318	Charge for the year	283,271	332,813
(9,260)	(10,653)	Write-offs	(9,260)	(10,653)
1,587,161	**1,321,616**	**At 31 December**	**1,690,526**	**1,420,444**

b) Collective allowance for impairment

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
64,673	80,846	At 1 January	64,673	80,846
(25,639)	(16,173)	Release for the year	(25,120)	(16,173)
39,034	**64,673**	**At 31 December**	**39,553**	**64,673**

c) Total allowance for impairment

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,386,289	1,106,797	At 1 January	1,485,117	1,214,937
-	-	Exchange difference on translation	(3,929)	(35,807)
249,166	290,145	Charge for the year	258,151	316,640
(9,260)	(10,653)	Write-offs	(9,260)	(10,653)
1,626,195	**1,386,289**	**At 31 December**	**1,730,079**	**1,485,117**

12) Employee expenses

The following items are included under employee costs:

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,147,465	969,953	Salaries and wages	1,381,847	1,154,829
1,046	836	Gratuity provision	1,046	836
6,890	6,032	Directors' emoluments – fees	8,809	8,111
90,280	71,740	– other	108,773	97,742
1,324	1,218	Pension costs - statutory contributions	13,082	7,782
79,580	69,893	Pension costs – defined contribution	84,693	72,830
1,326,585	**1,119,672**		**1,598,250**	**1,342,130**

The total number of employees as at 31 December 2011 for the Group was 596 (2010-514).

13) Operating expenses

(a) Depreciation and amortisation

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
143,134	139,014	Depreciation (note 26)	157,151	148,454
35,572	23,710	Amortisation of computer software (note 27)	41,512	26,240
125	125	Amortisation of operating lease (Note 28)	125	125
178,831	**162,849**	**At 31 December**	**198,788**	**174,819**

(b) Other operating expenses

The following items are included under this category:

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
4,002	3,463	Auditors' remuneration	6,918	6,313
95,846	74,617	Rental charges	137,530	107,323
25,052	23,465	Share registrations costs	25,052	23,465

14) Income tax

a) Income tax expense

BANK 2011 Shs'000	BANK 2010 Shs'000	**Current tax**	GROUP 2011 Shs'000	GROUP 2010 Shs'000
987,367	694,582	Income tax based on taxable profit for the year at 30%	1,058,727	742,984
11,790	-	Prior year under provision - current tax	11,790	136
999,157	**694,582**		**1,070,517**	**743,120**
		Deferred tax (note 25)		
(128,022)	1,925	-Current year	(129,125)	11,916
(43,581)	(10,562)	-Prior year over provision	(43,581)	(10,562)
827,554	**685,945**		**897,811**	**744,474**

14) Income tax (Continued)

b) Reconciliation of tax expense to expected tax base based on accounting profit

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

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
3,360,602	**2,416,342**	**Profit before tax**	**3,604,948**	**2,608,392**
1,008,181	724,903	Income tax - at the statutory rate of 30 %	1,081,484	782,518
162,304	88,591	Tax effect of expenses not deductible for tax	168,966	91,041
(311,140)	(116,987)	Tax effect of revenues that are not taxable	(320,848)	(118,660)
11,790	-	Prior year under provision - current tax	11,790	136
(43,581)	(10,562)	Deferred tax – prior year	(43,581)	(10,562)
827,554	**685,945**		**897,811**	**744,474**

c) Current income tax payable/(recoverable) movement

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
174,215	(37,334)	At 1 January	171,164	(69,703)
-	-	Exchange difference on translation	-	17
987,367	694,582	Tax charge (note 14 (a))- current year	1,058,727	742,984
11,790	-	Tax charge (note 14 (a))- prior year	11,790	136
(950,051)	(483,033)	Income taxation paid	(1,020,833)	(502,270)
223,321	**174,215**	**At 31 December**	**220,848**	**171,164**
		Comprising;	-	-
-	-	Current income tax recoverable	(8,690)	(8,180)
223,321	174,215	Current income tax payable	229,538	179,344
223,321	**174,215**	**At 31 December**	**220,848**	**171,164**

15) Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the Bank by the weighted average number of ordinary shares outstanding during the year.

BANK			GROUP	
2011	2010		2011	2010
2,533,048	**1,730,397**	**Profit attributable to equity holders of the Bank (Shs,000)**	**2,652,458**	**1,817,232**
394,897,562	**394,897,562**	**Weighted average number of shares for purposes of basic and diluted earnings per share**	**394,897,562**	**394,897,562**
Shs 6.41	**Shs 4.38**	**Earnings Per Share (Shs)**	**Shs 6.72**	**Shs 4.60**

15) Earnings per share (Continued)

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders of the Bank. There were no discontinued operations during the year.

During the year, the company issued bonus shares in the ratio of one bonus share for every ten shares held (2010: 1 for every 10 shares held). The bonus issue was approved by way of ordinary resolution at the last Annual General Meeting. Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 2010, the earliest period presented.

There were no potentially dilutive ordinary shares outstanding as at 31 December 2011 and 31 December 2010. Diluted earnings per share is therefore same as basic earnings per share.

16) Cash and balances with Central Bank of Kenya and Bank of Tanzania

BANK			GROUP	
2011 Shs'000	**2010 Shs'000**		**2011 Shs'000**	**2010 Shs'000**
562,869	476,633	Cash on hand	718,687	581,101
		Balances with Central Banks		
907,767	1,590,897	- Other (available for use by the Group)	956,716	1,736,350
1,470,636	**2,067,530**	**Included in Cash and Cash equivalents [note38(b)]**	**1,675,403**	**2,317,451**
3,293,990	1,997,084	Mandatory reserve deposits	3,963,513	2,381,286
4,764,626	**4,064,614**		**5,638,916**	**4,698,737**

The mandatory reserve deposits mainly represents regulatory cash ratio requirements based on the customer deposits with the Group. As at 31 December 2011 the cash ratio requirement in Kenya was 5.25% (2010 – 4.5%) and in Tanzania 10.0% (2010 – 10.0%) of eligible deposits. These funds are not available for the day to day operations of the Group and are non interest earning.

17) Items in the course of collection

BANK			GROUP	
2011 Shs'000	**2010 Shs'000**		**2011 Shs'000**	**2010 Shs'000**
250,024	**285,701**	Clearing account balances	**281,796**	**295,760**

18) Due from banking institutions

BANK			GROUP	
2011 Shs'000	**2010 Shs'000**		**2011 Shs'000**	**2010 Shs'000**
428,214	2,669,889	Deposits due from banking institutions	598,221	3,937,135
4,058,261	1,942,046	Balances due from banking institutions	5,094,434	2,437,690
4,486,475	**4,611,935**		**5,692,655**	**6,374,825**
1.92%	**0.7%**	Weighted average effective interest rate	**2.17%**	**1.0%**

19) Government securities

Securities held to maturity are stated at amortised cost while those classified as "Fair value through profit or loss" and "Available for Sale" are stated at fair value.

Government securities are categorised as follows;

BANK			GROUP	
2011 Shs'000	**2010 Shs'000**		**2011 Shs'000**	**2010 Shs'000**
3,077,723	1,580,418	Investment securities - Held to maturity	3,093,792	1,808,041
		Held for dealing purposes		
-	852,769	Fair value through profit or loss	267,464	852,769
4,139,032	2,413,221	Available for sale	4,139,032	2,413,221
4,139,032	**3,265,990**		**4,406,496**	**3,265,990**
7,216,755	**4,846,408**		**7,500,288**	**5,074,031**

The table below summarises the weighted average effective interest rate for Government securities.

BANK			GROUP	
2011 %	**2010 %**		**2011 %**	**2010 %**
10.80	10.46	Held to maturity	11.50	10.04
-	10.63	Fair value through profit or loss	9.28	10.63
9.16	7.32	Available for sale	9.16	7.32

a)The maturity profile of Government securities is a follows:

Maturity	**Held to Maturity Shs `000**	**Fair value through profit or loss Shs `000**	**Available for Sale Shs `000**	**Total Shs `000**
GROUP				
2011				
Included in Cash and Cash equivalent	**16,069**	**-**	**178,366**	**194,435**
Less than 1 year	845,034	267,464	1,146,003	2,258,501
1-5 years	-	-	-	-
Over 5 years	2,232,689	-	2,814,663	5,047,352
	3,093,792	**267,464**	**4,139,032**	**7,500,288**
2010				
Included in Cash and Cash equivalent	**-**	**-**	**-**	**-**
Less than 1 year	1,040,777	98,106	292,850	1,431,733
1-5 years	767,264	149,930	651,748	1,568,942
Over 5 years	-	604,733	1,468,623	2,073,356
	1,808,041	**852,769**	**2,413,221**	**5,074,031**

19) Government securities (continued)

a)The maturity profile of government securities is a follows: (continued)

BANK	Held to Maturity Shs `000	Fair value through profit or loss Shs `000	Available for sale Shs `000	Total Shs `000
2011				
Included in Cash and Cash equivalent	**-**	**-**	**178,366**	**178,366**
Less than 1 year	845,034	-	1,146,003	1,991,037
1-5 years	-	-	-	-
Over 5 years	2,232,689	-	2,814,663	5,047,352
	3,077,723	**-**	**4,139,032**	**7,216,755**
2010				
Included in Cash and Cash equivalent	**-**	**-**	**-**	**-**
Less than 1 year	1,040,777	98,106	292,850	1,431,733
1-5 years	539,641	149,930	651,748	1,341,319
Over 5 years	-	604,733	1,468,623	2,073,356
	1,580,418	**852,769**	**2,413,221**	**4,846,408**

20) Derivative assets held for risk management

GROUP AND BANK

The amount represents the fair value of forward foreign exchange contracts worth Shs 474,068,000 (2010: Shs 3,323,000). These derivative assets and liabilities are measured at fair value through the profit or loss. Notional principal amounts are the amounts underlying the contract at the reporting date.

	2011 Shs'000	2010 Shs'000
Notional value of forward contracts	**4,375,431**	**4,846,408**

21) Loans and advances to customers

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
16,327,451	11,213,390	Finance lease receivables	16,327,451	11,213,390
10,530,660	7,662,728	Personal loans	10,596,839	7,674,174
26,769,674	20,842,338	Commercial loans	31,406,525	23,343,820
23,885	8,712	Bills discounted	23,885	8,712
53,651,670	**39,727,168**	**Gross loans and advances to customers**	**58,354,700**	**42,240,096**
		Provisions for impairment		
1,587,161	1,321,616	Specific allowance	1,690,526	1,420,444
39,034	64,673	Collective allowance	39,553	64,673
1,626,195	**1,386,289**	**Total Impairment**	**1,730,079**	**1,485,117**
52,025,475	**38,340,879**	**Net loans and advances to customers**	**56,624,621**	**40,754,979**
69,510	**61,577**	**Net non performing loans and advances to customers**	**270,751**	**150,353**

Finance lease receivables, may be analysed as follows:

GROUP AND BANK

Gross investment in finance lease recievables	**2011 Shs'000**	**2010 Shs'000**
Not later than 1 year	2,538,997	2,171,665
Later than 1 year and not later than 5 years	13,838,598	9,059,503
Over 5 years	-	10,146
	16,377,595	**11,241,314**
Unearned future finance income on finance leases	(50,144)	(27,924)
Present value of minimum lease payments receivable	**16,327,451**	**11,213,390**

The Group and Bank enters into finance leasing arrangements for certain plant, equipment, motor vehicles and aircraft. The average term of finance leases entered into is 3 years. Unguaranteed residual values of assets leased under finance leases are estimated at nil (2010: nil).

The weighted average effective interest rates on loans and advances to customers at year end were as follows:

BANK 2011 %	BANK 2010 %		GROUP 2011 %	GROUP 2010 %
22.18	14.66	Finance lease receivables	22.18	13.52
20.05	18.35	Personal loans	20.60	14.78
20.16	8.45	Commercial loans	20.28	10.29
11.89	6.26	Bills discounted	11.89	7.42

22) Other assets

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
134,983	38,081	Prepayments	147,690	52,776
111,525	130,745	Other receivables	127,970	140,126
-	-	Trade receivables	59,827	21,992
246,508	**168,826**		**335,487**	**214,894**

23) Due from Group companies

	BANK 2011 Shs'000	BANK 2010 Shs'000
NIC Capital	3,054	1,562
NIC Securities	3,412	1,954
NIC Bank Tanzania	1,354,380	478,196
	1,360,846	**481,712**

24) Investments

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,147,786	1,147,786	Subsidiary companies	-	-
-	-	Quoted shares at fair value	25,151	50,703
-	-	Unquoted equity security	27,781	1,000
1,147,786	**1,147,786**		**52,932**	**51,703**

a) The movement in investments is as follows:

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,147,786	1,147,786	At 1 January	51,703	42,998
-	-	Additions at cost - investment in quoted shares	22,973	50,000
-	-	Investment in an unquoted equity security	26,781	-
-	-	Changes in fair value – investment in quoted shares	(14,052)	703
-	-	Disposal – quoted shares	(34,473)	(41,998)
1,147,786	**1,147,786**	**At 31 December**	**52,932**	**51,703**

All available-for-sale financial assets are denominated in Kenya Shillings. None of the financial assets are impaired.

24) Investments (continued)

b) Investment in subsidiary companies

BANK

Name	Principal activity	Holding %	COST 2011 Shs `000	COST 2010 Shs `000
NIC Bank Tanzania	Banking	51	596,285	596,285
NIC Capital	Financial advisory	100	500,000	500,000
NIC Insurance Agents	Insurance agency	100	1,000	1,000
National Industrial Credit Trustees	Dormant	100	500	500
Mercantile Finance Company	Dormant	100	50,000	50,000
The African Mercantile Banking Company	Dormant	100	1	1
			1,147,786	**1,147,786**

NIC Capital Limited has a subsidiary, NIC Securities Limited whose results have been incorporated in these financial statements. Details of NIC Securities Limited are as follows:

Name	Principal activity	Holding %	COST 2011 Shs `000	COST 2010 Shs `000
NIC Securities Limited	Brokerage services	91.3%	**438,370**	**438,370**

All the subsidiary companies have their financial year ending 31 December and are incorporated as limited liability companies. Except for NIC Bank Tanzania Limited which is incorporated and domiciled in Tanzania, all other subsidiaries are incorporated and domiciled in Kenya.

NIC Bank Limited acquired 51% of Savings & Finance Commercial Bank Limited now renamed NIC Bank Tanzania Ltd with effective control being passed on 1 May 2009. The audited financial statements for the year ended 31 December 2011 show that the company made profit after tax of Shs 109,570,000 (2010 - Shs 92,757,000).

NIC Capital Limited was established in 2005 to offer investment banking services. The audited financial statements for the year ended 31 December 2011 show that the company made a profit after tax of Shs 41,733,000 (2010–Shs 22,802,973).

NIC Capital Limited (NICCL) acquired 57.66% of NIC Securities Ltd (NICSL) (formerly Solid Investment Securities Limited) with effective control being passed on 1 January 2008. Subsequently, substantially through rights issues, the holding by NICCL in NICSL has increased to 91.3%. The cost of the investment as at 31 December 2011 is Shs 438,370,000 (2010 – Shs 438,370,000). NICSL offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2011 show that the company made a profit after tax of Shs 11,381,000 (2010 –Shs 14,182,000). The results of NIC Securities Limited are consolidated in these financial statements.

NIC Insurance Agents Limited was a 68% owned subsidiary of Mercantile Finance Company Limited (MFC). In 2010, NIC Bank Limited acquired the non-controlling interest and now directly owns 100% of the company. The company offers bancassurance services. The audited financial statements for the year ended 31 December 2011 show that the company made a profit after tax of Shs 11,427,000 (2010 – Shs 3,779,000).

National Industrial Credit Trustees Limited functions in a trustee capacity. The audited financial statements show that the company made no profit or loss for the year (2010 - Shs nil).

Mercantile Finance Company Limited did not trade during the year ended 31 December 2011. Its activities are limited to the recovery of its non performing debts. The audited financial statements show that the company made no profit or loss for the year (2010 - Shs nil).

The African Mercantile Banking Company Limited did not trade during the year ended 31 December 2011. The audited financial statements show that the company made no profit or loss for the year (2010 - Sh nil).

25) Deferred tax (asset)/liability

The net deferred tax computed at the enacted rate of 30%, is attributable to the following items:

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
		Assets:		
(6,957)	(5,409)	Leave pay provision	(7,283)	(5,616)
(104,703)	(28,693)	Excess depreciation over capital allowances	(105,131)	(29,045)
(111,396)	(19,401)	Collective allowance for impairment	(111,397)	(19,401)
		Available for sale financial assets;		
(158,379)	-	- current year	(158,379)	-
(28,979)	-	- prior year	(28,979)	-
-	-	Other provisions	(8,075)	(8,030)
-	-	Tax losses	(4,066)	(3,250)
(410,414)	**(53,503)**		**(423,310)**	**(65,342)**
		Liabilities:		
61,468	63,517	Revaluation surplus	61,468	63,517
(348,946)	**10,014**		**(361,842)**	**(1,825)**

Comprising:

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
		Movement in net deferred tax is as follows:		
10,014	18,651	At 1 January	(1,825)	(3,691)
-	-	Exchange differences on translation	47	512
		Fair value re-measurement of available-for-sale financial assets:		
(158,378)	-	- current year	(158,378)	-
(28,979)	-	- prior year	(28,979)	-
		Credit / (Charge) to profit or loss 14 (a)		
(128,022)	1,925	- current year	(129,125)	11,916
(43,581)	(10,562)	- prior year over provision	(43,581)	(10,562)
(348,946)	**10,014**	**At 31 December**	**(361,842)**	**(1,825)**
(348,946)	-	Deferred tax assets	(361,842)	(11,839)
-	10,014	Deferred tax liabilities	-	10,014
(348,946)	**10,014**	**At 31 December**	**(361,842)**	**(1,825)**

As at 31 December 2011, the Group had accumulated tax losses available for future relief amounting to Shs 13,553,000 (2010: Shs 10,833,000) relating to NIC Securities Limited.

Under the Kenyan legislation, with effect from 1 January 2010, tax losses can only be carried forward to a maximum of four years.

26) Property and equipment

GROUP	Buildings Shs `000	Furniture, fittings and equipment Shs `000	Motor vehicles Shs `000	Work in progress Shs `000	Total Shs `000
COST OR VALUATION					
At 1 January 2010	**370,000**	**965,263**	**21,436**	**3,078**	**1,359,777**
Additions	-	69,431	2,379	30,233	102,043
Transfers	-	3,078	-	(3,078)	-
Translation adjustments	-	(2,097)	(667)	-	(2,764)
Disposals	-	(18,617)	(4,334)	-	(22,951)
At 31 December 2010	**370,000**	**1,017,058**	**18,814**	**30,233**	**1,436,105**
At 1 January 2011	**370,000**	**1,017,058**	**18,814**	**30,233**	**1,436,105**
Additions	-	177,986	8,412	188,628	375,026
Transfers - WIP	-	39,486	-	(39,486)	-
Disposals	-	(3,490)	-	-	(3,490)
At 31 December 2011	**370,000**	**1,231,040**	**27,226**	**179,375**	**1,807,641**
Comprising:					
Cost	144,617	1,231,040	27,226	179,375	1,582,258
Valuation – 2008	225,383	-	-	-	225,383
	370,000	**1,231,040**	**27,226**	**179,375**	**1,807,641**
DEPRECIATION					
At 1 January 2010	**11,212**	**538,377**	**11,933**	**-**	**561,522**
Translation adjustments	-	(1,278)	(381)	-	(1,659)
Charge for the year	11,212	133,089	4,153	-	148,454
Eliminated on disposals	-	(18,408)	(4,334)	-	(22,742)
At 31 December 2010	**22,424**	**651,780**	**11,371**	**-**	**685,575**
At 1 January 2011	**22,424**	**651,780**	**11,371**	**-**	**685,575**
Charge for the year	11,212	140,854	5,085	-	157,151
Eliminated on disposals	-	(3,073)	-	-	(3,073)
At 31 December 2011	**33,636**	**789,561**	**16,456**	**-**	**839,653**
NET BOOK VALUE					
At 31 December 2011	**336,364**	**441,480**	**10,770**	**179,375**	**967,988**
At 31 December 2010	**347,576**	**365,278**	**7,443**	**30,233**	**750,530**

Buildings were revalued at Shs 370 million as at 31 December 2008 by registered professional valuers, Knight Frank Limited on an open market value basis by reference to market evidence of recent transactions for similar properties. Buildings are revalued every 3-5 years. At 31 December 2011, the net book value of buildings based on original cost was Shs 95,698,000 (2010 – Shs 106,718,000). There were no capitalised borrowing costs related to the acquisition of property and equipment during the year 2011 (2010 – Shs nil).

Included in motor vehicles and furniture, fittings and equipment are assets with a cost of Shs 473,718,790 (2010 – Shs 410,158,202) which were fully depreciated.The notional depreciation charge on these assets would have been Shs 105,159,025 (2010 – Shs 90,667,041). Computer equipment are included under furniture, fittings and equipment. Work in progress mainly relates to the acquisition of banking software related hardware; and the branch expansion programme in Tanzania and Kenya.

26) Property and equipment (continued)

BANK	Buildings Shs `000	Furniture, fittings and equipment Shs `000	Motor vehicles Shs `000	Work in progress Shs `000	Total Shs `000
COST OR VALUATION					
At 1 January 2010	**370,000**	**917,683**	**14,089**	**3,078**	**1,304,850**
Additions	-	55,680	2,300	-	57,980
Transfers	-	3,078	-	(3,078)	-
Disposals	-	(18,363)	(1,600)	-	(19,963)
At 31 December 2010	**370,000**	**958,078**	**14,789**	**-**	**1,342,867**
At 1 January 2011	**370,000**	**958,078**	**14,789**	**-**	**1,342,867**
Additions	-	153,092	4,467	149,493	307,052
Disposals	-	(3,469)	-	-	(3,469)
At 31 December 2011	**370,000**	**1,107,701**	**19,256**	**149,493**	**1,646,450**
Comprising:					
Cost	144,617	1,107,701	19,256	149,493	1,421,067
Valuation – 2008	225,383	-	-	-	225,383
	370,000	**1,107,701**	**19,256**	**149,493**	**1,646,450**
DEPRECIATION					
At 1 January 2010	**11,212**	**518,178**	**6,111**	**-**	**535,501**
Charge for the year	11,212	125,423	2,379	-	139,014
Eliminated on disposals	-	(18,314)	(1,600)	-	(19,914)
At 31 December 2010	**22,424**	**625,287**	**6,890**	**-**	**654,601**
At 1 January 2011	**22,424**	**625,287**	**6,890**	**-**	**654,601**
Charge for the year	11,212	128,889	3,033	-	143,134
Eliminated on disposals	-	(3,053)	-	-	(3,053)
At 31 December 2011	**33,636**	**751,123**	**9,923**	**-**	**794,682**
NET BOOK VALUE					
At 31 December 2011	**336,364**	**356,578**	**9,333**	**149,493**	**851,768**
At 31 December 2010	**347,576**	**332,791**	**7,899**	**-**	**688,266**

Buildings were revalued at Shs 370 million as at 31 December 2008 by registered, professional valuers, Knight Frank Limited on an open market value basis by reference to market evidence of recent transactions for similar properties. At 31 December 2011, the net book value of buildings based on original cost was Shs 95,698,000 (2010 – Shs 106,718,000).

Included in motor vehicles and furniture, fittings and equipment are assets with a cost of Shs 456,796,033 (2010 – Shs 396,101,289) which were fully depreciated. The notional depreciation charge on these assets would have been Shs 91,359,213 (2010 – Shs 87,714,028). Computers are included under furniture, fittings and equipment. Work in progress mainly relates to the acquisition of banking software related hardware; and the branch expansion programme.

27) Intangible assets

BANK 2011 Shs'000	BANK 2010 Shs'000			GROUP 2011 Shs'000	GROUP 2010 Shs'000
400,544	129,357	Computer software	27(a)	410,796	141,070
-	-	Goodwill	27(b)	375,426	375,426
-	-	NSE Licence	27(c)	251,000	251,000
400,544	**129,357**	**At 31 December**		**1,037,222**	**767,496**

Details of the intangible assets are as follows:

a) Computer software

BANK Capitalised Shs `000	BANK Work-in Progress* Shs `000	BANK Total Shs `000		GROUP Capitalised Shs `000	GROUP Work-in Progress* Shs `000	GROUP Total Shs`000
			COST			
217,406	**-**	**217,406**	**At 1 January 2010**	**226,451**	**-**	**226,451**
49,297	45,876	95,173	Additions	55,481	45,876	101,357
-	-	-	Translation adjustment	(490)	-	(490)
266,703	**45,876**	**312,579**	**At 31 December 2010**	**281,442**	**45,876**	**327,318**
266,703	**45,876**	**312,579**	**At 1 January 2011**	**281,442**	**45,876**	**327,318**
45,819	260,940	306,759	Additions	49,067	262,171	311,238
45,876	(45,876)	-	Transfers	45,876	(45,876)	-
358,398	**260,940**	**619,338**	**At 31 December 2011**	**376,385**	**262,171**	**638,556**
			AMORTISATION			
159,513	**-**	**159,513**	**At 1 January 2010**	**160,171**	**-**	**160,171**
-	-	-	Translation adjustments	(163)	-	(163)
23,709	-	23,709	Charge for the year	26,240	-	26,240
183,222	**-**	**183,222**	**At 31 December 2010**	**186,248**	**-**	**186,248**
183,222	**-**	**183,222**	**At 1 January 2011**	**186,248**	**-**	**186,248**
35,572	-	35,572	Charge for the year	41,512	-	41,512
218,794	**-**	**218,794**	**At 31 December 2011**	**227,760**	**-**	**227,760**
			NET BOOK VALUE			
139,604	**260,940**	**400,544**	**At 31 December 2011**	**148,625**	**262,171**	**410,796**
83,481	**45,876**	**129,357**	**At 31 December 2010**	**95,194**	**45,876**	**141,070**

Assets of the Group with a gross value of Shs 150,198,967 (2010 –Shs 145,590,123) are fully amortised but still in use. The notional amortisation charge on these assets would have been Shs 30,039,793 (2010 – Shs 29,118,025).

*Work in progress relates to mobilisation and progression fees paid towards the purchase of the new banking software.

27) Intangible assets (continued)

b) Goodwill

The goodwill consists of equity interest held by the Group in;

	2011 Ownership %	Amount Shs'000	2010 Ownership %	Amount Shs'000
NIC Bank Tanzania	51.0	251,996	51.0	251,996
NIC Securities	91.3	123,430	91.3	123,430
At 31 December		**375,426**		**375,426**

Goodwill is reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2011 (2010: Shs nil).

c) NSE Licence

This licence refers to the seat at the Nairobi Securities Exchange held by the Group through NIC Securities Limited. The seat has been revalued at Shs 251 million, based on an arm's length transaction of a similar seat. The license has an indefinite useful life and is reviewed at the end of each reporting period to determine whether events and circumstances continue to support an indefinite useful life assessment of the asset.

28) Operating lease prepayments – Leasehold land

	GROUP AND BANK 2011 Shs `000	2010 Shs `000
Cost		
At 31 December	10,000	10,000
Amortisation		
At 1 January	2,375	2,250
Charge for the year	125	125
At 31 December	**2,500**	**2,375**
Net book value	**7,500**	**7,625**

29) Customer deposits

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
21,085,185	20,280,121	Current accounts	22,228,140	20,912,252
1,509,284	1,974,406	Savings accounts	2,027,182	2,450,211
39,198,516	22,934,696	Fixed and call deposits	41,821,752	24,987,334
215,968	128,438	Other deposits	215,979	142,427
62,008,953	**45,317,661**	**At 31 December**	**66,293,053**	**48,492,224**
7.49%	**3.35%**	**Weighted average effective interest rate**	**7.37%**	**3.45%**

Customer deposits include financial instruments classified as liabilities at amortised cost. Fixed and call deposits are at fixed interest rates and all other deposits are at variable rates.

Other deposits are those held as collateral for irrevocable commitments mainly under import letters of credit and performance bonds. Their fair value approximates the carrying amount.

30) Due to banking institutions

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
		Maturing within 90 days:		
206,149	**101,479**	Deposits due to banking institutions	**788,647**	**733,452**
21.9%	**2.0%**	**Weighted average effective interest rate**	**21.5%**	**1.8%**

Deposits due to banking institutions only include financial instruments classified as liabilities at amortised cost.

31) Line of credit

The Bank has an unsecured revolving medium term line of credit with Agence Francaise De Development (PROPARCO) for on-lending to customers with varying maturities as shown below. As at 31 December 2011, the amount outstanding was US$ 2,241,231 (2010 – US$ 3,762,834) equivalent to Shs 190,280,499 (2010 – Shs 303,284,420).

	GROUP AND BANK 2011 Shs `000	GROUP AND BANK 2010 Shs `000
Maturity		
Payable within one year	117,842	130,521
Payable after one year and within three years	72,438	109,788
Payable after three years	-	62,975
	190,280	**303,284**
Weighted average effective interest rate	**5.23%**	**2.8%**

Line of credit is a financial instruments classified as a liability at amortised cost.

32) Due to Group companies

		BANK 2011 Shs `000	BANK 2010 Shs `000
Deposits held	- NIC Capital	85,456	38,602
	- Mercantile Finance Company	5,210	5,210
	- NIC Securities	177,282	120,572
	- NIC Insurance Agents	11,339	3,994
Other payables	- Mercantile Finance Company	42,020	42,020
	- NIC Bank Tanzania	808	54,420
		322,115	**264,818**

33) Other liabilities

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
257,521	235,900	Bills payable	298,089	292,454
391,850	403,284	Other payables and accruals	514,695	498,179
2,176	1,713	Legal and other claims	13,332	21,132
-	-	Trade payables	53,236	61,708
23,191	18,029	Leave pay provision	24,277	18,721
674,738	**658,926**	**At 31 December**	**903,629**	**892,194**

Legal and other claims relate substantially to a provision for charges brought against the Group by customers of the brokerage subsidiary, NIC Securities Limited. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2011.

34) Dividends

At the Annual General Meeting scheduled for 2 May 2012, a final dividend in respect of 2011 of Shs 0.25 per share (2010 - Shs 0.25 per share) amounting to a total of Shs 98,724,000 (2010 – Shs 89,749,000) is to be proposed by the directors.

During the year an interim dividend in respect of 2011 of Shs 0.25 per share (2010 - Shs 0.25 per share) amounting to a total of Shs 98,724,000 (2010 – Shs 89,749,000) was paid.

The total estimated dividend for the year to be paid is therefore Shs 0.50 per share (2010 - Shs 0.50 per share) amounting to a total of Shs 197,449,000 (2010 - Shs 179,499,000). The final proposed dividend for the year is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

The movement in unclaimed dividends is as follows:

	GROUP AND BANK	
	2011 Shs`000	**2010 Shs`000**
At 1 January	50,181	43,825
Final dividend declared	89,749	81,590
Interim dividend declared	98,724	89,749
Dividends paid	(182,749)	(164,983)
At 31 December	**55,905**	**50,181**

Payment of dividends to members with shareholding of up to 12.5% is subject to withholding tax at the rate of 5.0% for residents and 10.0% for non-residents.

35) Share capital and reserves

(a) Share capital and share premium

GROUP AND BANK	Number of shares	Share capital Shs `000	Share premium Shs `000
At 1 January 2010	**326,361,622**	**1,631,808**	**192,600**
Bonus issue	32,636,162	163,181	(163,181)
Bonus issue expenses	-	-	(571)
At 31 December 2010	**358,997,784**	**1,794,989**	**28,848**
At 1 January 2011	**358,997,784**	**1,794,989**	**28,848**
Bonus issue	35,899,778	179,499	(28,848)
At 31 December 2011	**394,897,562**	**1,974,488**	**-**

As at 31 December 2011 the authorised share capital of the company comprised of 400,000,000 ordinary shares with a par value of Shs 5. The issued shares as at 31 December 2011 are 394,897,562 (2010 - 358,997,784) and are fully paid. Issued and fully paid ordinary shares, which have a par value of Shs 5, carry one vote per share and carry a right to dividend.

During the year, the company capitalized the sum of Sh 179,498,890 from the credit of the revenue reserves and share premium account and appropriated the amount to ordinary shareholders by way of a 1 for 10 bonus issue. The bonus issue was approved by way of ordinary resolution at the Annual General Meeting held on 25 May 2011. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

35) Share capital and reserves (continued)

Premiums from the issue of shares are reported as share premiums. During the year, the share premium was fully utilised to cater for the bonus issue and related bonus issue expenses.

(b) Revaluation surplus on property

Revaluation reserve is made up of the periodic adjustments arising from the fair valuation of buildings, net of the related deferred taxation. The reserve is not available for distribution to the shareholders.

(c) Investments revaluation reserves

This represents the unrealized increase or decrease in the fair value of available-for-sale investments, excluding impairment losses. The reserve is not available for distribution to the shareholders.

(d) Foreign currency translation reserve

The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operation (NIC Bank Tanzania Limited) from their functional currency (Tanzania Shillings) to the Group's presentation currency (Kenya Shillings). These differences are recognised directly through other comprehensive income and accumulated in the foreign currency translation reserve. The Group acquired effective control of NIC Bank Tanzania Limited on 1 May 2010. The reserve is not available for distribution to the shareholders.

(e) Statutory credit risk reserves

Where impairment losses required by prudential guidelines issued by the banking regulators exceed those computed under the International Financial Reporting Standards (IFRS), the excess is recognised as a statutory reserve and accounted for as an appropriation from revenue reserves. The reserve is not available for distribution to the shareholders.

(f) Revenue reserves

This represents undistributed profits from current and previous years.

36) Non-controlling interests

The total non-controlling interest consists of equity interest in subsidiaries;

	GROUP AND BANK			
	2011		2010	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
NIC Bank Tanzania	49.0	435,988	49.0	382,299
NIC Securities	8.7	33,158	8.7	32,168
At 31 December		**469,146**		**414,467**

a) NIC Bank Tanzania

On 1 May 2009, the Group acquired a 51% stake in one of Tanzania's mid-sized commercial banks, NIC Bank Tanzania Limited. NIC Bank Tanzania Ltd was founded as a non-bank financial institution in 1994, converted to a fully fledged commercial bank in 2005 and has branches in Dar es Salaam, Mwanza and Arusha.

36) Non-controlling interestst (continued)

a) NIC Bank Tanzania (continued)

Movement in non-controlling interests;

	2011 Shs'000	2010 Shs'000
At 1 January	382,299	336,849
Share of profit	53,689	45,450
At 31 December	**435,988**	**382,299**

b) NIC Securities

On 31 December 2007, the Bank acquired 57.7% of NIC Securities Limited (formerly Solid Investment Securities Limited) through its wholly owned subsidiary NIC Capital Limited. Through combinations of direct buy-outs and additional rights issues, the Group increased its ownership stake in the subsidiary to 91.3% in 2009.

Movement in non-controlling interest;

	2011 Shs'000	2010 Shs'000
At 1 January	32,168	30,929
Share of profit	990	1,239
At 31 December	**33,158**	**32,168**

37) Off balance sheet financial instruments, contingent liabilities and commitments

a) Contingent liabilities

BANK			GROUP	
2011 Shs'000	2010 Shs'000		2011 Shs'000	2010 Shs'000
5,289,500	3,763,662	Letters of credit	5,301,250	3,776,587
7,896,163	6,818,173	Letters of guarantee & performance bonds	8,175,203	6,981,496
13,185,663	**10,581,835**	**At 31 December**	**13,476,453**	**10,758,083**

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

Letters of credit are commitments by the Group to make payments to third parties, on production of documents, on behalf of customers and are reimbursed by customers. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Group will only be required to meet these obligations in the event of default by the customers.

(b) Operating lease prepayments

i) The Group as a lessor

At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

37) Off balance sheet financial instruments, contingent liabilities and commitments (continued)

(b) Operating lease prepayments (continued)

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
2,526	-	Within one year	2,526	-
10,103	4,014	In the second to fifth year inclusive	10,103	4,014
12,629	**4,014**	**At 31 December**	**12,629**	**4,014**

Leases are negotiated for an average term of 6 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months notice to vacate the premises.

ii)The Group as a lessee

At the end of the reporting period, the Group had non-cancellable operating leases which fall due as follows:

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
		Premises		
106,145	45,024	Within one year	132,303	58,749
325,294	132,190	In the second to fifth year inclusive	413,484	185,747
431,439	**177,214**	**At 31 December**	**545,787**	**244,496**
		Office equipment		
1,348	1,348	Within one year	1,348	1,348
-	1,348	In the second to fifth year inclusive	-	1,348
1,348	**2,696**	**At 31 December**	**1,348**	**2,696**

Operating lease payments represent rentals payable by the Group for its office premises and office equipment. Premises leases are negotiated for an average term of 6 years, while office equipment is for an average term of 3 years.

c) Capital commitments

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
852,668	24,734	Authorised and contracted for	930,120	24,734
223,360	289,600	Authorised but not contracted for	252,092	289,600
1,076,028	**314,334**	**At 31 December**	**1,182,212**	**314,334**

d) Other credit commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods. The Bank may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers.

38) Notes to the statement of cash flows

a) Cash generated from operations

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
		Reconciliation of profit before tax to cash generated from/(used in) operations		
3,360,602	2,416,342	Profit before tax	3,604,948	2,608,393
		Adjustments for:		
143,134	139,014	Depreciation	157,151	148,454
125	125	Amortisation of operating lease prepayments	125	125
35,572	23,709	Amortisation of intangible assets	41,512	26,240
-	-	Gain on sale of investments	-	(3,681)
-	-	Loss/(gain) on revaluation of fair value through profit and loss investments	14,052	(703)
-	-	Cumulative loss reclassified to equity on sale of investment	-	4,154
(574)	(1,066)	Gain on disposal of motor vehicle & equipment	(595)	(2,193)
3,538,859	**2,578,124**	**Profit before working capital changes**	**3,817,193**	**2,780,789**
		Increase in balances with Central Banks		
(1,296,906)	(108,952)	– Mandatory reserve deposits	(1,582,227)	(217,911)
(13,684,596)	(7,207,395)	Increase in loans and advances to customers	(15,869,642)	(8,243,897)
-	-	Proceeds on disposal of quoted shares – held for trading	34,473	-
-	-	Outflows on purchase of quoted shares - held for trading	(22,973)	(50,000)
-	-	Investment in unquoted shares - available for sale	(26,781)	-
-	-	Inflows on disposal of quoted shares – available for sale	-	45,679
(2,719,906)	(1,084,900)	Increase in Government securities maturing after 90 days	(2,759,747)	(1,257,162)
(470,745)	(1,923)	Net movement in derivatives held for risk management	(470,745)	(1,923)
(77,682)	(13,823)	Increase in other assets	(120,593)	(24,372)
57,297	40,728	Due to subsidiary companies	-	-
(879,134)	(479,366)	Due from subsidiary companies	-	-
16,691,292	8,340,301	Increase in customer deposits	17,800,829	8,977,949
15,812	166,703	Increase in other liabilities	5,880	246,036
(113,004)	(161,918)	Decrease in line of credit	(113,004)	(161,918)
1,061,287	**2,067,579**	**Cash generated from operations**	**692,663**	**2,093,270**

b) Cash and cash equivalents

Analysis of balances of cash and cash equivalents as shown in the consolidated statement of financial position and notes

BANK 2011 Shs'000	BANK 2010 Shs'000		Note	GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,470,636	2,067,530	Cash and balances with central banks	16	1,675,403	2,317,451
250,024	285,701	Items in course of collection	17	281,796	295,760
4,486,475	4,611,935	Due from banking institutions	18	5,692,655	6,374,825
178,366	-	Government securities	19	194,435	-
(206,149)	(101,479)	Due to banking institutions	30	(788,647)	(733,452)
6,179,353	**6,863,687**	**At 31 December**		**7,055,642**	**8,254,584**

38) Notes to the consolidated statement of cash flows (continued)

c) Proceeds from sale of motor vehicle & equipment

BANK 2011 Shs'000	BANK 2010 Shs'000		Note	GROUP 2011 Shs'000	GROUP 2010 Shs'000
3,469	19,963	Disposal at cost	26	3,490	22,951
(3,053)	(19,914)	Depreciation eliminated on disposal	26	(3,073)	(22,742)
574	1,066	Gain on disposal of motor vehicle & equipment	10	595	2,193
990	**1,115**	**Proceeds from sale of motor vehicle & equipment**		**1,012**	**2,402**

39) 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.

In the normal course of business, a number of banking transactions are entered into with related parties i.e staff, directors, their associates and companies associated with directors. These include loans, deposits and foreign currency transactions. Loans and advances to customers at 31 December include loans and advances to staff and to companies associated with directors. Contingent liabilities at 31 December include guarantees and letters of credit for companies associated with directors.

Loans and advances to customers:

Companies associated to directors

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
1,018,418	796,813	At 1 January	1,040,829	796,813
161,269	221,605	Net movement during the year	145,981	244,016
1,179,687	**1,018,418**	**At 31 December**	**1,186,810**	**1,040,829**
90,295	**77,952**	**Interest earned**	**91,683**	**80,406**
356,282	**325,883**	**Guarantees and letters of credit to companies associated with directors**	**356,282**	**325,883**

The above outstanding balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with independent third-party counterparties.

Employees/Staff

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
		Loans and advances:		
467,649	390,319	At 1 January	479,096	390,319
144,051	77,330	Net movement during the year	145,247	88,777
611,700	**467,649**	**At 31 December**	**624,343**	**479,096**
30,768	**25,405**	**Interest earned**	**33,420**	**26,659**

These loans and advances are performing and are adequately secured.

39) Related party transactions (Continued)

Customer deposits

Companies associated to directors

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
4,980,085	4,786,074	At 1 January	5,007,296	4,786,074
(283,151)	194,011	Net movement during the year	(262,989)	221,222
4,696,934	**4,980,085**	**At 31 December**	**4,744,307**	**5,007,296**
288,345	**229,063**	**Interest paid**	**288,623**	**280,860**

Employees/staff

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
58,225	78,323	At 1 January	78,998	81,925
38,948	(20,098)	Net movement during the year	20,058	(2,927)
97,173	**58,225**	**At 31 December**	**99,056**	**78,998**
2,439	**1,576**	**Interest paid**	**2,495**	**1,661**

Other amounts outstanding at the end of the reporting period are disclosed in notes 23 and 32.

Key management compensation

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

BANK 2011 Shs'000	BANK 2010 Shs'000		GROUP 2011 Shs'000	GROUP 2010 Shs'000
159,513	153,335	Salaries and other benefits	211,876	276,977
		Directors' remuneration		
6,890	6,032	Fees for services as directors	8,809	8,111
90,280	71,740	Other emoluments (included in key management compensation above)	108,773	97,742
97,170	**77,772**		**117,582**	**105,853**

In line with policy, the above compensation is a consolidated salary package encompassing all employment benefits and pension.

40) Assets pledged as security

As at 31 December 2011, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities (2010: Shs nil).

41) Fiduciary activities

The bank holds asset security documents on behalf of customers with a value of Shs 30,037,235,373 (2010 – Shs 24,073,563,551). These securities are held by the custody services department and comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others.

42) Event after the Balance Sheet date - Regional expansion

In line with its regional expansion strategy, the bank received approval from the Bank of Uganda to conduct banking business in Uganda through its wholly owned subsidiary, NC Bank Uganda. The investment is supported by a capital investment of Shs 961m (Uganda Shillings 25 billion).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

AS AT 31 DECEMBER 2011

43) (a) MATURITY ANALYSIS OF FINANCIAL LIABILITIES AND ASSETS

2011	Up to 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	4 to 5 Years Shs'000	Over 5 Years Shs'000	Total Shs'000
FINANCIAL LIABILITIES							
Customer deposits	32,764,865	25,207,290	7,421,669	899,229	-	-	66,293,053
Due to banking institutions	788,647	-	-	-	-	-	788,647
Line of credit	29,895	-	87,947	72,438	-	-	190,280
Unclaimed dividends	55,905	-	-	-	-	-	55,905
Other liabilities	130,807	128,187	644,635	-	-	-	903,629
Total liabilities	**33,770,119**	**25,335,477**	**8,154,251**	**971,667**	**-**	**-**	**68,231,514**
FINANCIAL ASSETS							
Cash and balances with Central Banks	2,786,994	2,144,143	631,290	76,489	-	-	5,638,916
Items in the course of collection	281,796	-	-	-	-	-	281,796
Due from banking institutions	5,612,312	80,343	-	-	-	-	5,692,655
Government securities	194,435	848,075	1,142,961	2,615,895	2,698,922	-	7,500,288
Derivative assets held for risk management	474,068	-	-	-	-	-	474,068
Loans and advances to customers	6,291,827	10,585,875	11,303,463	11,927,499	16,515,957	-	56,624,621
Other assets	335,487	-	-	-	-	-	335,487
Total assets	**15,976,919**	**13,658,436**	**13,077,714**	**14,619,883**	**19,214,879**	**-**	**76,547,831**
Net liquidity gap	**17,793,200**	**11,677,041**	**(4,923,463)**	**(13,648,216)**	**(19,214,879)**	**-**	**(8,316,317)**
2010							
Financial liabilities	**26,914,234**	**14,622,226**	**8,620,814**	**489,545**	**13,874**	**-**	**50,660,693**
Financial assets	**14,090,867**	**6,630,760**	**12,031,300**	**11,944,841**	**6,382,119**	**6,408,384**	**57,488,271**
Net liquidity gap	**12,823,367**	**7,991,466**	**(3,410,486)**	**(11,455,296)**	**(6,368,245)**	**(6,408,384)**	**(6,827,578)**

43) (b) LIQUIDITY RISK (UNDISCOUNTED)

2011	Up to 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	Over 3 Years Shs'000	Total Shs'000
FINANCIAL LIABILITIES						
Customer deposits	33,884,331	26,047,533	8,163,836	1,216,207	-	69,311,907
Due to banking institutions	791,969	-	-	-	-	791,969
Line of credit	30,021	-	91,034	80,066	-	201,121
Total liabilities	**34,706,321**	**26,047,533**	**8,254,870**	**1,296,273**	**-**	**70,304,997**
FINANCIAL ASSETS						
Cash and balances with Central Banks	2,756,682	2,119,114	664,175	98,945	-	5,638,916
Items in the course of collection	281,796	-	-	-	-	281,796
Due from banking institutions	5,618,252	80,598	-	-	-	5,698,850
Government securities	196,983	878,945	1,267,772	3,472,862	4,172,533	9,989,095
Derivative assets held for risk management	474,068	-	-	-	-	474,068
Loans and advances to customers	6,399,155	10,938,296	12,540,829	17,088,078	22,944,795	69,911,153
Total assets	**15,726,936**	**14,016,953**	**14,472,776**	**20,659,885**	**27,117,328**	**91,993,878**
Net liquidity gap	**18,979,385**	**12,030,580**	**(6,217,906)**	**(19,363,612)**	**(27,117,328)**	**(21,688,881)**
2010						
Financial liabilities	**26,580,595**	**14,718,040**	**8,401,076**	**292,175**	**68,208**	**50,060,094**
Financial assets	**12,774,288**	**6,771,587**	**13,262,301**	**15,564,826**	**17,406,617**	**65,779,619**
Net liquidity gap	**13,806,307**	**7,946,453**	**(4,861,225)**	**(15,272,651)**	**(17,338,409)**	**(15,719,525)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

AS AT 31 DECEMBER 2011

43) (c) INTEREST RATE RISK

2011	Effective Rates %	Up to 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	4 to 5 Years Shs'000	Over 5 Years Shs'000	Total Shs'000
FINANCIAL ASSETS								
Cash and balances with Central Banks	-	-	-	-	-	-	5,638,916	5,638,916
Items in the course of collection	-	-	-	-	-	-	281,796	281,796
Due from banking institutions	2.17	5,612,312	80,343	-	-	-	-	5,692,655
Government securities	8.60	194,435	848,075	1,142,961	2,615,895	2,698,922	-	7,500,288
Derivative assets held for risk management	-	-	-	-	-	-	474,068	474,068
Loans and advances to customers	12.62	53,860,059	222,377	1,071,442	1,470,743	-	-	56,624,621
Total financial assets		**59,666,806**	**1,150,795**	**2,214,403**	**4,086,638**	**2,698,922**	**6,394,780**	**76,212,344**
FINANCIAL LIABILITES								
Customer deposits	7.37	10,644,683	25,207,290	7,421,669	899,229	-	22,120,182	66,293,053
Due to banking institutions	21.5	788,647	-	-	-	-	-	788,647
Line of credit	5.23	29,895	-	87,947	72,438	-	-	190,280
Total financial liabilities		**11,463,225**	**25,207,290**	**7,509,616**	**971,667**	**-**	**22,120,182**	**67,271,980**
Interest rate sensitivity gap		**48,203,581**	**(24,056,495)**	**(5,295,213)**	**3,114,971**	**2,698,922**	**(15,725,402)**	**8,940,364**
2010								
Total financial assets		**45,680,484**	**1,412,913**	**954,337**	**1,703,186**	**2,456,238**	**4,994,497**	**57,201,655**
Total financial liabilities		**18,574,737**	**14,601,419**	**8,158,120**	**317,384**	**13,874**	**7,863,426**	**49,528,960**
Interest rate sensitivity gap		**27,105,747**	**(13,188,506)**	**(7,203,783)**	**1,385,802**	**2,442,364**	**(2,868,929)**	**7,672,695**

44) FOREIGN EXCHANGE (CURRENCY) RISK

2011	USD Shs'000	GBP Shs'000	EURO Shs'000	Others Shs'000	TOTAL Shs'000
FINANCIAL ASSETS					
Cash and balances with Central Banks	69,511	12,171	26,427	-	108,109
Due from banking institutions	1,923,635	1,292,288	706,559	84,872	4,007,354
Loans and advances to customers	15,582,266	437,268	1,060,600	-	17,080,134
Other assets	433,716	285,438	121,577	11,673	852,404
Total financial assets	**18,009,128**	**2,027,165**	**1,915,163**	**96,545**	**22,048,001**
FINANCIAL LIABILITES					
Customer deposits	14,748,850	1,864,709	1,896,744	43,051	18,553,354
Other liabilities	155,444	149,921	12,755	1,230	319,350
Line of credit	190,280	-	-	-	190,280
Total financial liabilities	**15,094,574**	**2,014,630**	**1,909,499**	**44,281**	**19,062,984**
Net balance sheet position	**2,914,554**	**12,535**	**5,664**	**52,264**	**2,985,017**
OFF BALANCE SHEET POSITION	**(2,770,052)**	**-**	**-**	**(45,763)**	**(2,815,815)**

2010					
Total financial assets	**1,061,732**	**14,912,338**	**1,918,557**	**673,250**	**18,565,877**
Total financial liabilities	**1,019,022**	**10,602,602**	**2,317,058**	**47,526**	**13,986,208**
Net balance sheet position	**42,710**	**4,309,736**	**(398,501)**	**625,724**	**4,579,669**
OFF BALANCE SHEET POSITION	**(73,336)**	**(4,355,702)**	**376,478**	**(686,930)**	**(4,739,490)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

AS AT 31 DECEMBER 2011

45) Segmental reporting - by business segments

2011

	Corporate & Institutional Banking Shs '000	Treasury Dealing and Brokerage Shs '000	Retail Banking Shs '000	Asset Finance Shs '000	Investment Banking and Others Shs '000	Total Shs '000
Total operating income	2,707,633	1,075,901	1,227,312	900,720	691,168	**6,602,734**
Profit before tax and impairment allowances	2,085,998	827,234	29,101	645,316	275,451	**3,863,099**
Customer loans and advances	35,958,147	-	3,792,914	12,274,414	4,599,146	**56,624,621**
Customer deposits	41,946,169	-	20,062,784	-	4,284,100	**66,293,053**

2010

Total operating income	2,101,776	1,008,486	708,731	894,262	500,225	**5,213,480**
Profit before tax and impairment allowances	1,286,412	569,690	290,061	553,426	225,443	**2,925,032**
Customer loans and advances	27,070,664	-	2,271,532	8,998,683	2,414,100	**40,754,979**
Customer deposits	33,214,327	-	12,103,334	-	3,174,563	**48,492,224**

Liabilities and all other assets, other than advances to customers, are not directly attributable and neither can they be allocated to a particular segment. Consequently, these have not been included in segment information.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the fifty second Annual General Meeting of the shareholders of NIC Bank Limited will be held at the Kenyatta International Conference Centre (KICC), Nairobi, on Wednesday 2nd May 2012, at 11.00 am for the following purposes:-

1. To read the Notice convening the Meeting.
2. To receive, consider and if thought fit, adopt the Financial Statements for the year ended 31st December 2011 and the Directors' and Auditors' Reports thereon.
3. To confirm the payment of the interim dividend of 5% (Shs 0.25 per share) paid on 5th October, 2011 and to approve the payment of a final dividend of Shs 0.25 (2010 Shs 0.25 per share) on the paid up capital of Shs 1,974,487,810.
4. To approve the payment of fees to the Directors for the year ended 31st December 2011.
5. To note that Deloitte &Touche will continue in office as the Auditors by virtue of section 159(2) of the Companies Act (Cap.486) subject to Central Bank of Kenya approval in accordance with section 24(1) of the Banking Act (Cap.488) and to authorize the Directors to fix their remuneration.
6. To elect Directors:
   i) In accordance with Articles 108, 109 and 110 of the Company's Articles of Association, the following Directors retire by rotation and being eligible, offer themselves for re-election:
      i) F N Mwanzia
      ii) P V Shah

   ii) Special business:

   M L Somen, who has attained the age of 70, retires in accordance with Section 186 (2) of the Companies Act (Cap 486). Special Notice has been received by the Company pursuant to Section 142 of the Companies Act, that the following resolution be proposed in accordance with Section 186 (5) of the said Act, and, if thought fit, passed by the members:

   "That M L Somen, a Director who has attained the age of 70 years, be and is hereby re-elected as a Director of the Company".

7. INCREASE OF AUTHORISED SHARE CAPITAL

To consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution;

"That the authorized share capital of the Company be increased from shillings two billion (Shs.2,000,000,000) divided into four hundred million (400,000,000) ordinary shares of shillings five (Shs.5) each to shillings four billion (Shs.4,000,000,000) by the creation of four hundred million (400,000,000) new ordinary shares of shillings five (Shs.5) each to rank pari passu in all respects with the existing ordinary shares of the Company"

8. RIGHTS ISSUE

To consider and if thought fit, pass the following resolution which will be proposed as an ordinary resolution;

i) "That subject to the Company receiving all regulatory approvals, including, but not limited to the approval of the Capital Markets Authority, shares be offered to the members of the Company by way of rights to holders of ordinary shares of the Company in such a proportion to the existing shares held by them at the close of business on such a date to be fixed by the Directors and at such price as shall be determined by the Directors.

ii) That the Directors be empowered to dispose of the shares not taken up by any shareholders or the shares not issued by reason of fractions of a share being disregarded, as they may consider expedient.

iii) That the Directors be and are hereby authorized to do and effect all acts and things required to give effect to the above Resolutions".

9. BONUS ISSUE

That subject to the passing of resolutions 7 and 8 above, and subject to the Company receiving all regulatory approvals, including but not limited to the approval of the Capital Markets Authority, to consider and, if thought fit, pass the following resolution which will be proposed as an ordinary resolution;

"That it is desirable in pursuance of Article 152 of the Articles of Association to capitalize part of the amount standing to the credit of the revenue reserves of the Company and accordingly that such sum be capitalized and that the Directors be and are hereby authorized and directed to appropriate such sum to the holders of ordinary shares registered at the close of business on a day to be fixed by the Directors and advised to shareholders through the press being not more than thirty days after the receipt by the Company of the necessary consent from the relevant authorities, from whom permission has been sought, in proportion to the number of ordinary shares held by them respectively on such date and to apply such sum on behalf of such holders in paying up in full at par such shares of the unissued shares in the capital of the Company, such shares to be allotted, distributed and credited as fully paid up to and amongst such holders in the proportion as nearly as may be of 1 new ordinary share for every 10 ordinary shares then held, and that such new shares shall rank for all purposes pari passu with the existing issued ordinary shares of the Company and that the Directors be and are hereby also authorized generally to do and effect all acts and things required to give effect to this Resolution and to deal with fractions in such manner as they should think fit subject always to the Articles of Association of the Company".

10. REGIONAL EXPANSION

Pursuant to the Company's regional expansion strategy, the Board of Directors of the Company incorporated a subsidiary of the Company in the Republic of Uganda (the"Subsidiary") and obtained the necessary regulatory approvals to undertake banking business in the said republic.

In order to facilitate the establishment of the Subsidiary, shareholders are invited to consider and approve the following resolutions as ordinary resolutions;

i) THAT the Company hereby ratifies and approves the incorporation and establishment of the Subsidiary of the Company in the Republic of Uganda to undertake banking business.

ii) THAT the Board of Directors be authorised to take all necessary further actions including but not limited to seeking the necessary regulatory approvals to give effect to this Resolution.

11. SPECIAL BUSINESS

Amendment of Articles of Association

To consider, and if thought fit, adopt a special resolution to amend the Articles of Association to allow for the increase in the number of directors by deleting Article 96 in its entirety and substituting it with the following;

96. Unless and until otherwise determined by the Company in General Meeting, the number of the Directors (excluding Alternate Directors) shall not be less than four nor more than thirteen.

12. To transact any other business of the Annual General Meeting of which due notice has been received.

BY ORDER OF THE BOARD

Livingstone Murage

Group Company Secretary
Nairobi
3 April 2012

"A Member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his, her or its behalf. A proxy need not be a Member of the Company. To be valid a proxy must be duly completed by the Member and lodged with the Group Company Secretary at the Company's registered office situated at NIC Bank Limited, NIC House, Masaba Road, Nairobi, Kenya, before 11 am on Monday 30th April 2012, failing which it will be invalid. In the case of a Member which is a corporate body then the proxy must be given under its common seal."

TANGAZO LA MKUTANO MKUU WA MWAKA

Tangazo hili limetolewa kuwa Mkutano Mkuu wa Mwaka wa hamsini na mbili wa wenye hisa wa Benki ya NIC utafanyika katika Ukumbi wa KICC, Nairobi siku ya Jumatano tarehe 2 mwezi Mei, 2012 saa 5.00(tano) asubuhi kwa sababu zifuatazo:-

1. Kusoma tangazo lililoitisha mkutano.
2. Kuipokea, kuizingatia na ikiwa sawa kuikubali Taarifa ya Kifedha ya Mwaka uliomalizika tarehe 31 Disemba, 2011 na Wakurugenzi pamoja na Ripoti ya Wakaguzi wa Mahesabu.
3. Kuthibitisha kuwa malipo ya mgao wa katikati ya mwaka wa asilimia 5 (shilling 0.25 kwa kila hisa) ulilipwa tarehe 5 Oktoba, 2011 na kuidhinisha malipo ya mgao mwisho wa mwaka ya shilling 0.25 (mwaka wa 2010 ya shilling 0.25 kwa kila hisa) kwenye malipo ya mtaji yaliyolipwa ya shilling 1,974,487,810.
4. Kuidhinisha gharama ya Wakurugenzi ya mwaka uliomalizika tarehe 31 Desemba, 2011.
5. Kueleza kuwa shirika la Deloitte & Touche litaendelea kuwa shirika letu la kukagua mahesabu kwa mujibu wa sehemu 159 (2) ya kifungu cha sheria ya Kampuni cha 486 kulingana na kuthibitishwa kwa Benki Kuu ya Kenya kufuatana na sehemu ya 24(1) ya Kifungu cha Sheria ya Benki cha 488 na kuwaruhusu Wakurugenzi kuweka gharama zao.
6. Kuchagua Wakurugenzi:

   i) Kwa mujibu wa kanuni ya 108, 109 na 110 ya Kanuni za Msingi za Ushirikiano wa Kampuni, Wakurugenzi wafuatao watastaafu kwa kufuatana na wanaweza kuchaguliwa ama kujitolea wenyewe kuchaguliwa tena:
      i) F N Mwanzia
      ii) P V shah

   ii) Biashara Maalum:

   Bw. M L Somen ambaye amefikia umri wa miaka 70, anastaafu kwa mujibu wa sehemu ya 186(2) ya kifungu cha Sheria cha 486. Kampuni imepokea Tangazo Maalum kufuatana na Sehemu ya 142 ya Sheria za Kampuni kuwa azimio lifuatalo lipendekezwe kwa mujibu wa sehemu ya 186 (5) ya kifungu hicho cha sheria na ikiwa sawa ipitishwe na wanachama:

   "Kuwa Bw. M L Somen, Mkurugenzi ambaye amefikia umri wa miaka 70 awe na achaguliwe kama Mkurugenzi wa Kampuni"

7. ONGEZEKO LA MTAJI WA HIS ULIORUHUSIWA

Kuzingatia na ikiwa sawa kupitisha azimio ambalo litapendekezwa kama azimio la kawaida;

"Kuwa mtaji wa hisa ulioruhusiwa wa Kampuni uongezwe kutoka shiling bilioni mbili (2,000,000,000) ugawanywe katika milion mia nne (400,000,000) ya hisa za kawaida za shiling tano (5) kila moja kwenye shiling bilioni nne pekee (4,000,000,000) kwa kupata hisa mpya za kawaida za shilingi milioni mia nne (400,000,000) za shilling tano (5) kila moja ili kuwa sawa na viwango vya juu vya hisa za kawaida vilivyoko vya kampuni."

8. MAUZO YA HISA KWA UMMA

Baada ya kutafakari na itakapoonekana kuwa inafaa, basi idhinisheni maamuzi yaliyopendekezwa kama suluhu la kawaida;

i) "Kwamba, baada ya kampuni kupokea maidhinisho yote ya kisheria, ikiwa ni pamoja na, na sio lazima kuwepo kwa uidhinishaji wa Halmashauri ya Masoko ya Mtaji, hisa kutolewa kwa wanachama wa Kampuni kwa njia ya utoaji wa hisa kwa wamiliki wa hisa za kawaida za kampuni kwa gawio fulani wa hisa zilizopo na wanazomiliki hadi wakati wa kufunga biashara kwa siku itakayoteuliwa na Wakurugenzi na kwa bei itakayoamuliwa na Wakurugenzi.

ii) Kwamba, Wakurugenzi wapewe mamlaka ya kugawa hisa ambazo hazijachukuliwa na wenyehisa wowote wale ama hisa ambazo hazikutolewa kwa sababu ya akisami ambayo iliyotupiliwa mbali, swala linaloweza kuchukuliwa kuwa la haraka mno.

iii) Kwamba, Wakurugenzi waruhusiwe na wameruhusiwa kuyashughulikia makubaliano na maidhinisho yote yaliyotajwa".

9. GAWIO LA ZIADA KWA KILA MWENYE HISA

Kwa mintarafu ya kuidhinisha makubaliano ya 7 na 8 hapo juu, na baada ya kampuni kupokea maidhinisho ya kisheria, ikiwa ni pamoja na, na sio lazima kuwepo kwa uidhinishaji wa Halmashauri ya Masoko ya Mtaji, Baada ya kutafakari na itakapoonekana kuwa inafaa, basi idhinisheni maamuzi yaliyopendekezwa kama suluhu la kawaida;

"Kwamba, kufuatia kanuni zilizopendekezwa kwenye kifungu cha sheria cha 152 cha Kanuni za Ushirika ili kutumia sehemu ya fedha zinazosimamia mikopo ya hifadhi ya mapato ya kampuni. Hivyo basi, kufuatia hali hiyo, na kwamba Wakurugenzi wameruhusiwa na kupewa mamlaka ya kuwagawia pesa hizo kwa wamiliki wa hisa za kawaida zilizosajiliwa kufikia mwisho wa saa za biashara za siku hiyo na itakayoteuliwa na Wakurugenzi na maamuzi hayo kuwasilishwa kwa wenyehisa kupitia kwa vyombo vya habari kwa kipindi kisichozidi siku thelathini baada ya kupokea maidhinisho ya kampuni kupitia kwa halmashauri husika, yaliombwa ruhusa, kwa kulingana na gawio la hisa za kawaida wanazomiliki kwa kulingana na tarehe hiyo ili kutumia pesa hizo kwa niaba ya wenyehisa kwa kulipia hisa zote hisa hizo ambazo hazijatumika kwenye mtaji wa kampuni, hisa hizo zinafaa kutengwa, kugawanywa na kuonyeshwa kama zilizolipwa kikamilifu kwa na kati ya wenyehisa hao walio kwenye mgao karibia wa hisa moja kwa kila hisa kumi za kawaida ziliozkuwa zimemilikiwa, na hisa kama hizo mpya zitaorodheshwa kama zile zilizopo za kampuni. Na kwamba, Wakurugenziwaruhusiwe na wameidhinishwa washughulikie maswala yote yatakayosaidia makubaliano hayo na kwamba kushughulikia akisami ama sehemu ya kwa njia wanayojua inayofaa kuambatana na Kanuni za Ushirika za Kampuni."

TANGAZO LA MKUTANO MKUU WA MWAKA

10. UPANUZI WA MAENEO

Kulingana na mikakati ya upanuzi wa maeneo ya kampuni, kamati ya wakurugenzi ya kampuni huwashauri wenye hisa kuanzishwa kwa tanzu ya kampuni iliyoshirikishwa katika jamhuri ya Uganda (biashara tanzu) na kupata idhini thibitishi ili kutekeleza biashara ya benki katika Jamhuri ya Uganda ambayo kampuni-tanzu hiyo itaanzishwa kulingana na masharti na sheria kulingana na kamati itakavyoamua kwa mujibu wa maanufaa ya kampuni.

Ili kuwezesha kuanzishwa kwa tanzu hiyo, wenye hisa wanaombwa kuangalia na kuidhinisha maamuzi yafuatayo kama wenye hisa wa kawaida;

i) YA KUWA kampuni imethibitisha na kuidhinisha rasmi kushirikishwa na kuanzishwa kwa kampuni-tanzu ya kampuni huu katika Jamhuri ya Uganda , ili kufanya biashara ya benki ambapo kampuni-tanzu hii itaanzishwa kwa misingi ya sheria na masharti kulingana na maoni ya kamati kama yalivyo manufaa ya kampuni.

ii) YA KUWA kamati ya wakurugenzi iruhusiwe kuchukua hatua zozote zile pamoja na zile zisizokuwa na mipaka katika hali ya kupata idhinisho la taratibu zote ili kufaulisha azimio hilo.

11. BIASHARA MAALUMU

Marekebisho ya Kanuni za Ushirikiano wa Kampuni Kuzingatia , na ikiwa bora, kupitisha azimio maalum ili kurekebisha kanuni za ushirikiano na kuwezesha kuongezeka kwa idadi ya wakurugenzi kwa kufuta kifungu cha tisini na sita (96) katika ukamilifu wake na badala yake kujaza yafuatayo;

96. Isipokuwa na mpaka vinginevyo kusababishwa na mikutano mikuu ya kampuni, idadi ya wakurugenzi(kuwacha wale wa zamu) hawatapungua wanne au zaidi ya kumi na watatu.

12. Kuendesha biashara yoyote nyingine ambayo wametangaziwa.

KWA MAPENDEKEZO YA KAMATI

Livingstone Murage

Katibu Mkuu wa Kampuni
Nairobi.
3 Aprili 2012

"Mwanachama ahudhurie mkutano na apige kura katika mkutano na atakayekosa kuhudhuria amtafute mtu atakayepiga kura kwa niaba yake. Aliyetumwa kwa niaba ya mwanachama si lazima awe mwanachama wa kampuni. Ili akubalike kupiga kura kwa niaba ya mwanachama lazima ajulikane vyema na mwanachama na aidhinishwe na katibu wa shirika la kampuni asajiliwe katika ofisi za Benki ya NIC, zilizoko kwenye Jumba la NIC, barabara ya Masaba, Nairobi, Kenya kabla ya saa tano asubuhi siku ya Jumatatu tarehe 30 Aprili mwaka wa 2012 na asipofika hapo hataweza kushiriki katika uchaguzi. Ikiwa mwanachama ni shirika basi uwakilishaji lazima uwe chini ya mhuri wake."

PROXY FORM

The Group Company Secretary,
NIC Bank Limited
NIC House
Masaba Road,
P. O. Box 44599,
00100,GPO Nairobi

I/We _____

of _____

being a member / members of NIC Bank Limited and entitled to _____

_____

votes hereby appoint _____

of _____

or failing him _____

of _____

as my / our Proxy to vote for me / us on my / our behalf at the Annual General meeting of the company to be held on 2 May 2012 and at any adjournment thereof.

As witness my / our hand this _____day of _____ 2012

Signature (s) of

_____

Note : In case of a Corporation, the Proxy must be made under its Common Seal

FOMU YA UWAKILISHI

Katibu Mkuu wa Kampuni,
NIC Bank Limited
NIC House
Masaba Road,
P. O. Box 44599,
00100,GPO Nairobi

Mimi / Sisi _____

wa anuani hii _____

nikiwa mwanachama / tukiwa wanachama wa NIC Bank Limited na _____

_____

nikiwa /tukiwa na haki ya kura _____

namchagua / tunamchagua _____

wa sanduku la posta _____

na akiwa hatapata nafasi nimechagua / tumechagua _____

wa sanduku la posta _____

akiwa mwakilishi wangu / wetu kunipigia / kutupigia kura kwa niaba yangu / yetu katika Mkutano wa Mwakawa Kampuni utakaofanyika tarehe 2 Mei 2012 au tarehe yoyote iwapo mkutano utahairishwa. Nashuhudia kwa mkono / mikono yangu / yetu siku hii ya

Tarehe _____mwezi wa _____ __2012

Sahihi

_____

Elewa : Mwakala akiwa anawakilisha kampuni yoyote au shirika nilazima atumie muhuri rasmi wa kampuni hiyo (common seal)

BRANCH NETWORK

GROUP HEAD OFFICE

NIC BANK LIMITED - HEAD OFFICE
Masaba Road.
P.O Box 44599 – 00100 Nairobi
T: +254 (20) 2888000/4948000
F: +254 (20) 2888505
M: +254 711 041000

CUSTOMER CONTACT CENTRE

NIC HOUSE
Masaba Road.
P.O Box 44599 – 00100 Nairobi
T: +254 711 041111-8
T: +254 712 288217
T: +254 733 288217
E: customercare@nic-bank.com

KENYA

NAIROBI BRANCHES

NIC HOUSE BRANCH
Masaba Road.
P.O Box 44599 – 00100 Nairobi
T: +254 (20) 2888000/4948000
F: +254 (20) 2888505
M: +254 711 041000

CITY CENTRE BRANCH
Prudential Building, Kaunda Street
T: +254 (20) 229251/2, 341705/6
F: +254 (20) 251180

THE JUNCTION BRANCH
Dagoretti/Ngong Road
T: +254 (20) 3878204/3874730
F: +254 (20) 2888505

PRESTIGE BRANCH
Prestige Plaza, Ngong Road
T: +254 (20) 3874050/3873970
F: +254 (20) 2888505

THE MALL BRANCH
Westlands
T: +254 (20) 4451721/2
F: +254 (20) 2888505

HARAMBEE AVENUE
Jeevan Bharat Building, Harambee Ave.
T: +254 (20) 2210661/669
F: +254 (20) 2888505

GALLERIA (BOMAS) BRANCH
Galleria Shopping Mall, Langata Road
T: +254 (20) 2210661/669
F: +254 (20) 2888505

VILLAGE MARKET BRANCH
Village Market, Limuru Road
T: +254 (20) 7120872/4/8
F: +254 (20) 7120875

SAMEER PARK BRANCH
Mombasa Road
T: +254 (20) 2888800/ 4948800
F: +254 (20) 2888505

KAREN BUSINESS PARK
Junction of Langata Road
and Ndege Road
T: +254 (20) 2888830
M: +254 711 041830, 732 141830

TAJ MALL BRANCH
Junction of Airport North Road
and Outering Road
M: +254 711 041860, 0732 141860
T: +254 (20) 2888860

MOMBASA BRANCHES

NKRUMAH BRANCH
NSSF Building, Nkrumah Road
T: +254 (041) 2228397/1743
F: +254 (041) 2223535

NYALI BRANCH
City Mall, Nyali
T: +254 (041) 5487683/4
F: +254 (041) 5487682

HARBOUR HOUSE BRANCH
Moi Avenue
T: +254 (041) 223215/223253
F: +254 (041) 223255

NAKURU BRANCH
Vickers House, Kenyatta Avenue
T: +254 (051) 2216624/68
F: +254 (051) 2216761

MERU BRANCH
Njuri Ncheke Street
T: +254 (064) 30254/5/6/7
F: +254 (064) 32058

THIKA BRANCH
Thika Arcade
T: +254 (067) 20214/7
F: +254 (067) 20220

KISUMU BRANCH
Oginga Odinga Street
T: +254 (057) 2021369/73/74/77
F: +254 (057) 2021402

ELDORET BRANCH
Zion Mall, Uganda Road
T:+254 (053) - 2031690/1/2
F:+254 (053) – 2031694

TANZANIA

NIC BANK TANZANIA LIMITED
HEAD OFFICE
Ground & Mezannine Floors
Harbour View Towers, Samora Avenue
Dar es Salaam
T : +255(22) 2118802/2118794/2118798/
(22) 2118625-8
F: +255 (22) 2116733/2129931
E: tanzania-info@nic-bank.com

SAMORA BRANCH
Harbour View Towers, Samora Avenue
Dar es Salaam
T : +255(22) 2118802/2118794/2118798/
(22) 2118625-8
F: +255 (22) 2116733/2129931

ILALA BRANCH
Lindi/Shaurimoyo Streets
T: +255 (22) 2864452-3
F: +255 (22) 2864454

MWANZA BRANCH
Plot No.5, Nyerere Road,
T: +255 (28) 2503003/2500163
F: +255 (28) 2500212

ARUSHA BRANCH
Central Plaza, Sokoine Road
T: +255 (27) 2504740/2504741-2
F: +255 (27) 25

UGANDA

NC Bank Uganda Limited
Rwenzori Towers Nakasero Road
P.O. Box 28707 | Kampala | Uganda |
M: +256 772 22 33 00

NIC CAPITAL LIMITED
NIC HOUSE
Ground Floor, Masaba Road
P.O Box 44599 – 00100 Nairobi
T: +254 (20) 2888000/4948000
F: +254 (20) 2888505
E: niccapitalinvestment@nic-bank.com

NIC SECURITIES LIMITED
NIC HOUSE
Ground Floor, Masaba Road
P.O Box 44599 – 00100 Nairobi
T: +254 (20) 2888444
F: +254 (20) 2888505
M: +254 711 041444
E: nicsecurities@nic-bank.com

NIC INSURANCE AGENTS LIMITED
NIC HOUSE
2nd Floor, Masaba Road,
P.O Box 44599 – 00100 Nairobi
T: +254 (20) 2888000/387
F: +254 (20) 2888513
M: +254 711 041387
E: bancassurance@nic-bank.com

NIC BANK LIMITED
Head Office
NIC House, Masaba Road
P.O. Box 44599 - 00100 GPO Nairobi
Tel: +254 (20) 2888000 / 4948000 | Fax: +254 (20) 2888505
Email: info@nic-bank.com
Website: www.nic-bank.com