

NIC Bank Limited Annual Report & Financial Statements 2009

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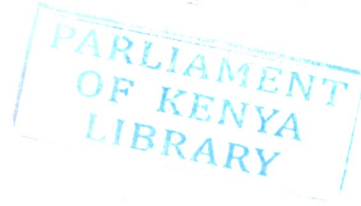
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CHAIRMAN'S REPORT

I am pleased to present the NIC Bank Group's Annual Report and Financial Statements for the year ended 31st December 2009.

ECONOMIC AND BUSINESS ENVIRONMENT

The year 2009 was indeed a very difficult one for the Kenyan economy. The debilitating effects of the 2007 post-election violence and ensuing disruption, and those of the global financial crisis of 2008 carried over into 2009 and were compounded by a severe drought.

In this regard, the economy is estimated to have grown by 2.5% in 2009, which was an improvement compared to 2008 (1.7%) on the back of increased infrastructure spending by the government with notable growth in such sectors as tourism, transport and communication, wholesale and retail, and construction. A higher rate of economic growth was not possible on account of the prolonged drought which adversely affected the key agricultural and electricity sectors, coupled with rising fuel prices which suppressed the transport and manufacturing sectors.

The 12 month overall inflation maintained a downward trend throughout the year, declining from 13.3% in January to 5.3% in December. The downward trend is attributed to falling prices of food, medical goods and services, recreation and education and personal goods and services.

The general interest rates remained relatively stable during the year. However, the short-term interest rates as measured by the 91 day and 182 day Treasury bills trended downwards to close the year at 6.8% and 7.4%, respectively, from 8.6% and 9.0% in December 2008.

In order to stimulate growth and ease credit flow to the productive sectors of the economy, the Central Bank of Kenya adopted an expansionary monetary policy through the reduction of the Central Bank Rate (CBR) to 7.0% [8.5% in 2008] and the Cash Reserve

Ratios (CRR) to 4.5% (5% in 2008). These policy decisions had a positive impact on liquidity and have signaled a reduction in the short-term interest rates.

In the foreign exchange market, the Kenya Shilling appreciated against the US Dollar to close the year at Shs 75.8 to the US Dollar. The appreciation of the Kenya Shilling was driven by improved inflows from the key foreign earners including tourism, tea sector and remittances from Kenyans living abroad.

In the capital markets, trading in equities at the Nairobi Stock Exchange remained depressed with equity turnover decreasing from Shs 99 billion in 2008 to Shs 38 billion in 2009. Consequently, the equity performance as measured by the NSE 20 share index declined from 3611 in December 2008 to 3247 in December 2009. The decline in the market activity was as a result of reduced investor confidence especially within the retail segment, global economic recession, declining corporate earnings and the general economic uncertainty.

2009 saw the bond market remain active as investors sought safe investment avenues especially in government bond issues. The corporate debt market was equally vibrant with companies seeking to raise capital to either increase their operating capacities or to support their capital expenditure programmes.

The Kenyan banking sector registered significant growth in asset base largely supported by growth in deposits, injection of capital and retention of profits. Overall, the industry's total asset base expanded by 15% and profitability was also up by 15%.

FINANCIAL RESULTS

The NIC Bank Group recorded a profit before tax for the year of Shs 1,527 million compared to Shs 1,484 million the previous year, representing an increase of 3%.

Notwithstanding the challenging operating environment and depressed markets, the Group reported satisfactory performance in all the key performance indicators.

The net interest income and operating income both recorded a commendable increase of 20% and 21%, respectively, over the year. However, some sectors of the economy experienced negative growth and this adversely affected performance of the loan book within these sectors. In recognition of this fact, the Bank made a prudent decision to increase the loan loss provision by Shs 269m. However, with the anticipated economic improvement in 2010, we are optimistic that there will be significant recoveries this year.

The Group's balance sheet has continued to strengthen, having closed the year with an asset base of Shs 48 billion and the shareholders funds increasing by Shs 1.3 billion to close at Shs 6.8 billion.

DIVIDEND

An interim dividend of Shs 0.25 per share (Shs 82m) was declared and paid in October 2009 and now directors recommend a final dividend of Shs 0.25 per share (Shs 82m) bringing the total cash dividend for the year to Shs 164 million.

The directors also recommend a bonus issue of one (1) ordinary share for every ten (10) ordinary shares held.

The cash dividend and the bonus issue when combined effectively represent a distribution of 30% of the profit after tax. The balance of profit is retained to ensure the Bank has sufficient levels of capital reserves in line with its growth strategy.

SERVICE DELIVERY OUTLETS AND PRODUCTS

In a competitive banking environment, innovation and efficient service delivery are vital in ensuring that one remains ahead of competition. In recognition of this, the Group continues to invest in technology and delivery channels not only to meet but to exceed customer expectations.

During the year the Bank expanded its service delivery network by opening an additional branch in Meru and the expansion of outlets will continue in 2010. Further, the Bank will take advantage of Agency Banking after the publication of guidelines by the Central Bank of Kenya.

The integrated internet and mobile banking solutions have been enhanced to include the M-Pesa service – being the first bank to do so. This integration is in line with our promise to be a “One Stop (Financial) Shop” for our customers. The Bank’s retail banking offering was also enhanced with a variety of products and services. Included amongst these are the Gold Corner lounges for our Gold Card holders.

SUBSIDIARIES AND DIVERSIFICATION

The growth and development of the subsidiary companies has remained a key strategic objective, and is aimed at both broadening the range of financial services that we can offer to our customers and ensuring diversity within the NIC Group.

Regionally, the Bank acquired a 51% equity stake in Savings & Finance Commercial Bank Limited (S&F) of Tanzania. Since the acquisition, management has focused on restructuring, streamlining operational processes and adopting best practices for this key subsidiary. Consequently, the subsidiary with its branches in Dar-es-Salaam, Mwanza and Arusha is now well positioned to contribute positively to the Group’s profitability.

On the local scene, NIC Capital Securities Limited (offering brokerage services), NIC Capital Limited (the investment banking arm) and NIC Insurance Agents (offering bancassurance services), are also now well resourced and positioned to contribute to the Group’s growth and profitability.

GOLDEN JUBILEE CELEBRATIONS

The NIC Bank celebrated its Golden Jubilee (50 years) in September 2009. These have been fifty years of tremendous growth and evolution for the Bank, having started in 1959 as a one branch financial institution with one product (installment credit) to become a fully fledged commercial bank offering a multiplicity of products through a network of 13 branches with several subsidiary businesses. The Bank greatly appreciates the support of all the stakeholders and their contribution to its growth and success.

HUMAN RESOURCES

The Group endeavors to remain an employer of choice by ensuring that the employees are suitably motivated and that the working environment is suitable for sustainable growth of the business.

All employees of the Group, numbering 484 as at 31st December 2009, are committed to offering the highest standards of service delivery enshrined in the corporate values of being professional, innovative, passionate, responsive and of unquestionable integrity.

SOCIAL RESPONSIBILITY

The NIC Bank Group takes full cognizance of the wider society in which the business operates and has developed a Corporate Social Responsibility Charter that articulates how the Group partners with all the stakeholders in uplifting their well being.

As a responsible corporate citizen we recognize our responsibility and obligations to the society especially on environmental issues that have an impact on the society and community at large. In this respect, the Bank partnered with the United Nations Environment Programme (UNEP), the East African Wildlife Society, Kenya Forests Working Group, Nature Kenya and the Kenya Forest Service through the “Tupande Pamoja” tree planting initiative. The Bank staff joined the local community of Nyamweru Village in planting more than 10,000 indigenous seedlings to rehabilitate Uplands Forest in the Southern Aberdare Forest.

Other key initiatives that the Group participated in included financial contribution to “Tuungane Tuokoe Maisha” campaign against hunger and support of the environment, education, and health sectors.

DIRECTORATE

I am pleased to report that at its meeting on 23rd February 2010 the Board appointed Mr Paras Shah a director of the Bank. Mr Shah is a partner with Hamilton Harrison & Mathews Advocates and in congratulating him on this appointment I look forward to his valuable contribution to the deliberations of the Board and generally to the Bank.

OUTLOOK

The economy seems to have weathered the storm and is now destined for an accelerated economic growth which is also pegged to the global economic recovery.

The global economy being on a recovery path should give rise to higher foreign direct investment and donor funding and also

facilitate expansion of our export markets.

The following are some of the critical factors that will contribute to a faster economic growth;

- Implementation of the fiscal stimulus programme especially infrastructure road network and communications.
- Efficiency and innovation in the financial sector that will facilitate an acceleration of credit flow to the private sector.
- Improved rainfall expected to reduce pressure on food and electricity prices. At the same time, moving away from rain dependant agricultural production to a more reliable commercialized irrigated farming will contribute to a sustainable food production.
- Steady recovery of tourism that is likely to match the industry's best performance achieved in 2007 when over 1.8 million tourists visited our country.
- Increase in the investor confidence at the Nairobi Stock Exchange including that of foreign investors, and higher remittances from Kenyans living abroad.
- A conducive political environment.

APPRECIATION

In conclusion, I would like to recognize all our stakeholders:

- Our shareholders whose vision has been realized over the years and especially for providing the required capital for sustainable growth of the Bank.
- Our esteemed customers who having a variety of choices have supported us over the years and have made us their "One Stop Shop".
- Our regulators, the Central Bank of Kenya and the Capital Markets Authority for their co-operation and guidance throughout the year.
- Our employees for their commitment and dedication in ensuring that they exceed the expectations of all stakeholders.
- To our co-investors/shareholders in Tanzania for opening up the Group's regional expansion.
- To my fellow directors for their diligence and commitment in executing their responsibilities both in the Board and at the various committees of the Board.

Thank You

JPM Ndegwa
Chairman
23 February, 2010

TAARIFA YA MWENYEKITI

Nina furaha kuwawasilishia Ripoti ya Mwisho wa Mwaka na Taarifa za Kifedha za Benki ya NIC zilizomalizikia mnamo tarehe 31, Desemba 2009.

MAZINGIRA YA KIUCHUMI NA KIBIASHARA

Kwa hakika, mwaka wa 2009 ulikuwa na magumu yake katika uchumi wa Kenya. Athari za ghasia za mwaka wa 2007 za baada ya uchaguzi na vurugi zilizozuka, na kadhalika matatizo ya kiuchumi ulimwenguni ya 2008 yaliyoendelea mpaka mwaka wa 2009 na hatimaye kusababisha mazingira ya kiangazi kikubwa.

Katika hali hii, uchumi unakadiriwa kwamba ulikuwa kwa 2.5% kwenye mwaka wa 2009, ikiwa ni ongezeko ukilinganisha na 1.7% ya mwaka wa 2008 licha ya kuwepo kwa matumizi ya kimuundo-msingi na Serikali huku sekta kama utalii, uchukuzi na mawasiliano, kwa ujumla na rejareja, na ujenzi zikikuwa kwa kiwango cha kuridhisha. Kiwango cha juu cha ukuaji wa kiuchumi kisingaliwezekana kufuatia kipindi kirefu cha kiangazi ambacho kiliathiri pakubwa sekta za kilimo na kawi, ikichangia kuongezeka kwa gharama za bidhaa za mafuta, iligandamiza sekta za uchukuzi na viwanda.

Kipindi hicho kizima cha miezi 12 ya mchakato wa kifedha kilisababisha kuzorota kwa ukuaji wa kiuchumi kwa ujumla, ukishuka kutoka 13.3% mnamo Januari hadi 5.3% mnamo Desemba. Kuzorota huko kwa kiuchumi kulisababishwa na kushuka kwa bei ya vyakula, bidhaa na huduma za dawa, masuala ya anasa, elimu na hali kadhalika huduma na bidhaa za kibinafsi.

Viwango vya jumla vya riba vilibakia kuwa wastani katika kipindi kizima cha mwaka. Hata hivyo, kiwango cha riba-ya-kipindi-kifupi, kama ilivyopimwa kwa muda wa siku 91 na siku 182, hawala za kifedha zilipungua na kufunga mwaka katika viwango vya 6.8% na 7.4% mtawalia; kutoka 8.6% na 9.0% mnamo Desemba mwaka wa 2008.

Ili kuchangiza ukuaji wa kiuchumi na kupunguza misukumo ya mikopo katika sekta za uzalishaji, Benki Kuu ya Kenya ilianzisha mfumo wa upanuzi wa sera maalum ya kifedha kupitia kwa mbinu ya kupunguza viwango vya mikopo vya Banki Kuu ya Kenya (CBR) hadi 7.0% (asilimia 8.5% mnamo mwaka wa 2008). Maamuzi haya ya Sera yalisaidia pakubwa katika uthibiti wa kifedha na kuonyesha hali nzuri ya kupungua kwa viwango vya riba za vipindi vifuni.

Katika soko la ubadilishanaji fedha za kigeni, pesa ya Kenya iliongezeka thamani ukilinganisha na Dola ya Kimarekani na kufunga mwaka kwenye kiwango cha shilingi 75.8 kwa Dola ya Kimarekani. Ongezeko hili la thamani ya pesa za Kenya kwa Dola ya Kimarekani ilitokana na kuongezeka kwa mapato ya sekta kuu za kiuchumi kama ile ya Utalii, majani-chai na kadhalika pesa wanazotuma wakenya wanaoishi huko ng'ambo.

Katika soko la hisa, biashara za masoko ya hawala kwenye Soko la Hisa la Nairobi lilibakia kuzongwa huku mapato yake ya jumla yakipungua kutoka Bilioni 99 mnamo mwaka wa 2008 mpaka Bilioni 38 mnamo mwaka wa 2009. Fauka ya hayo, utendakazi wa kiuchumi kama ulivyopimwa kupitia kwa orodha ya migao ya hisa na Soko la Hisa la Nairobi ilipungua kutoka 3611 mnamo Desemba 2008 hadi 3247 mnamo Desemba 2009. Kuzorota huko kwa shughuli za soko kulitokana na kupungua kwa imani ya kibiashara kwa wawekezaji hususan kwenye kitengo cha rejareja, kubanika kwa mchakato mzima wa kiuchumi ulimwenguni, kupungua kwa mapato ya makampuni mbali mbali na kutotabirika vyema kwa mifumo ya kiuchumi kwa ujumla.

Mwaka wa 2009 ulionekana kuimarika katika soko la Amana, kwani wawekezaji wengi walikimbilia njia hiyo kama chaguo bora la kuweka pesa zao hasa katika kuwekeza kwenye amana za Serikali. Soko la madeni ya makampuni lilijishughulisha zaidi katika kuimarisha mtaji aidha ili kuongeza mbinu za utendakazi ama kushikilia miradi ya matumizi ya mtaji.

Sekta ya Benki ya Kenya ilisajili ongezeko la rasilimali kutokana na kuongezeka kwa uwekaji wa pesa kwenye benki, kuongezewa kwa mtaji wa wanabiashara na kuhifadhi faida. Kwa ujumla, rasilimali za sekta hii ziliongezeka hadi 15% na faida pia kupanda kwa 15%.

MATOKEO YA KIFEDHA

Benki ya NIC ilipata faida kabla ya ushuru wa mapato ya shilingi milioni 1,527 kwa mwaka, ikilinganishwa na faida ya shilingi milioni 1,484 katika mwaka uliotangulia, ikiwakilisha ongezeko la 3% ya faida.

Bila ya kuzingatia changamoto za mazingira mabaya ya kufanyia kazi na masoko duni, Benki ya NIC ilipata matokeo yakuridhisha katika vyanzo vyote vya utendakazi.

Mapato halisi ya riba na mapato ya utendakazi, yote kwa pamoja yaliongezeka kwa 20% na 21% mtawalia, kwa kipindi kizima cha mwaka. Hata hivyo, baadhi ya sekta za kiuchumi zilipata matokeo hasi na kuathiri pakubwa vitabu vya mikopo kwenye sekta hizo. Katika hali ya kuuelewa ukweli huo, benki ya NIC ilifanya maamuzi ya haraka na kuongeza nafasi ya hasara za mikopo kwa shilingi milioni 269. Licha ya hayo, katika makadirio ya kiuchumi ya mwaka wa 2010, tuna imani kwamba kutakuwa na mafanikio bora mwaka huu.

Loho ya Benki ya NIC imezidi kuimarika baada ya kufunga mwaka kwa rasilimali za kima cha Bilioni 48 na hazina ya wenyehisa ikiongezeka kufikia Bilioni 1.3 na kumalizikia katika Bilioni 6.8.

MGAO

Mgao wa muda wa mapato wa shilingi 0.25 kwa hisa wa (shilingi milioni 82) ulitangazwa na kulipwa mnamo mwezi Oktoba mwaka wa 2009 na kwa sasa Wakurugenzi wanapendekeza mgao wa mwisho wa shilingi 0.25 kwa kila hisa (shilingi milioni 82) ikifanya jumla ya mgao wa mwaka kufikia shilingi Milioni 164.

Wakurugenzi pia wanapendekeza takrima au bonasi ya hisa moja (1) ya kawaida kwa kila hisa kumi (10) za kawaida zilizopo.

Mgao wa pesa taslimu na kutolewa kwa bonasi ikichanganywa vyema, inawakilisha ugawanyaji wa 30% wa faida baada ya ushuru. Usawa wa faida unabakizwa ili kuhakikisha kwamba Benki ina viwango sawia vya hifadhi ya mtaji kwa kuzingatia mifumo na mikakati yake ya ukuaji.

VITUO VYA UTOAJI HUDUMA NA BIDHAA

Kwenye mazingira ya ushindani wa biashara ya benki, uvumbuzi na utoaji huduma bora huwa ndio zana muhimu sana ambazo hukuhakikisha kwamba unakaa mbele ya washindani wako. Ili kulizingatia suala hili vyema, benki ya NIC inaendelea kuwekeza katika teknolojia na mifumo bora ya utoaji huduma, sio tu kutimiza mahitaji ya wateja bali pia kupitisha viwango vya kawaida vya utoaji huduma.

Katika kipindi cha mwaka huo, Benki hii ilipanua mtandao wa huduma zake kwa kufungua tawi jingine jipya huko mjini Meru na upanuzi huo wa matawi zaidi utaendelea katika mwaka huu wa 2010. Zaidi ya hayo, Benki hii itatumia vyema fursa iliyoanzishwa ya Kuweka Fedha Kiwakala baada ya Benki Kuu ya Kenya kuchapisha kanuni za kufuatwa katika uwekezaji huo.

Mifumo ya kiushirikishi ya kutumia mitandao na ile ya simu za mikononi imeboreshwa zaidi ili kushirikisha huduma za M-Pesa – Benki ya NIC ikiwa ndio benki ya kwanza kabisa kutumia mfumo huo. Ushirikishi hii unaenda sambamba na mipango yetu ya kuwa 'Benki Inayotoa Huduma zote kwa Pamoja kwa Wateja' (One Stop Shop). Kitengo cha benki hii cha kutoa huduma za rejareja kwa wateja pia kiliboreshwa kwa kuongezea huduma na bidhaa mpya. Kati ya hizo ikiwa ni pamoja na Majilisi ya Golden Corner, kwa wateja wetu wenye kadi za kiwango cha Gold.

MASHIRIKA-DAU NA UPANUZI WA KIBIASHARA

Ukuaji na maendeleo ya mashirika-dau hayo imebakia kuwa kigezo muhimu katika malengo ya shughuli zetu, na inatazamiwa kukuza msururu wa huduma zetu za kifedha kwa wateja wetu na hali kadhalika kuhakikisha uanuwai na kupanuka kwa kampuni ya NIC Group.

Kwenye kanda nzima ya Afrika Mashariki, benki hii ilinunua asilimia 51% ya benki ya Savings & Finance Commercial Bank Limited (S&F) ya Tanzania. Tokea wakati wa ununuzi huo, usimamizi wa benki ya NIC imezingatia pakubwa katika ukarabati, kusawazisha mifumo ya utendakazi na kuiga taratibu bora za kikazi katika shirika-dau hili geni. Hata hivyo, benki hii ya (S&F) iliyo na matawi yake huko jijini Dar es Salam, Mwanza na Arusha, sasa imejikita vyema ili kutoa mchango wake bora na kuleta faida katika kampuni hii ya NIC.

Hapa kwetu, NIC Capital Securities Limited (inayotoa huduma za uwakala), NIC Capital Limited (kitengo cha uwekezaji cha benki) na NIC Insurance Agents (mawakala wa huduma za bima), kwa sasa wanajimudu kutoa huduma bora ili kufaidisha utendakazi wa kampuni ya NIC.

MAADHIMISHO YA JUBILEI

Benki ya NIC iliadhimisha Jubilei (Miaka 50) katika mwezi wa Septemba mwaka wa 2009. Hii imekuwa miaka 50 ya ufanisi na maendeleo ya benki yetu. Benki hii ilianzishwa mnamo 1959 kama tawi moja la asasi ya kifedha (lililoshughulikia mikopo ya rejareja) na hatimaye imekuwa benki ya kubwa ya kibiashara inayotoa huduma za bidhaa mbali mbali katika matawi 13 na mashirika-dau mengi. Benki ya NIC inashukuru pakubwa usaidizi wa washika-dau wote na mchango wao kwenye ufanisi na ukuaji wake.

USIMAMIZI WA WAFANYIKAZI

Kampuni ina azma ya kuendelea kuwa muajiri bora kwa kuhakikisha kwamba wafanyikazi wote wanatunukiwa na kuhudumiwa vyema na kadhalika mazingira ya kazi yanakuwa mazuri kwa maendeleo endelevu ya kibiashara.

Wafanyikazi wote wa kampuni, walio 484 kwa idadi, kufikia Desemba 31, 2009 walijitolea kwa dhati kutoa huduma bora kama ilivyo katika sera za maadili mema ya kitaalamu kwa kampuni, kupenda kazi yao, kujitolea, na kulinda hadhi ya kiwango cha juu.

MAJUKUMU YA KIJAMII

Kampuni ya NIC inafahamu vyema kwamba kuna wingi wa wanajamii ambao benki hii unawategemea sana na kufuatia hali hiyo, benki imeunda Chata ya Majukumu ya Kijamii inayoelezea azma na malengo ya ushirikiano wake na washikadau wote ili kukuza hali yao ya kimaisha.

Kama kampuni inayozingatia majukumu yake kwa wanajamii, kunaelewa wajibu na majukumu yetu kwa jamii hususan katika masuala ya mazingira. Kwa hali hii, Benki hii iliingia ubia na shirika la Umoja wa Mataifa la Miradi ya Mazingira (UNEP), Shirika la Wanyama-Pori la Afrika Mashariki, Kikundi cha Wafanyikazi wa huduma za Misitu cha Kenya kupitia mradi kupanda miti wa "Tupande Pamoja". Wafanyikazi wa Benki waliungana na wanakijiji wa mtaa wa Nyamweru katika harakati za kupanda miche 10,000 ya miti ya kiasili huko kwenye eneo la kusini mwa Misitu wa Aberdare.

Miradi mingine ambayo benki hii imejhusisha kwayo ni pamoja na kampeini ya "Tuungane Tuokoe Maisha" dhidi ya njaa na kulinda mazingira, elimu na sekta za afya.

WAKURUGENZI

Nina furaha kuwafahamisha kwamba katika mkutano wa tarehe 23 Februari 2010, Bodi ya Halmashauri Kuu ilimteua Bw. Paras Shah kuwa Mkurugenzi wa Benki. Bw. Shah ni mdau katika Hamilton Harrison & Mathews Advocate na katika kumpongeza kwenye uteuzi huo, natazamia kupokea mchango wake mkubwa katika shughuli za Bodi hii na kwenye benki yetu kwa jumla.

MTAZAMO

Uchumi ulidorora kiasi na kwa sasa unaelekea kuimarika kwa kutegemea pakubwa kufufuka kwa uchumi wa kimataifa.

Uchumi wa Kimataifa kadri unavyoendelea kuimarika, unaelekea kutoa nafasi ya uwekezaji wa moja kwa moja kutoka ugenini na kadhalika misaada ya wadhamini na pia kupanua nyanzo za masoko yetu ya nje.

Vifuatavyo ni vigezo maalum ambavyo vitaweza kuchangia kuharakisha kukua kwa uchumi wetu;

- Kuwajibikia miradi ya kifedha hususan muundomsingi, mifumo ya barabara na mawasiliano.
- Utendakazi bora na ubunifu katika sekta ya fedha utakaoboresha na kuongeza kasi ya mikopo kuwafikia wahusika wa sekta za kibinafsi.
- Kuwepo kwa mvua ya kutosha kunatazamiwa kupunguza matatizo ya bei ya vyakula na umeme. Kwa wakati huo huo, kujiondoa katika dhana za kutegemea kilimo cha mvua kila wakati na badala yake kutafuta mbinu nyinginezo za kisasa za unyunyiziaji wa maji ili kuchangia katika maendeleo endelevu ya kupata chakula cha kutosha.
- Kuongezeka kwa watalii kunaweza kuifanya sekta hii kuimarika kama ilivyokuwa mwaka wa 2007, wakati ambapo watalii zaidi ya Milioni 1.8 walipoitembelea Kenya.

TAARIFA YA MWENYEKITI

- Kuongeza kwa imani ya wawekezaji katika Soko la Hisa la Nairobi ikiwa ni pamoja na Wawekezaji kutoka nje ya Kenya, na mapato ya juu yanayotokana na pesa wanazotuma wakenya wanaoishi ng'ambo.
- Mazingira bora ya kisiasa.

SHUKRANI

Kwa kumalizia, ningependa kuwashukuru washikadau wetu wote:

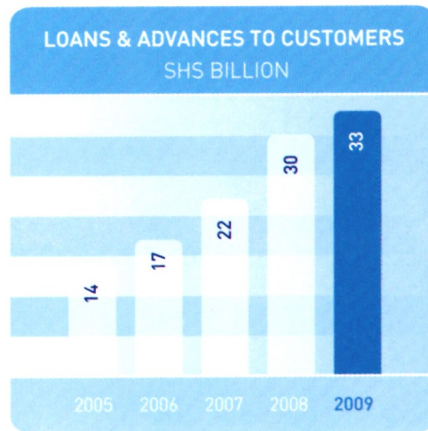
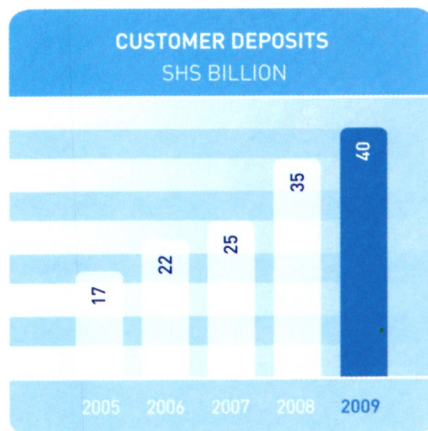
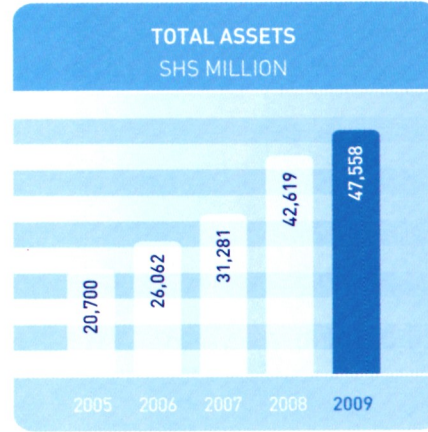
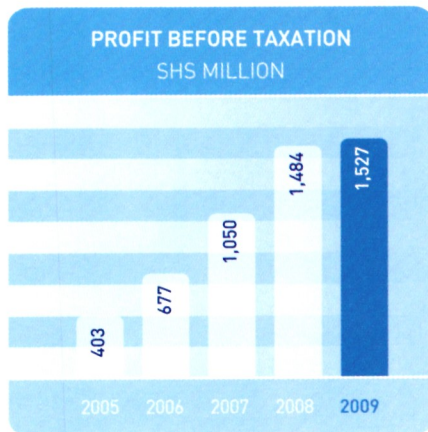
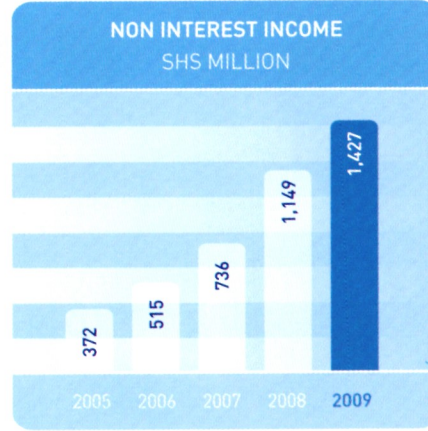
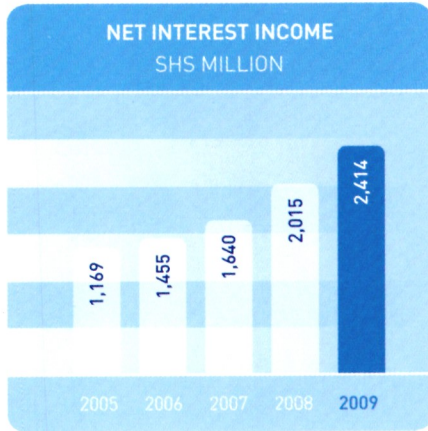
- Wenyehisa wetu ambao azma yao imefikwa kwa kipindi cha miaka mingi iliyopita na hususan katika utoaji wa mtaji unaohitajika ili kuendeleza shughuli za benki hii.
- Wateja wetu ambao licha ya kuwa njia mbadala za kuwekeza, wamesimama na sisi kidete kwa miaka mingi na kutufanya sisi kuwa washirika wao wa kipekee yaani "One Stop Shop".
- Wasimamizi wetu wa kishirika, Benki Kuu ya Kenya na Halmashauri ya Masoko ya Mitaji kwa ushirika wao na muongozo katika kipindi chote cha mwaka.
- Kwa wafanyikazi wetu kwa kujitolea mhanga na kujizatiti ili kuhakikisha kwamba wanapitisha matarajio yote ya washikadau wetu.
- Kwa wawekezaji-dau/ wenyehisa wetu huko nchini Tanzania kwa kufungua na kuanzisha upanuzi wa Benki hii kwenye kanda hiyo.
- Kwa Wakurugenzi wenzangu kutokana na kujitolea na hali kadhalika ushirikiano wao katika kutimiza majukumu yao kwenye Bodi Kuu na pia katika kamati mbali mbali za halmashauri Kuu ya Bodi.

Asante sana.

JPM Ndegwa
Mwenyekiti
23 Februari, 2010

FIVE YEAR FINANCIAL REVIEW

	2005	2006	2007	2008	2009
	Shs` 000	Shs` 000	Shs` 000	Shs` 000	Shs` 000
CONSOLIDATED STATEMENT OF FINANCIAL POSITION					
Assets					
Government securities	2,472,787	2,148,688	2,411,997	3,974,918	4,332,080
Loans and advances to customers	14,259,286	16,570,116	22,209,186	29,954,948	32,511,082
Property and equipment	528,731	503,173	506,813	673,997	798,255
Others	3,439,064	6,840,436	6,153,022	8,015,256	9,916,824
Total assets	20,699,868	26,062,413	31,281,018	42,619,119	47,558,241
Liabilities					
Customer deposits	16,575,398	21,978,078	24,805,595	35,238,381	39,514,275
Line of credit	354,404	278,195	650,100	663,275	465,202
Other liabilities	977,550	769,898	1,087,590	1,151,713	786,510
Total liabilities	17,907,352	23,026,171	26,543,285	37,053,369	40,765,987
Total equity	2,792,516	3,036,242	4,737,733	5,565,750	6,792,254
Total liabilities and equity	20,699,868	26,062,413	31,281,018	42,619,119	47,558,241
CONSOLIDATED INCOME STATEMENT					
Interest income	1,940,340	2,365,847	2,799,924	3,747,301	4,425,440
Interest expense	770,868	911,250	1,159,829	1,732,079	2,011,376
Net interest income	1,169,472	1,454,597	1,640,095	2,015,222	2,414,064
Non-interest income	372,244	515,441	736,294	1,149,231	1,427,014
Operating income	1,541,716	1,970,038	2,376,389	3,164,453	3,841,078
Operating expenses	930,323	1,159,607	1,226,415	1,485,728	1,850,801
Impairment on loans and advances	208,383	133,389	100,067	194,551	463,484
Operating expenses	1,138,706	1,292,996	1,326,482	1,680,279	2,314,285
Profit before taxation	403,010	677,042	1,049,907	1,484,174	1,526,793
Income tax expense	127,362	219,068	304,220	446,493	441,075
Profit for the year	275,648	457,974	745,687	1,037,681	1,085,718
Earnings Per Share (Shs)	0.95	1.58	2.57	3.18	3.31
Dividend Per Share (Shs)	2.50	2.70	0.80	0.50	0.50
OTHER DISCLOSURES					
1) Non-performing loans and advances					
a) Non-performing loans and advances	705,865	1,270,942	967,724	1,031,988	1,411,457
b) Allowance for impairment	529,947	646,706	479,884	621,360	1,025,951
c) Net Non-performing loans and advances (a-b)	175,918	624,236	487,840	410,628	385,506
2) Number of Employees					
	252	262	290	375	484
3) Number of Branches					
	5	7	10	12	13
KEY PERFORMANCE INDICATORS					
Return on capital employed (ROCE)	14.43%	22.30%	22.16%	26.67%	22.48%
Non-interest income to operating income	24.14%	26.16%	30.98%	36.32%	37.15%
Non-performing loans to total loans	1.23%	3.77%	2.20%	1.37%	1.19%
Return on total assets	1.95%	2.60%	3.36%	3.48%	3.21%



MEMBERS OF THE BOARD



Back row:

F N Mwanzia
Non - Executive Director

I Ocholla - Wilson
Non - Executive Director

F M Mbiru
Non - Executive Director

Front row:

J W Macharia
Group Managing Director

J P M Ndegwa
Chairman



Back row:

G A Maina
Non - Executive Director

A S M Ndegwa
Non - Executive Director

M L Somen
Non - Executive Director

P V Shah
Non - Executive Director

Front row:

L Murage
Group Company Secretary

A J Dodd
Executive Director

MEMBERS OF THE BOARD

J P M Ndegwa - Chairman

Mr Ndegwa, aged 46, holds an MA degree from Oxford University, UK, and is an Associate of the Chartered Insurance Institute, UK and the Insurance Institute of Kenya. He is the Chairman of First Chartered Securities Limited 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.

F M Mbiru - Vice Chairman (Non-Executive Director)

Mr Mbiru, aged 72, has 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.

J W Macharia (Group Managing Director)

Mr Macharia, aged 51, has a B Com (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.

A J Dodd (Executive Director)

Mr Dodd, aged 55, has a BA (Hons) degree in Economics from Portsmouth University, UK. He is an Associate of the Chartered Institute of Bankers. He has extensive regional and international banking experience covering East and Southern Africa, Middle East and the Far East. He joined NIC Bank in January 2006 as Director, Corporate Business, and was appointed to the NIC Board on 22 February 2006.

G A Maina (Non-Executive Director)

Mr Maina, aged 58, has 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, 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.

F N Mwanzia (Non-Executive Director)

Mr Mwanzia, aged 65, 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.

A S M Ndegwa (Non-Executive Director)

Mr Ndegwa, aged 42, holds a BA (Hons) degree in Philosophy, Politics and Economics from Oxford University, UK. He is the Executive Director of First Chartered Securities Limited and a director of several companies. He previously worked for Citibank and AMBank until 1995. He joined the NIC Board on 23 April 1997.

I Ochola- Wilson (Non-Executive Director)

Mrs Ochola-Wilson, aged 61, has a BA degree from Dar-es-Salaam University and an MBA from University of British Columbia, Canada. She currently is 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.

M L Somen (Non-Executive Director)

Mr Somen, aged 73, 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 and a consultant with Hamilton Harrison & Mathews Advocates having retired from the firm as a Senior partner in 2002. He joined the NIC Board on 21 February 2001.

P V Shah (Non-Executive Director)

Mr Shah, aged 36, is a lawyer by profession and a Certified Public Secretary. He holds an LLB (Hons), Diploma in legal practice (London), Diploma in Legal practice (Kenya School in Law) and Diploma in Management (Henley School of Management). He is an Advocate of the High Court of Kenya and currently a partner with Hamilton Harrison & Mathews Advocates. He joined the NIC Board on 23 February 2010.

L Murage (Group Company Secretary)

Mr Murage, aged 52, 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 Pricewaterhouse 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 J Dodd*	
G A Maina	
F N Mwanzia	
A S M Ndegwa	
I Ochola-Wilson	
M L Somen	
P V Shah	*British

CREDIT RISK COMMITTEE

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

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

GROUP COMPANY SECRETARY

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

NOMINATIONS COMMITTEE

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

HUMAN RESOURCES AND COMPENSATION COMMITTEE

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

RISK MANAGEMENT COMMITTEE

G A Maina	- Chairman
A S M Ndegwa	
I Ochola-Wilson	

AUDIT AND COMPLIANCE COMMITTEE

F N Mwanzia	- Chairman
F M Mbiru	
A S M Ndegwa	

REGISTRARS AND TRANSFER OFFICE

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

AUDITORS

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

STATEMENT ON CORPORATE GOVERNANCE

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.

BOARD COMPOSITION AND APPOINTMENTS

The Board consists of ten directors, eight of whom are non-executive directors (including the Chairman) and two executive directors. Amongst the non executive directors are six independent directors one of whom, Mr. PV Shah was appointed in February 2010 to further strengthen the Board.

The Board members have a broad range of skills, expertise and experience and each brings independent judgement and valuable contribution to the business. The directors' abridged biographies appear on page 14 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 responsibilities are set out in the Board Charter. 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.

In November 2009, the Board held a retreat

to review the three year strategy and also set guidelines for revising the Board Charter. An expert in Corporate Governance was engaged to help the Board improve on the existing Corporate Governance framework. A new Board Charter was launched in 2010.

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

- Providing entrepreneurial leadership to the Bank 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 Bank strategies,
- Monitoring the Bank'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 executives officers who are qualified and competent to manage the affairs of the Bank effectively,
- Ensuring that there are adequate structures and systems to identify, measure and monitor the Bank and manage key risks facing the Bank, 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 review of reports and minutes of the committees.

SEPARATION OF ROLES AND RESPONSIBILITIES

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.

BOARD REMUNERATION

Non executive-directors were 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 are set out on page 85.

DIRECTORS' SHAREHOLDING

None of the directors as at the end of year 2009 held shares in their individual capacity that was more than 1% of the Company's total equity.

BOARD MEETINGS

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

The Board Work Plan together with the calendar of meetings for 2009 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 issues to be discussed.

The summary of the meetings and attendance is shown on page 19.

CONFLICTS OF INTEREST

Business transactions with all parties, directors or their related parties are carried out at arms' length. The directors of the Bank are under a fiduciary duty to act honestly and in the best interests of the institution.

The directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to his/her attention that a matter concerning the Bank may result in a conflict of interest, the director is obliged to declare the same and will exclude himself/herself from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the Bank, the director will be obliged to offer his/her 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 84 – 85.

COMMITTEES OF THE BOARD

The Board has established committees to assist it in discharging its responsibilities and obligations. Each committee has a set of specific terms of reference outlining the scope of its responsibility and relevant administrative and procedural arrangements.

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

Membership of the various Board Committees is shown on page 15.

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 agendas and briefing materials.

In November 2009, the Board constituted the Risk Management Committee. This was done for the purpose of strengthening the overall oversight provided by the Board and to give the critical area of 'Risk' the appropriate specific attention. The new committee is tasked with reviewing the major risks affecting each business segment/unit and developing strategies to mitigate such risks.

Management and external service providers and experts routinely attend by invitation as circumstances dictate. Director's attendance of these committees is provided on page 19. Details of these committees are given here below.

• Audit and Compliance 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 Bank and approves credits which are above the approval limits for management. It ensures there are effective procedures to identify and manage irregular problem credits, minimize credit loss and maximize on recoveries.

The committee recommends to the Board discretionary credit limits for the Board, Credit 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 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 Bank's strategy. It ensures that the Bank'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 Bank.

• 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.

• Risk Management Committee

A risk management framework has been established for identification, measuring, monitoring, controlling and mitigation of the Bank's risks. This framework is integrated in the overall management information systems of the Bank and appropriately supplemented by a management reporting structure.

The committee's primary function is to assist the Board in fulfilling its risk management responsibilities as defined by applicable laws and regulations as well as internal policies.

- **Risk Management Committee (cont.)**

The committee will be meeting quarterly to review risk management policies.

The risk management policies which are reviewed by the committee are detailed on page 47 – 59 and are in line with International Financial Reporting Standards.

MANAGEMENT COMMITTEES

A significant factor in the Bank'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 Bank. 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 Bank, 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. The core responsibility of this committee

is the monitoring and management of the assets and liabilities of the Bank. This includes management of operational risks, liquidity risk, interest rate and exchange rate risks and ensuring compliance with statutory requirements governing liquidity, cash ratio, 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 2009

During the year, the Board of NIC Bank Limited, in line with the Prudential Guidelines issued by the Central Bank of Kenya, carried out a self evaluation review of its capacity, functionality and effectiveness. The evaluation measures the performance of the Board against its key duties and responsibilities.

For 2009, it was determined that the Bank had an especially strong Board comprising mainly independent directors; with a broad diversity of professional qualifications and depth of experience; that recognizes and takes most seriously its responsibilities; that is committed and dedicated to the well being and success of the Bank and its various stakeholders; and one whose members devote a considerable proportion of their busy schedules preparing for and attending meetings of the Board and its committees.

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

RELATIONSHIP WITH SHAREHOLDERS

The Bank 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. Latest 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 24 for the Bank'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 Bank, and the risks to which it is exposed to, 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 Bank'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 Risk reports directly to the Board's Risk Management Committee.

The Bank'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 Bank has an internal audit department which is an independent function that reports to the Board Audit and Compliance

Committee and provides an independent confirmation that the Group and business standards, policies and procedures are being complied with. Where necessary, corrective action is recommended.

The Bank has a compliance department that reviews the compliance framework and ensures compliance with company and regulatory requirements.

GOING CONCERN

The Board confirms that it is satisfied that the Bank 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.

2009 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit & Compliance	Credit & Risk	Human Resources & Compensation	Executive	Nominations
J P M Ndegwa	Non-executive	Chairman of the Board & Nominations Committee	Membership	√					√
			Attendance	4/4					1/1
F M Mbiru	Non-executive	Chairman Credit & Risk Committee	Membership	√	√	√	√		
			Attendance	4/4	4/4	8/8	2/2		
J W Macharia	Executive	Group Managing Director	Membership	√	√	√	√	√	
			Attendance	4/4	3/4	8/8	2/2	2/2	
G A Maina	Non-executive		Membership	√				√	√
			Attendance	4/4				1/2	1/1
F N Mwanzia	Non-executive	Chairman Audit & Compliance Committee	Membership	√	√	√			
			Attendance	4/4	4/4	6/8			
A S M Ndegwa	Non-executive	Chairman Executive Committee	Membership	√	√	√	√	√	
			Attendance	4/4	4/4	7/8	2/2	2/2	
I Ochola-Wilson	Non-executive	Chairman Human Resources and Compensation Committee	Membership	√			√		√
			Attendance	3/4			2/2		1/1
M L Somen	Non-executive		Membership	√		√		√	√
			Attendance	4/4		8/8		2/2	1/1
A Dodd	Executive		Membership	√	√	√	√	√	
			Attendance	4/4	3/4	7/8	2/2	2/2	

√ Member of respective committee

Where a director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance the scheduled meeting

SHAREHOLDING PROFILES

The company, through its Registrar, files returns regularly in line with 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 2009 was 25,154 [2008-24,671].

A. PRINCIPAL SHAREHOLDERS

The top 10 major shareholders, based on the Bank's share register as at 31st December 2009 are as follows: -

Name	No. of Shares	%
First Chartered Securities Ltd	51,703,670	15.84
ICEA Asset Management Ltd	29,578,338	9.06
Livingstone Registrars Ltd	26,526,426	8.13
Rivel Kenya Ltd	25,226,602	7.73
Saimar Ltd	13,482,334	4.13
Duncan Nderitu Ndegwa	13,087,207	4.01
Amwa Holdings Ltd	6,453,631	1.98
Kenya Commercial Bank Nominees Ltd A/C 769G	4,657,788	1.43
Thuthuma Limited	4,162,092	1.28
Makimwa Consultants Ltd	4,115,779	1.26
Total	178,993,867	54.85

B. DISTRIBUTION SCHEDULE

Category	No. of Shareholders	No. of Shares	%
1-500 shares	6,709	1,501,472	0.46
501-5,000 shares	15,271	25,521,222	7.82
5,001-10,000 shares	1,563	10,850,918	3.32
10,001-100,000 shares	1,417	38,331,522	11.75
100,001-1,000,000 shares	172	46,762,890	14.33
1,000,001 and over	22	203,393,598	62.32
Total	25,154	326,361,622	100.00

C. SHAREHOLDER PROFILE

Category	No. of Shareholders	No. of Shares	%
Local individual investors	23,475	90,506,754	27.73
Local institutional investors	1,538	231,795,859	71.02
Foreign individual investors	126	2,010,742	0.62
Foreign institutional investors	15	2,048,267	0.63
Total	25,154	326,361,622	100.00

SOCIAL AND ENVIRONMENTAL RESPONSIBILITY STATEMENT

The Bank recognizes that it has a corporate social and environmental responsibility and has a documented policy approved by the Board in support of this.

In 2009, the NIC Bank Group renewed its focus on its main corporate social responsibility programmes i.e. Environment and Education, with a long term view of sustaining the projects at hand.

EDUCATION

Education remains a priority for the Bank as it seeks to enhance access, ensure retention and reduce disparities and inequalities in the provision of secondary school education in Kenya.

To ensure efficiency and effectiveness of its sponsorships, NIC Bank Group opted to partner with well established educational trusts and non-profit organizations by aiding them financially in fulfilling their role.

ENVIRONMENT

In 2009, the Bank partnered with the United Nations Environment Programme (UNEP), the East African Wildlife Society, Kenya Forests Working Group and Nature Kenya in collaboration with the Kenya Forest Service (KFS) in the 'Tupande Pamoja' tree planting initiative meant to restore Kenya's forest cover and water catchment areas.

The Bank staff joined the local community of Nyamweru Village in planting more than 10,000 indigenous seedlings covering 22.4 hectares to rehabilitate Nyamweru Forest Block within the Uplands Forest, which is part of the larger Aberdares Forest.

Through community engagement, the Bank is seeking to assist in the country's reforestation programs meant to increase Kenya's forest cover from the current 1.7% to 10%.

Some of the areas that benefited from our contribution and participation are highlighted on page 22.

EMPLOYEE WELFARE

• Ethical Standards

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

Upon employment, new members of staff must sign the Code of Conduct acknowledging that they have read and are committed to abide by the Code of Conduct.

• Communication

The Bank encourages dialogue and participation from all employees through internal e-mail and team-building initiatives. Further, the Bank holds an annual staff conference where all staff members meet for discussions on the Bank's progress and strategic direction.

The human resource change management cycle which began in 2007 came to a close at the end of 2009. All the action points recommended by staff and approved by the Bank's Executive Committee were implemented to enhance the working environment that aims to inspire employees to give their best. The action points addressed staff concerns in the areas of talent management, career management, work life balance, communication and leadership.

Feedback has been provided to staff on the changes made during this period and was well received during the annual staff conference of December 2009.

• Corporate Values

As part of the 50 years anniversary celebrations a corporate values campaign was conducted. The objective is to make employees understand company values, culture and philosophies. This was done in three stages; awareness/ education stage, ownership and affinity plans. The campaign was well supported by staff through participation in the promotional activities.

The core values which define the staff conduct include: integrity, professionalism, innovation, passion and responsiveness.

• Staff Training & Development

NIC Bank attaches great importance to staff training and development as a means of ensuring that the organization is fully and appropriately staffed with employees who have requisite competencies to perform their jobs and that all staff feel valued and supported.

The training program is designed to attain the highest standards in the banking industry and is continuously benchmarked with other leading players. The Bank's policy is to provide training that strikes the appropriate balance between short and long term resource requirements with regard to the size and complexity of its operations and the need to offer the highest quality of service.

The training process begins with an induction phase which also comprises of mandatory courses on the Bank's products, services and strategic thrust. Thereafter, on-the-job-training is the foundation upon which all other types of training must depend. This process is fully supplemented by a mentoring program and we acknowledge the role that our experienced members of staff play in training their colleagues. In addition, tailor-made courses/ workshops are arranged to meet specific skill and knowledge requirements. Recent attention has been given to enhancing customer care skills and uniformity of customer care across the branches. To give staff an international exposure the Bank has identified overseas strategic partners with which staff are attached, and trained.

With the current employee skill-base, the Bank is able to effectively compete both locally and internationally.



NIC Bank staff warm up before the actual race during the 2009 Corporate Challenge.



Uplands forester Mr. Francis Ikiyenya joins NIC Bank staff during a reforestation exercise.



A Scenic view of the tree planting exercise going on in some of the areas around the Uplands Forest which is part of the Aberdares Water Catchment area.



Dr. Susan Mboya, the founder and president of Zawadi Africa education funds with three of her beneficiaries when they paid a courtesy call to NIC Bank to receive Shs. 100,000.



REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2009 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 Bank.

1. ACTIVITIES

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

2. RESULTS FOR THE YEAR

The profit for the year of Shs 1,079,117,000 (2008: Shs 1,035,763,000) has been added to revenue reserves.

3. DIVIDENDS

An interim dividend of Shs 0.25 per share amounting to Shs 81,590,000 was paid to shareholders on 2 October 2009.

The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, scheduled for 12 May 2010, the payment of a final dividend for the year of Shs 0.25 (2008: 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 25 March 2010 and will be paid on or after 12 May 2010. The register will remain closed on 26 March 2010 for the preparation of dividend warrants.

4. BONUS SHARES

Subject to receiving all the regulatory approvals, the directors propose to issue bonus shares in the ratio of one bonus share for every ten shares held.

5. DIRECTORS

The directors who held office during the year and to date are shown on page 15.

In accordance with articles 97 of the Articles of Association, P V Shah, who was appointed on 23 February, 2010 retires from office and, being eligible offers himself for re-election.

In accordance with articles 108, 109 and 110 of the Articles of Association, J P M Ndegwa, F N Mwanzia and F M Mbiru retire by rotation and, being eligible offer themselves for re-election.

6. 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.

7. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 23 February, 2010

BY ORDER OF THE BOARD

L MURAGE
Group Company Secretary
Nairobi
23 February, 2010

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the 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. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Nothing has come to the attention of the directors to indicate that the bank 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

23 February, 2010

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 set out on pages 26 to 90 which comprise the consolidated and bank statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, consolidated and bank statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiaries as at 31 December 2009 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

Deloitte & Touche
Certified Public Accountants (Kenya)

23 February, 2010
Nairobi

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2009

	Note	2009 Shs'000	2008 Shs'000
Interest income	7	4,425,440	3,747,301
Interest expense	8	(2,011,376)	(1,732,079)
NET INTEREST INCOME		2,414,064	2,015,222
Fee and commission income		692,271	569,821
Fee and commission expense		(34,427)	(26,884)
NET FEE AND COMMISSION INCOME		657,844	542,937
Foreign exchange income	9	502,475	385,784
Other operating income	10	266,695	220,510
OPERATING INCOME		3,841,078	3,164,453
Impairment on loans and advances	11 (c)	(463,484)	(194,551)
Employee expenses	12	(1,030,159)	(813,396)
General and administrative expenses	13	(820,642)	(672,332)
OPERATING EXPENSES		(2,314,285)	(1,680,279)
PROFIT BEFORE TAXATION		1,526,793	1,484,174
Income tax expense	14(a)	(441,075)	(446,493)
PROFIT FOR THE YEAR	15	1,085,718	1,037,681
PROFIT ATTRIBUTABLE TO:			
Equity holders of the parent entity		1,079,117	1,035,763
Non-controlling interests		6,601	1,918
		1,085,718	1,037,681
EARNINGS PER SHARE - BASIC AND DILUTED	16	Shs 3.31	Shs 3.18
DIVIDEND PER SHARE - DECLARED	16	Shs 0.25	Shs 0.25
- PROPOSED	17	Shs 0.25	Shs 0.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2009

	Note	2009 Shs'000	2008 Shs'000
PROFIT FOR THE YEAR	15	1,085,718	1,037,681
OTHER COMPREHENSIVE INCOME:			
Revaluation of available-for-sale financial assets	26 (a)	8,769	(12,923)
Deferred tax on revaluation surplus	35	-	(32,325)
Surplus on revaluation of buildings	36 (b)	-	107,750
Foreign currency translation differences	36 (d)	(32,121)	-
		(23,352)	62,502
OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX		(23,352)	62,502
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		1,062,366	1,100,183
Total comprehensive income attributable to:			
Equity holders of the parent entity		1,055,765	1,098,265
Non-controlling interests		6,601	1,918
		1,062,366	1,100,183

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Note	2009 Shs'000	2008 Shs'000
ASSETS			
Cash and balances with Central Banks	18	3,754,778	2,670,862
Items in the course of collection	19	197,149	575,644
Deposits and balances due from banking institutions	20	4,936,616	4,095,851
Government securities	21	4,332,080	3,974,918
Derivative assets held for risk management	22	1,400	-
Loans and advances to customers	23	32,511,082	29,954,948
Other assets	24	190,522	204,250
Current income tax recoverable	14(c)	70,563	2,264
Deferred tax asset	35	22,342	-
Other Investments	26(a)	42,998	34,229
Property and equipment	27	798,255	673,997
Intangible assets	28	692,706	424,281
Operating lease prepayments	29	7,750	7,875
Total assets		47,558,241	42,619,119
LIABILITIES			
Customer deposits	30	39,514,275	35,238,381
Deposits and balances due to banking institutions	31	56,767	4,843
Derivative liabilities held for risk management	22	-	81,563
Line of credit	32	465,202	663,275
Current income tax payable	14(c)	860	94,766
Other liabilities	34	666,407	911,852
Unclaimed dividends	17	43,825	36,552
Deferred tax liability	35	18,651	22,137
Total liabilities		40,765,987	37,053,369
EQUITY			
Capital and reserves attributable to equity holders of the parent			
Share capital	36(a)	1,631,808	1,483,462
Share premium	36(a)	192,600	340,946
Revaluation surplus	36(b)	165,272	161,284
Revenue reserves		4,173,753	3,254,083
Statutory reserve	36(c)	293,161	284,696
Translation reserve	36(d)	(32,121)	-
Non-controlling interests	39(c)	6,424,473 367,781	5,524,471 41,279
Total equity		6,792,254	5,565,750
Total liabilities and equity		47,558,241	42,619,119

The financial statements on pages 26 to 90 were approved by the board of directors on 23 February 2010 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

BANK STATEMENT OF FINANCIAL POSITION

as at 31 December 2009

	Note	2009 Shs'000	2008 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	18	3,272,688	2,670,862
Items in the course of collection	19	155,876	567,924
Deposits and balances due from banking institutions	20	4,056,301	4,093,538
Government securities	21	3,858,103	3,974,918
Derivative assets held for risk management	22	1,400	-
Loans and advances to customers	23	31,133,484	29,954,948
Other assets	24	155,003	167,142
Current income tax recoverable	14(c)	37,334	-
Due from group companies	25	2,346	262,598
Investment in subsidiary companies	26(b)	1,147,786	278,666
Property and equipment	27	769,349	671,790
Intangible assets	28	57,893	53,910
Operating lease prepayments	29	7,750	7,875
Total assets		44,655,313	42,704,171
LIABILITIES			
Customer deposits	30	36,977,360	35,238,381
Deposits and balances due to banking institutions	31	-	4,843
Derivative liabilities held for risk management	22	-	81,563
Line of credit	32	465,202	663,275
Amounts due to group companies	33	224,090	290,413
Current income tax payable	14(c)	-	94,724
Other liabilities	34	492,223	742,975
Unclaimed dividends	17	43,825	36,552
Deferred tax liability	35	18,651	22,303
Total liabilities		38,221,351	37,175,029
EQUITY			
Share capital	36(a)	1,631,808	1,483,462
Share premium	36(a)	192,600	340,946
Revaluation surplus	36(b)	169,426	174,207
Revenue reserves		4,154,042	3,245,831
Statutory reserve	36(c)	286,086	284,696
Total equity		6,433,962	5,529,142
Total liabilities and equity		44,655,313	42,704,171

The financial statements on pages 26 to 90 were approved by the board of directors on 23 February 2010 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 2009

	Note	Share Capital Shs'000	Share Premium Shs'000	Revaluation Surplus Shs'000	Translation reserve Shs'000	Revenue Reserves Shs'000	Statutory Reserve Shs'000	Equity		Non-controlling interests Shs'000	Total Shs'000
								attributable to equity holders Shs'000	controlling interests Shs'000		
At 1 January 2008		1,483,462	340,946	101,775	-	2,608,812	202,738	4,737,733	-	1,918	4,737,733
Profit for the year		-	-	-	-	1,035,763	-	1,035,763	-	1,918	1,037,681
Other comprehensive income for the year											
Surplus on revaluation of buildings	36(b)	-	-	107,750	-	-	-	107,750	-	-	107,750
Deferred tax on revaluation surplus	35	-	-	(32,325)	-	-	-	(32,325)	-	-	(32,325)
Revaluation of available-for-sale financial assets	26(a)	-	-	(12,923)	-	-	-	(12,923)	-	-	(12,923)
Total comprehensive income for the year				62,502	-	1,035,763	-	1,098,265	-	1,918	1,100,183
Transfer of excess depreciation		-	-	(4,276)	-	4,276	-	-	-	-	-
Deferred tax on excess depreciation		-	-	1,283	-	(1,283)	-	-	-	-	-
Acquisition of subsidiary	39(c)	-	-	-	-	-	-	-	-	39,361	39,361
Transfer to statutory reserve	36(c)	-	-	-	-	(81,958)	81,958	-	-	-	-
Dividends:											
final for 2007 - declared	17	-	-	-	-	(237,354)	-	(237,354)	-	-	(237,354)
Interim 2008 - declared	17	-	-	-	-	(74,173)	-	(74,173)	-	-	(74,173)
At 31 December 2008		1,483,462	340,946	161,284	-	3,254,083	284,696	5,524,471	41,279	6,601	5,565,750
At 1 January 2009		1,483,462	340,946	161,284	-	3,254,083	284,696	5,524,471	41,279	6,601	5,565,750
Profit for the year		-	-	-	-	1,079,117	-	1,079,117	-	-	1,085,718
Other comprehensive income for the year											
Foreign currency translation differences	36(d)	-	-	-	(32,121)	-	-	(32,121)	-	-	(32,121)
Revaluation of available-for-sale financial assets	26(a)	-	-	8,769	-	-	-	8,769	-	-	8,769
Total comprehensive income for the year				8,769	(32,121)	1,079,117	-	1,055,765	6,601	-	1,062,366
Transfer of excess depreciation		-	-	(6,830)	-	6,830	-	-	-	-	-
Deferred tax on excess depreciation		-	-	2,049	-	(2,049)	-	-	-	-	-
Bonus issue of shares	36(a)	148,346	(148,346)	-	-	-	-	-	-	-	-
Acquisition of subsidiary	36(c)	-	-	-	-	(7,075)	7,075	-	319,901	-	319,901
Transfer to statutory reserve		-	-	-	-	(1,390)	1,390	-	-	-	-
Dividends:											
final for 2008 - declared	17	-	-	-	-	(74,173)	-	(74,173)	-	-	(74,173)
Interim 2009 - declared	17	-	-	-	-	(81,590)	-	(81,590)	-	-	(81,590)
At 31 December 2009		1,631,808	192,600	165,272	(32,121)	4,173,753	293,161	6,424,473	367,781	-	6,792,254

BANK STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2009

Note	Share Capital Shs'000	Share Premium Shs'000	Revaluation Surplus Shs'000	Revenue Reserves Shs'000	Statutory Reserve Shs'000	Total Shs'000
At 1 January 2008	1,483,462	340,946	101,775	2,606,276	202,738	4,735,197
Profit for the year	-	-	-	1,030,047	-	1,030,047
Other comprehensive income for the year						
Surplus on revaluation of buildings	-	-	107,750	-	-	107,750
Deferred tax on revaluation surplus	-	-	(32,325)	-	-	(32,325)
			75,425	1,030,047	-	1,105,472
Transfer of excess depreciation	-	-	(4,276)	4,276	-	-
Deferred tax on excess depreciation	-	-	1,283	(1,283)	-	-
Transfer to statutory reserve	-	-	-	(81,958)	81,958	-
Dividends:						
-final for 2007 - declared	-	-	-	(237,354)	-	(237,354)
-final for 2008 - declared	-	-	-	(74,173)	-	(74,173)
	1,483,462	340,946	174,207	3,245,831	284,696	5,529,142
At 1 January 2009	1,483,462	340,946	174,207	3,245,831	284,696	5,529,142
Profit for the year	-	-	-	1,060,583	-	1,060,583
Total comprehensive income for the year				1,060,583	-	1,060,583
Transfer of excess depreciation	-	-	(6,830)	6,830	-	-
Deferred tax on excess depreciation	-	-	2,049	(2,049)	-	-
Transfer to statutory reserve	-	-	-	(1,390)	1,390	-
Bonus issue	148,346	(148,346)	-	-	-	-
Dividends:						
final for 2008 - declared	-	-	-	(74,173)	-	(74,173)
Interim 2009 - declared	-	-	-	(81,590)	-	(81,590)
	1,631,808	192,600	169,426	4,154,042	286,086	6,433,962

CONSOLIDATED STATEMENT OF CASH FLOW

for the year ended 31 December 2009

	Note	2009 Shs'000	2008 Shs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash (used in)/generated from operations	38 (a)	(217,099)	3,178,080
Income tax paid	14 (c)	(628,810)	(460,199)
Net cash (used in)/generated from operating activities		(845,909)	2,717,881
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash outflow on acquisition of subsidiary	39 (a)	(14,949)	(62,123)
Acquisition of subsidiary, net of cash acquired	39 (b)	1,092,192	-
Investment in quoted shares	26 (a)	-	(46,152)
Purchase of equipment	27	(220,564)	(159,753)
Purchase of intangible assets	28 (a)	(37,225)	(29,104)
Proceeds from sale of equipment	38(c)	2,676	5,997
Net cash generated from/(used in) investing activities		822,130	(291,135)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid	17	(148,490)	(305,111)
Net cash used in financing activities		(148,490)	(305,111)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(172,269)	2,121,635
CASH AND CASH EQUIVALENTS AT 1 JANUARY		7,259,286	5,137,651
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	38 (b)	7,087,017	7,259,286

NOTES TO THE FINANCIAL STATEMENTS

1) Reporting Entity

NIC Bank Limited (The "bank") and its subsidiaries (together, the Group) provide a range of financial services that include banking, brokerage, investment banking and bank assurance 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 Stock Exchange (NSE). NIC Bank Limited and its subsidiaries operate in Kenya and in Tanzania through its subsidiary Savings and 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 result or financial position

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

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

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

IFRS 7 Improving disclosures about financial instruments

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

IFRS 8 Operating segments

IFRS 8, 'Operating segments', replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The segments will be reported in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. The application of IFRS 8 does not have any material effect for the Group.

IAS 1 Presentation of financial statements

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

The Group also adopted the use of the titles per revised IAS 1 of 'statement of financial position' and 'statement of cash flows' to describe the 'balance sheet' and cash flow statement respectively.

IAS 23 Borrowing costs

A revised version of IAS 23 was issued in March 2007. It eliminates the option of immediate recognition of borrowing costs as an expense for assets that require a substantial period of time to get ready for their intended use. The application of IAS 23 amendment does not have a material impact on the consolidated result or items of the consolidated financial position.

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

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

b) Standards and interpretations issued but not yet effective

The following standards and interpretations have been issued and are mandatory for the Group's accounting periods beginning on or after 1 July 2009 or later periods and are expected to be relevant to the group:

IFRS 3, 'Business combinations'

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

IAS 27, 'Consolidated and separate financial statements'

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

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

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

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

IFRIC 17 was issued in November 2008. It addresses how the non-cash dividends distributed to the shareholders should be measured. A dividend obligation is recognized when the dividend was authorised by the appropriate entity and is no longer at the discretion of the entity. This dividend obligation should be recognised at the fair value of the net assets to be distributed. The difference between the dividend paid and the amount carried forward of the net assets distributed should be recognised in profit and loss. Additional disclosures are to be made if the net assets being held for distribution to owners meet the definition of a discontinued operation. The application of IFRIC 17 has no impact on the financial statements of the Group.

IFRIC 18, 'Transfers of assets from customers'

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

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

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

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

IFRIC 19, 'Extinguishing Financial Liabilities with Equity Instruments'

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

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

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

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

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

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

While adoption of IFRS 9 is mandatory from 1 January 2013, earlier adoption is permitted.

Improvements to IFRS

'Improvements to IFRS' were issued in May 2008 and April 2009. They contain numerous amendments to IFRSs, that the IASB considers non-urgent but necessary. 'Improvements to IFRS' comprise amendments that result in accounting changes for presentation, recognition or measurement purposes, as well as terminology or editorial amendments related to a variety of individual IFRS standards. Most of the amendments are effective for annual periods beginning on or after 1 January 2009 and 1 January 2010 respectively, with earlier application permitted.

The directors anticipate that the adoption of amendments to various IFRSs resulting from the International Accounting Standards Board (IASB)'s annual improvements project, when effective, will have no material impact on the financial statements of the Group.

c) **Early adoption of standards**

The group did not early-adopt new or amended standards in 2009.

3) Summary of significant accounting policies

a) Statement of compliance

The Group's consolidated financial statements for the year 2009 have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB. Additional information required by the regulatory bodies namely, Central Bank of Kenya and Capital Markets Authority is included where appropriate.

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

b) Basis of measurement

The consolidated financial statements set out on pages 26 to 90 have been prepared on the historical cost basis of accounting, as modified to include the revaluation of certain financial instruments which are measured at fair value and property which is measured at fair value.

c) Presentation of financial statements

The consolidated financial statements comprise the consolidated statement of comprehensive income, consolidated and bank statements of financial position, the consolidated and bank statements of changes in equity, the statement of cash flow and the notes to the financial statements.

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

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

The consolidated statement of cash flow shows the changes in cash and cash equivalents arising during the period from operating activities, investing activities and financing activities.

d) Functional currency translation

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

3) Summary of significant accounting policies (continued)

d) Functional currency translation (continued)

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 end of the reporting period. Income and expense items for each statement of comprehensive income are retranslated at average exchange rates for the period.

All resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the above process are reported as 'foreign currency translation differences' and are recognised as other comprehensive income and accumulated in the translation reserve in equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future periods affected.

During the year, the areas involving a higher degree of judgement or complexity or where assumptions and estimates significant to the financial statements are disclosed in note 5.

f) Basis of consolidation

i. Subsidiaries

The consolidated financial statements incorporate the financial statements of the bank and its subsidiaries for the year ended 31 December, 2009. A list of the bank's subsidiaries is set out in note 26(b).

Subsidiaries are those companies in which the bank either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations of the entities. Subsidiaries are included in the consolidated financial statements from the date effective control commences until the date control ceases.

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 to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statement.

Investment in the subsidiaries is accounted for at cost in the books of the bank.

3) Summary of significant accounting policies (continued)

f) Basis of consolidation (continued)

II. Transactions and non-controlling interests

Interests in the equity of subsidiaries not attributable to the parent company are reported in consolidated equity as non-controlling interest. Profit or losses attributable to non-controlling interests are reported in the consolidated statement of comprehensive income as profit or loss attributable to non-controlling interests.

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the group. Purchases from non-controlling interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

g) Income recognition

I. Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within the income statement 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 asset and liability and is not revised subsequently.

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 asset or liability.

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.

II. Fees and commissions

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 asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees, 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 expensed as the services are received.

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 assets and liabilities are initially recognised on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

II. Classification

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

Financial assets at fair value through profit or loss

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

Derivatives held for risk management

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

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

Trade 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 trade 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. 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) are considered indicators that the trade receivable is impaired. The amount of the 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 income statement as 'impairment loss on loans and advances'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited in the profit or loss.

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 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, advances 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 the consolidated statement of comprehensive income.

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

II. Classification (continued)

Financial liabilities

Borrowings – Line of credit

Line of credit represent drawn down facilities extended to the bank. These borrowings are recognised initially at fair value, net of transaction costs incurred. They are subsequently stated at amortised cost using the effective interest method.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

III. Derecognition

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

IV. Measurement

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

Financials assets at 'fair value through profit and loss' are subsequently carried at fair value. Gains and loss arising from changes in the fair value in those assets are recognised in the profit or loss in the period in which they arise.

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

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

Dividends on available-for-sale equity instruments are recognised in the statement of comprehensive income 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 recent arm's length transactions.

Loans and advances 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

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.

3) Summary of significant accounting policies (continued)

h) Financial instruments (continued)

V. Impairment (continued)

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 equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

i) Offsetting

Financial assets and liabilities are set off and the net amount reported in the balance sheet 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) Impairment of tangible and intangible assets

At each financial position date, 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 exist, 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 income statement. 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 cashflow 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 and intangible assets not yet available for use 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.

k) Loan Impairment

Loan impairments are recognised promptly when there is objective evidence that impairment has occurred. Objective evidence that loans and advances are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the group on terms that the group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

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

i) Individual 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 obligation.

3) Summary of significant accounting policies (continued)

k) Loan Impairment (continued)

i) Individual assessed loans (continued)

- 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 of 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.

l) 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 in Tanzania Parastatal Pension Fund, which are defined contribution schemes registered under respective Acts of Parliament in both countries.

The Group's contributions to the defined contribution schemes are charged to the statement of comprehensive income 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.

3) Summary of significant accounting policies (continued)

l) Employee expenses (continued)

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 related service is provided.

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

m) 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.

n) 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.

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.

o) Earnings per share

The Group presents basic and diluted earnings per share (EPS) 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 dilutive potential ordinary shares.

p) Dividends

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

q) 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 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.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

r) 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 advances. All other lessees are classified as operating leases.

3) Summary of significant accounting policies (continued)

r) Leases (continued)

Minimum lease payments made under finance leases are apportioned between the finance income and the reduction of the outstanding asset. 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 the Consolidated income statement over the terms of the relevant lease.

s) 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 advance, and the underlying asset is not recognised in the Group's financial statements.

t) Property and equipment

I. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation. Buildings held for administrative purposes 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 and direct labour, 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.

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 recognised in the Consolidated income statement 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 end of the reporting period. Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the statement of comprehensive income.

The gains or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the Consolidated income statement.

III. Depreciation

Depreciation 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%

3) **Summary of significant accounting policies (continued)**

t) **Property and equipment (continued)**

III. **Depreciation (continued)**

Depreciation methods, useful lives and residual values are reassessed at each reporting date.

Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus to revenue reserve.

u) **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 the Consolidated income statement.

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 the Consolidated income statement.

II. **Computer software**

Acquired computer software and related licenses are stated at cost less accumulated amortisation. Subsequent expenditure on software assets 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). Licenses 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 its recoverable amount, with the carrying amount and recognising any excess of the carrying amount over the recoverable amount as an impairment.

v) **Provisions**

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.

3) Summary of significant accounting policies (continued)

w) Share capital

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.

x) Statutory reserve

IAS 39 requires the Group to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, prudential guidelines issued by banking regulators require the group to set aside amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

y) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Group to support performance by a customer to third parties. The Group will only 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.

z) Fiduciary activities

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

aa) Segmental reporting

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

bb) 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

The Group's business involves taking on risks in a targeted manner and managing them professionally.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. As part of its governance structure, the board of directors has embedded a comprehensive risk management framework to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations. The policies are integrated in the overall management information systems of the Group and supplemented by a management reporting structure.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees / stakeholders understand their roles and obligations.

The Board's Risk Management Committee (RMC) is responsible for monitoring compliance with the Group's risk management policies and procedures, and review of the adequacy of risk management framework in relation to the risks faced by the Group. The Group's RMC is assisted in these functions by various management committees which undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the board.

The most important type of financial risks to which the Group is exposed to are:

- Credit risk
- Liquidity risk
- Market risk
 - Interest rate risk
 - Foreign exchange risk
 - Price risk

The notes below provide information on each of the above risks and the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

a) Credit risk

Credit Risk is the current and prospective risk of suffering financial loss that arises from the Group's customers or its counterparties failing to meet their contractual obligations. It arises principally from, but not limited to commercial and consumer loans and advances, commitments from Foreign exchange swaps and forward options, financial guarantees, letters of credit and acceptances/ avalisations, investments in debt securities and other exposures arising from trading activities and settlement balances with market counterparties. The amounts presented in these financial statements are net of impairment allowances based on a prudent assessment of customers or its counterparties ability to meet their contractual obligations as outlined by the regulators and management internal parameters.

Credit Risk is the single largest risk for the Group's business. The Board of Directors and Management therefore pay special attention to credit risk exposure at all times. The Board of Directors retains responsibility for the underwriting and independent review of the credit risk through specifically constituted Board sub-committees; the Board Credit Risk as well as the Board Risk Management respectively. To facilitate day to day management of credit risk i.e monitoring, control and under-writing functions, 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 main Board retains authority to approve credit facilities that are significant.

4) Financial risk management objectives (continued)

a) Credit risk (continued)

To completely separate the sales business, credit under-writing from the credit operations functions, a separate credit administration function that reports to the Head of Technology and Operations handles post-approval credit administration i.e credit operations. This structure maintains adequate governance that eliminates any conflicts of interest that may occur.

The Credit Risk management aspects are separately looked after by the Head of Risk with oversight from the Board Risk Management Committee.

Regular audits of the full approval process and portfolios are carried out by Internal Audit and any adverse findings submitted to the Board Audit & Compliance Committee for its action.

Credit Risk Measurement

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. The assessment of credit risk of a portfolio of assets entails further estimation as to the likelihood of defaults occurring, of the associated loss ratios, and of default correlations between counterparties and their industries.

Risk Limit Control and Mitigation Policies

The Group manages, limits and controls concentration of credit risks periodically against internal and regulatory requirements with respect to individual counterparties or related groups of counterparties, industry sectors, business lines, product types, amongst others.

Exposures to any one borrower (including bank counterparties) is further restricted by sub-allocating limits covering separate on and off – balance sheet product exposures and daily delivery in relation to trading items eg. Forward Foreign Contracts.

Lending limits to counterparties are reviewed periodically in view of changing business/financial risks of the borrower, in addition to market and economic conditions in which they operate in. To enable prudent and consistent credit assessments at the individual level, the Group has a robust approvals process and models covering different business segments that capture key risks in those homogeneous counterparties.

Acceptable tolerance limits in relation to credit risk categories are measured and monitored periodically on a revolving basis and are subject to frequent reviews but at least annually. Board Risk Management Committee regularly sets, reviews and approves revolving limits. Actual exposures against limits are monitored daily through the management information systems.

To facilitate quick credit approval turnaround time, approvers' individual or committee discretionary limits are granted to them by the Board Credit Committee in line with approved Board of Director's policies and in relation to their experiences and abilities to make sound credit decisions.

Other specific Control and Mitigation Measures are outlined below

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

4) **Financial risk management objectives (continued)**

a) **Credit risk (continued)**

I. Collateral

The most common credit risk mitigant is taking acceptable collateral. The bank has developed specific guidelines for the acceptance of different classes of collateral. A general principle underlying the selection of collateral is that the weaker the credit grade the more stringent the collateral.

Estimates of the collateral's fair values are based on the value of collateral assessed at the time of borrowing, and re-valued every 3 years. Security structures and covenants are also subjected to regular review to ensure they continue to fulfil their intended purpose. Collateral generally is not held over 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.

Both short and longer term lending to corporate entities is generally secured, and this is done in relation to the client's credit rating score. For loans that show early signs of deterioration/weakness, those are quickly put on appropriate remedial management that either reschedules or accelerates their repayment.

II. Credit grading

The Group sets the maximum limit exposures of individual or group of clients, on our internal credit rating scores in comparison to our core capital. This is done so as to avoid taking large exposures on the weaker credit graded clients.

III. Settlement risk

This is the risk of loss due to the failure of the 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 authorities and established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on a single day. Acceptance of counterparties settlement risks is determined on the basis of financial strengths and other considerations subject to Board Credit Risk Committee approvals.

Impairment and Provision Policies

Impairment allowances are recognized for financial reporting purposes only for losses that have been incurred to the date of the consolidated statements of financial position based on objective evidence of impairment and in line with regulatory and more stringent internal classification requirements.

Impaired loans/ advances and securities are those the Group considers it will be probably unable to collect all principle and interest due according to contractual terms/securities agreement (s).

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 considering information such as the occurrence of significant changes in the borrower or issuer's financial position such that they can no longer pay the obligation, or that proceeds of sale of collateral will not be sufficient to pay back the entire exposure and after exhausting all other means including litigation. For smaller balance standardized loans, charge off decisions are generally based on product specific past due status.

4) Financial risk management objectives (continued)

a) Credit risk (continued)

I. Maximum exposure to credit risk before collateral held

	2009		2008	
	Shs'000	%	Shs'000	%
Credit exposures				
On – balance sheet items				
Items in the course of collection	197,149	-	575,644	1
Deposits and balances due from banking institutions	4,936,616	9	4,095,851	9
Loans and advances to customers	32,511,082	67	29,954,948	68
Government securities	4,332,080	9	3,974,918	9
Other assets – trade receivables	21,743	-	32,928	-
	41,998,670	85	38,634,289	87
Off-balance sheet items				
Letters of credit	2,685,558	6	1,303,084	3
Guarantee and performance bonds	4,377,451	9	4,391,968	10
	7,063,009	15	5,695,052	13
	49,061,979	100	44,329,341	100

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

Loans and advances to customers and off-balance sheet items comprise of 82% (2008: 81%) of the total maximum exposure. While collateral is an important mitigant to credit risk, the Group's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. Other than exposures amounting to Shs 935,384,000 (2008 – Shs 945,607,000) 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 among others. The fair value of collateral held for impaired loans and advances is Shs 385,506,000 (2008 – Shs 410,628,000). The Group is confident that its policies and procedures provide sufficient safeguards against exposure on credit risk as shown.

4) Financial risk management objectives (continued)

a) Credit risk (continued)

II. Classification of loans and advances

GROUP

2009

Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	29,915,681	-	29,915,681	92
Past due but not impaired	2,262,068	80,846	2,181,222	7
Impaired	1,548,270	1,134,091	414,179	1
Total	33,726,019	1,214,937	32,511,082	100

2008

Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	28,469,518	-	28,469,518	95
Past due but not impaired	1,160,821	86,019	1,074,802	4
Impaired	1,031,988	621,360	410,628	1
Total	30,662,327	707,379	29,954,948	100

4) Financial risk management objectives (continued)

a) Credit risk (continued)

II. Classification of loans and advances

BANK

2009

Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	28,608,593	-	28,608,593	92
Past due but not impaired	2,220,231	80,846	2,139,385	7
Impaired	1,411,457	1,025,951	385,506	1
Total	32,240,281	1,106,797	31,133,484	100

2008

Loans and advances to customers

	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	28,469,518	-	28,469,518	95
Past due but not impaired	1,160,821	86,019	1,074,802	4
Impaired	1,031,988	621,360	410,628	1
Total	30,662,327	707,379	29,954,948	100

Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with guidelines issued by banking regulators and a provision of 1 % is made and appropriated from revenue reserves to statutory reserves.

Past due but not impaired

This category includes exposures that are over 30 days (31 – 90 days) past due, where losses have been incurred but have not been identified. These exposures are graded internally as category 2 in line with guidelines issued by banking regulators. A collective allowance for impairment is made to cover losses which have been incurred but have not yet been identified.

Impaired loans and advances

Impaired loans and securities are loans and securities for 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 / securities agreement(s). These loans are graded categories 3 to 5 in the Group's internal credit risk grading system. These accounts under guidelines issued by banking regulators are termed as non-performing loans. The Group establishes a specific allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio.

4) Financial risk management objectives (continued)

a) Credit risk (continued)

III. Concentrations of risk

The Group monitors concentration of risk by economic sector in line with set limits per sector. An analysis of concentrations within the loan and advances to customers, customer deposits and off balance sheet items are as follows:

Loans and advances to customers

	GROUP		BANK	
	2009 %	2008 %	2009 %	2008 %
Wholesale and retail	13	10	11	10
Real estate	4	5	4	5
Agriculture	6	9	6	9
Social, community and personal services	22	29	24	29
Manufacturing	20	19	20	19
Transport and communication	21	19	21	19
Other	14	9	14	9
	100	100	100	100

Customer deposit

	GROUP		BANK	
	2009 %	2008 %	2009 %	2008 %
Co-operative societies	1	-	1	-
Insurance companies	7	12	8	12
Non profit institutions and individuals	26	31	28	31
Private enterprises	66	57	63	57
	100	100	100	100

Contingent liabilities

	GROUP		BANK	
	2009 %	2008 %	2009 %	2008 %
Agriculture	1	-	1	-
Business services	2	2	2	2
Wholesale and retail	14	21	14	21
Transport and communication	7	10	7	10
Manufacturing	30	25	29	25
Other	46	42	47	42
	100	100	100	100

4) Financial risk management objectives (continued)

b) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from financial liabilities. 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 due, and that the Group will not encounter difficulty in meeting obligations from its 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 Group does not maintain cash reserves to meet all its obligations as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

I. Liquidity and funding management

The Group's liquidity and funding policies require;

- The group enters into lending contracts subject to availability of funds.
- Projecting cash flows by major currency and considering the level of liquid assets necessary in relation thereto.
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements.
- Maintaining an array of diverse range of funding sources with back –up facilities.
- Monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensure a satisfactory funding mix.
- Investment in short term liquid instruments, which can easily be sold in the market when the need arises.
- Investments in property and equipment are properly budgeted for and done when the Group has sufficient cash flows.
- Maintaining liquidity and funding contingency plans. These plans must identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises while minimising adverse long-term implications.

II. Source of funding

The Group's major source of funding is from customer deposits. To this end, the Group maintains a diversified and stable funding base comprising of the core retail and corporate customers and Institutional banking clientele. The Group borrows from the inter bank market through transactions with other banks, and from the wholesale markets through transactions with pension funds and insurance companies for short term liquidity requirements.

III. Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers (liquidity ratio). For this purpose, net liquid assets are considered as including cash and cash equivalents and investment 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.

Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and 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 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.

4) **Financial risk management objectives (continued)**

b) **Liquidity risk (continued)**

III. **Exposure to liquidity risk (continued)**

Consolidated data is not utilised in the management of Group liquidity as management is of the opinion the figure will not materially differ from that of the bank.

The average liquidity ratio for the period was 34 % (2008 – 26%).

The table in note 43(b) shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow/(outflow) disclosed in note 43(b) is the contractual, undiscounted cash flow on the financial liability or commitment.

c) **Market risk**

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risks arise from open positions in interest rate, currency and equity products all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Overall responsibility for management of market risk rests with ALCO. The Treasury department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

The management of market risk is supplemented by the monitoring of sensitivity analysis of the key market risk variables. The bank normally uses simulation models to measure the impact of changes in interest rates on net interest income. The key assumption used in these models include expected loan payoffs rates, loan volumes and pricing and changes in market conditions. Those assumptions are based on the best estimates of actual positions. The model cannot precisely predict the actual impact of changes in interest rates on income because these assumptions are highly uncertain.

I. **Interest rate risk**

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 at both fixed and floating rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the Group's exposure to changes in interest rates and liquidity.

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 either pegged to the Group's base lending rate or Treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

Hedging activities are evaluated regularly in line with the average interest rate and the defined risk appetite. Optimal hedging strategies are applied, by positioning the balance sheet or protecting interest expense through different interest rate cycles.

4) Financial risk management objectives (continued)

c) Market risk (continued)

I. Interest rate risk (continued)

Interest rates on customer deposits are negotiated between the Group and the customer with the Group retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Group also invests in fixed interest rate instruments issued by the Government of Kenya through the CBK and by the Government of the Republic of Tanzania through the Bank of Tanzania. The interest rate risk table is found in note 44.

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

Interest rate risk – stress test

The Group monitors the impact of risks associated with effects of fluctuations in prevailing interest rates. At 31 December, 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, assuming a growing balance sheet and current interest rate risk profile.

	2009 Shs'000	2008 Shs'000
125 basis points increases in interest rates	95,220	94,655
125 basis points decrease in interest rates	(121,171)	(102,854)

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

II. Foreign exchange risk

The Group is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The board of directors sets limits on the level of exposure 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 as availed by the banking regulators and should not exceed 20% of the Group's core capital.
- The single currency exposure, irrespective of short or long positions should not exceed the limit of 20% of core capital.
- Intra-day foreign exchange exposures are limited within strictly defined limits by the board of directors.

The table in note 45 summarises the Group's exposure to foreign currency exchange rate risk at 31 December.

Foreign exchange risk – stress test

Foreign currency exchange risks refer to the potential changes in current and future earnings or capital from movement in foreign exchange rates. The Group through stringent intra-day limit and overnight exposure limits ensures that potential risk of loss arising from foreign exchange fluctuations to the bank's capital is within prudential guidelines. Any material over-night position is covered by a stop-loss order with our international counter-parties. As a policy, the closing exposures are more to do with residual positions rather than proprietary positions/transactions.

4) **Financial risk management objectives (continued)**

c) **Market risk (continued)**

II. **Foreign exchange risk (continued)**

Interest rate risk – stress test (continued)

At 31 December, if the functional currencies in the economic environment in which the Group operates in i.e Kenya Shilling and the Tanzania Shilling had weakened / strengthened by 10% against the world’s major currencies, with all other variables held constant, consolidated profit before income tax expense would have been Shs 15 million (2008: Shs 2 million) lower /higher. The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

III. **Price risk**

Shares quoted in the Nairobi Stock Exchange i.e “ Listed shares” are stated at fair value. These values are subject to frequent variations and adverse market movements.

At 31 December, if the prices at the Nairobi Stock Exchange had appreciated/depreciated by 5% with all other variables held constant, the impact on the revaluation reserves would have been Shs 2,099,916 (2008 – Shs 1,661,472) higher/lower. Price fluctuation has no effect on the profit for the year since changes in fair value for listed shares are dealt with in other comprehensive income and accumulated in the revaluation surplus.

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 returns for shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by the regulators within the regions that the Group operate.
- To maintain a strong capital base to support the development of business

The Group’s objective when managing capital is broadly covered under the following headings;

I. **Banking**

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

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

- Tier 1 Capital (Core Capital), which includes Ordinary share capital, share premium and retained earnings. The investment in subsidiary of other financial institutions 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.

4) Financial risk management objectives (continued)

d) Capital management (continued)

I. Banking (continued)

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Tier 1 Capital	6,053,332	5,070,239	5,382,165	5,070,239
Tier 1 + Tier 2 Capital	6,388,555	5,398,487	5,710,608	5,398,487
Risk-weighted assets				
On-balance sheet	35,058,378	32,642,269	33,489,507	32,642,269
Off-balance sheet	4,049,748	3,036,237	3,395,939	3,036,237
Total risk-weighted assets	39,108,126	35,678,506	36,885,446	35,678,506
Basel ratios				
Tier 1	15.48%	14.21%	14.59%	14.21%
Tier 1 + Tier 2	16.34%	14.43%	15.48%	14.43%
Core Capital / Deposit Ratio	15.32%	15.13%	14.60%	15.13%

II. Investment bank and Brokerage

The Capital Markets Authority, which regulates the Investment bank and Brokerage i.e NIC Capital and NIC Capital Securities 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 capital well above the minimum requirement.

	Investment bank Shs'000	Brokerage Shs'000
Minimum Capital	30,000	5,000
Capital held as at:		
31 December 2008	91,663	348,569
31 December 2009	304,956	355,501

4) Financial risk management objectives (continued)

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 levels 1 to 3 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 instruments traded mainly on the Nairobi Stock Exchange.
- ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 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.
- iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability 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.

	Note	GROUP		BANK	
		2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Level 1					
Treasury Bonds					
- fair value through profit and loss	21	767,731	304,698	712,370	304,698
Investment in quoted shares at fair value					
- available for sale financial assets	26(a)	41,998	33,229	-	-
Level 2					
Derivative assets /(liabilities)					
held for risk management	22	1,400	(81,563)	1,400	(81,563)

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

5) Critical accounting estimates and judgements 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 cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a 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(u). 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 derivatives financial instruments

The fair value of derivatives financial instruments that are not quoted in a active market are determined using valuation techniques. When valuation techniques are used, they are periodically validated and reviewed by qualified personnel independent of the area that created them. However, volatilities and correlation require management to make estimates. Changes in assumptions of these factors could affect reported fair value of financial assets.

VI. 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.

VII. 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.

6) Segmental reporting

a) Geographical segments

As at 31 December 2009, with the acquisition of Savings & Finance Commercial Bank with effect from 1 May 2009, the Group operations are within two geographical segments, Kenya and Tanzania. The table below contains segmental information provided to the Group Executive committee of management for the year ended 31 December 2009.

	Kenya Shs'000	Tanzania Shs'000	TOTAL Shs'000
Total operating income	3,676,948	164,130	3,841,078
Profit / (loss) before tax	1,533,774	(6,981)	1,526,793
Profit after tax	1,079,656	6,062	1,085,718
Loans and advances to customers	32,240,281	1,485,738	33,726,019
Customer deposits	36,977,360	2,536,915	39,514,275

b) Business segment

In Kenya, 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 Stock Exchange for 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 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 46.

7) Interest income

	2009	2008
	Shs'000	Shs'000
Finance leases	1,482,372	1,319,962
Loans and advances to customers	2,533,879	2,101,548
Treasury bills - Held to maturity	218,227	215,437
Treasury bonds – Held to maturity	51,432	17,593
Treasury bonds - Fair value through profit or loss	39,950	22,701
Deposits and balances due from banking institutions	99,580	70,060
	4,425,440	3,747,301

8) Interest expense

	2009	2008
	Shs'000	Shs'000
Customer deposits	1,953,450	1,634,944
Line of credit	20,619	36,257
Deposits and balances due to banking institutions	37,307	60,878
	2,011,376	1,732,079

9) Foreign exchange income

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

10) Other operating income

The following items are included in other operating Income.

	2009	2008
	Shs'000	Shs'000
Card Income	62,195	89,878
Custodial Income	40,029	38,993
Brokerage income	22,321	52,767
Rental income	7,614	26,290
Profit on disposal of equipment	1,843	4,948
Bad debt recoveries	45,623	4,971

11) Impairment on loans and advances
a) Specific allowance for impairment

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Balance as at 1 January	621,360	479,883	621,360	479,883
Acquired from subsidiary	74,694	-	-	-
Exchange difference on translation	(3,680)	-	-	-
Charge for the year	468,657	164,395	431,531	164,395
Write-offs	(26,940)	(22,918)	(26,940)	(22,918)
At 31 December	1,134,091	621,360	1,025,951	621,360

b) Collective allowance for impairment

Balance as at 1 January	86,019	55,863	86,019	55,863
(Release) / charge for the year	(5,173)	30,156	(5,173)	30,156
At 31 December	80,846	86,019	80,846	86,019

c) Total allowance for impairment

Balance as at 1 January	707,379	535,746	707,379	535,746
Acquired from subsidiary	74,694	-	-	-
Exchange difference on translation	(3,680)	-	-	-
Charge for the year	463,484	194,551	426,358	194,551
Write-offs	(26,940)	(22,918)	(26,940)	(22,918)
At 31 December	1,214,937	707,379	1,106,797	707,379

12) Employees expenses

The following items are included within staff costs:

Gratuity provision	336	56	260	56
NSSF contributions	4,360	924	1,251	876
Pension costs – defined contribution	66,109	52,087	64,016	51,578

13) General and administrative expenses

The following items are included under this category:

	2009 Shs'000	2008 Shs'000
Auditors' remuneration	4,054	2,954
Directors' emoluments – fees	5,705	5,200
– other	85,495	66,025
Depreciation (note 27)	121,344	102,235
Amortisation of computer software (note 28)	24,854	20,397
Amortisation of operating lease prepayments (note 29)	125	125
Share registrations costs/listing costs	26,758	17,077

14) Income tax expense

a) Taxation charge

	2009 Shs'000	2008 Shs'000
Current tax		
Income tax based on taxable profit for the year at 30%	474,960	463,927
Prior year over provision - current tax	(1,375)	(24)
	473,585	463,903
Deferred tax: credit (note 35)		
Current year	(29,154)	(17,410)
Prior year overprovision	(3,356)	-
	441,075	446,493

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

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

	1,526,793	1,484,174
Profit before income tax		
Income tax calculated at the statutory rate of 30 %	458,038	445,253
Tax effect of expenses not deductible for tax	(9,921)	1,264
Tax effect of revenues that are not taxable	(263)	-
Deferred tax on revaluation	(2,049)	-
Prior year over provision - current tax	(1,375)	(24)
- deferred tax	(3,355)	-
	441,075	446,493

c) Taxation payable / (recoverable) movement

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
At beginning of the year	92,502	90,525	94,724	90,525
Acquired tax asset	(297)	(1,727)	-	-
Exchange difference on translation	(6,683)	-	-	-
Tax charge (note 14 (a))- current year	473,585	463,903	468,308	461,539
Income tax paid	(628,810)	(460,199)	(600,366)	(457,340)
At end of year	(69,703)	92,502	(37,334)	94,724
Comprising				
Current income tax recoverable	(70,563)	(2,264)	(37,334)	-
Current income tax payable	860	94,766	-	94,724
At end of year	(69,703)	92,502	(37,334)	94,724

15) Profit for the year

The company profit for the year dealt with in the separate financial statements of NIC Bank Limited is Shs 1,060,583,000 (2008 – Shs 1,030,047,000).

16) Earnings per share

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

	2009	2008
Profit attributable to equity holders of the parent company (Shs'000)	1,079,117	1,035,763
Weighted average number of ordinary shares		
At 1 January	326,361,621	296,692,383
Effects of bonus shares issued	-	29,669,238
At 31 December	326,361,621	326,361,621
Basic earnings per share	Shs 3.31	Shs 3.18
Diluted earnings per share	Shs 3.31	Shs 3.18

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

In 2009, the company issued bonus shares in the ratio of one bonus share for every ten shares held. The bonus issue was approved by way of ordinary resolution at the Annual General Meeting. Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 2008, the earliest period presented.

Basic earnings per share is calculated by dividing the net profit attributable to equity shareholders of the company by the weighted average number of ordinary shares in issue during the year.

17) Dividends

At the Annual General Meeting scheduled for 12 May 2010, a final dividend in respect of 2009 of Shs 0.25 per share (2008 - Shs 0.25 per share) amounting to a total of Shs 81,590,000 (2008 – Shs 74,173,000) is to be proposed by the directors.

During the year an interim dividend in respect of 2009 of Shs 0.25 per share (2008 - Shs 0.25 per share) amounting to a total of Shs 81,590,000 (2008 – Shs 74,173,000) was paid.

The total estimated dividend for the year to be paid is therefore Shs 0.50 per share (2008 - Shs 0.50 per share) amounting to a total of Shs 163,180,000 (2008 - Shs 148,346,000). 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.

17) Dividends (continued)

GROUP AND BANK

The movement in unclaimed dividends is as follows:

	2009 Shs'000	2008 Shs'000
At 1 January	36,552	30,136
Final dividend declared	74,173	237,354
Interim dividend declared	81,590	74,173
Dividends paid	(148,490)	(305,111)
At 31 December	<u>43,825</u>	<u>36,552</u>

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.

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

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Cash on hand	635,529	492,080	546,664	492,080
Balances with Central Banks				
- Cash ratio requirement	2,052,232	1,689,866	1,776,989	1,689,866
- Balances with Central Banks under repurchase agreements	-	199,864	-	199,864
- Domestic foreign currency clearing deposit	111,143	77,692	111,143	77,692
- Other (available for use by the Group)	955,874	211,360	837,892	211,360
	<u>3,754,778</u>	<u>2,670,862</u>	<u>3,272,688</u>	<u>2,670,862</u>

The cash ratio requirement is non interest bearing and is based on the customer deposits with the bank as adjusted by the regulatory requirements. As at 31 December 2009 the cash ratio requirement in Kenya was 4.5% (2008 – 5%) and in Tanzania 10% of eligible deposits. These funds are not available for the day to day operations of the Group.

19) Items in the course of collection

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Clearing account balance	197,149	567,924	155,876	567,924
Settlement account	-	7,720	-	-
	<u>197,149</u>	<u>575,644</u>	<u>155,876</u>	<u>567,924</u>

20) Deposits and balances due from banking institutions

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Balances due from banking institutions	4,350,158	3,137,712	3,271,083	3,137,712
Deposits due from banking institutions	586,458	958,139	785,218	955,826
	4,936,616	4,095,851	4,056,301	4,093,538

The weighted average effective interest rate for deposits due from banking institutions at 31 December 2009 was 4.2% (2008 – 3.2%).

21) Government securities

a) Government securities are categorized as follows:

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Treasury bills – Held to maturity	2,559,798	3,232,734	2,141,182	3,232,734
Treasury bonds – Held to maturity	1,004,551	437,486	1,004,551	437,486
Treasury bonds – Fair value through profit or loss	767,731	304,698	712,370	304,698
	4,332,080	3,974,918	3,858,103	3,974,918

b) The maturity profile of Government securities is as follows:

Treasury bills - Held to maturity				
Maturing within 90 days of the date of acquisition	418,616	1,689,330	-	1,689,330
Maturing after 90 days of the date of acquisition	2,141,182	1,543,404	2,141,182	1,543,404
	2,559,798	3,232,734	2,141,182	3,232,734
Treasury bonds - Held to maturity				
Maturing within one year	-	70,251	-	70,251
Maturing after one year	1,004,551	367,235	1,004,551	367,235
	1,004,551	437,486	1,004,551	437,486

21) Government securities (continued)

b) The maturity profile of Government securities is as follows: (continued)

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Treasury Bonds- Fair value through profit or loss				
Maturing within one year	55,361	-	-	-
Maturing between two to five years	199,113	304,698	199,113	304,698
Maturing after 5 years	513,257	-	513,257	-
	767,731	304,698	712,370	304,698
Total	4,332,080	3,974,918	3,858,103	3,974,918

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

	GROUP		BANK	
	2009 %	2008 %	2009 %	2008 %
Treasury Bills – Held to maturity	7.75	8.53	7.99	8.53
Treasury Bonds - Held to maturity	8.73	9.60	9.35	9.60
Treasury Bonds - Fair value through profit or loss	7.95	10.92	9.66	10.92

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

22) Derivatives assets / liabilities held for risk management

The amount represents the fair value of forward foreign exchange contracts. These derivative assets and liabilities are measured at fair value through profit or loss.

23) Loans and advances to customers

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Finance lease receivables	10,708,632	9,500,455	10,708,632	9,500,455
Personal loans	5,769,171	4,121,505	5,769,171	4,121,505
Commercial loans	17,226,844	16,611,446	15,741,106	16,611,446
Bills discounted	21,372	428,921	21,372	428,921
Gross loans and advances	33,726,019	30,662,327	32,240,281	30,662,327
Provisions for impairment of loans and advances				
Specific allowance	1,134,091	621,360	1,025,951	621,360
Collective allowance	80,846	86,019	80,846	86,019
	1,214,937	707,379	1,106,797	707,379
Net loans and advances	32,511,082	29,954,948	31,133,484	29,954,948

Included in the net advances of Shs 32,511,082,000 (2008 - Shs 29,954,948,000) are loans and advances amounting to Shs 414,179,000 (2008 - Shs 410,628,000) net of specific provisions, which have been classified as non-performing. Finance lease receivables, may be analysed as follows:

GROUP AND BANK	2009 Shs'000	2008 Shs'000
Gross investment in finance leases		
Not later than 1 year	1,761,716	957,696
Later than 1 year and not later than 5 years	8,118,265	8,576,888
Over 5 years	855,240	1,747
	10,735,221	9,536,331
Unearned future finance income on finance leases	[26,589]	[35,876]
Present value of minimum lease payments receivable	10,708,632	9,500,455

The 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 (2008: nil).

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

GROUP AND BANK	2009 %	2008 %
Finance lease receivables	15.30	15.21
Personal loans	14.06	14.63
Commercial loans	12.11	13.41
Bills discounted	7.08	10.67

NOTES TO THE FINANCIAL STATEMENTS (continued)

24) Other assets

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Prepayments	65,930	90,088	58,513	89,593
Other receivables	102,849	81,234	96,490	77,549
Trade receivables	21,743	32,928	-	-
	<u>190,522</u>	<u>204,250</u>	<u>155,003</u>	<u>167,142</u>

25) Amounts due from Group companies

	BANK	
	2009 Shs'000	2008 Shs'000
NIC Capital Limited	-	262,598
NIC Capital Securities Limited	2,268	-
NIC Insurance Agents Limited	78	-
	<u>2,346</u>	<u>262,598</u>

26) Investments

a) Other investments (GROUP AND BANK)

Available-for-sale

Investment in quoted shares at fair value
Investment in an unquoted equity security

Investment in quoted shares at fair value	41,998	33,229
Investment in an unquoted equity security	1,000	1,000
	<u>42,998</u>	<u>34,229</u>

The movement in investments is as follows:

At start of year	34,229	157,138
Reclassification to subsidiary	-	(157,138)
Acquisition – unquoted security	-	1,000
Additions at cost - Investment in quoted shares	-	46,152
Changes in fair value – Investment in quoted shares (note 36 (b))	8,769	(12,923)
At end of year	<u>42,998</u>	<u>34,229</u>

In 2007, the bank, through its subsidiary, NIC Capital Limited acquired controlling interest in the former Solid Investment Securities Limited, now renamed NIC Capital Securities Limited (NICCS) with effective control being passed on 1 January 2008. The financial statements of NICCS were therefore consolidated effective 1 January 2008, together with other subsidiaries which are all domiciled and incorporated in Kenya.

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

26) Investments (continued)

b) Investment in subsidiary companies

BANK

	Principal Activity	Holding %	COST	
			2009 Shs'000	2008 Shs'000
Savings & Finance Commercial Bank	Banking	51%	596,285	-
NIC Capital	Financial advisory	100%	500,000	227,165
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
			<u>1,147,786</u>	<u>278,666</u>

All the subsidiary companies have their financial year ending 31 December and are incorporated as limited liability companies. Except for Savings & Finance Commercial Bank 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 with effective control being passed on 1 May 2009. The audited financial statements show that the company made a post acquisition profit for the eight months period ended 31 December 2009 of Shs 12,370,000.

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 (2008 - Shs nil).

Mercantile Finance Company Limited did not trade during the year ended 31 December 2009. 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 (2008 - Shs nil).

The African Mercantile Banking Company Limited did not trade during the year ended 31 December 2009. The audited financial statements show that the company made no profit or loss for the year (2008 - Sh nil).

NIC Capital Limited was established in 2005 to offer investment banking services. The audited financial statements for the year ended 31 December 2009 show that the company made a profit of Shs 4,525,000 (2008 – profit of Shs 2,168,000).

NIC Capital Limited (NICCL) acquired 57.66% of NIC Capital Securities Limited (NICCSL) with effective control being passed on 1 January 2008. Subsequently, substantially through rights issues, the holding by NICCL in NICCSL has increased to 91.3%. NICCSL offers brokerage services and is a registered broker with the Nairobi Stock Exchange. The audited financial statements for the year ended 31 December 2009 show that the company made a profit of Shs 6,931,000 (2008 – profit of Shs 5,158,000).

NIC Insurance Agents Limited, formerly known as Finance Services (Insurance Agents) Limited was a 68% subsidiary of Mercantile Finance Company Limited (MFC). In 2008, NIC Bank Limited acquired the non-controlling interest and now directly owns 100% of the company. The company offers Banc assurance services. The audited financial statements for the year ended 31 December 2009 show that the company made a profit of Shs 1,312,000 (2008 – profit of Shs 309,000).

27) 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 2008	315,665	535,687	18,053	37,257	906,662
Additions	-	49,394	6,795	103,564	159,753
Transfers	-	108,266	-	(108,266)	-
On acquisition of subsidiary	-	2,918	-	-	2,918
Surplus on revaluation	54,335	-	-	-	54,335
Disposals	-	(7,797)	(9,985)	-	(17,782)
At 1 January 2009	370,000	688,468	14,863	32,555	1,105,886
Additions	-	203,377	9,395	7,792	220,564
Transfers	-	37,269	-	(37,269)	-
On acquisition of subsidiary	-	42,902	5,334	-	48,236
Translation adjustments	-	(666)	(222)	-	(888)
Disposals	-	(11,273)	(2,748)	-	(14,021)
At 31 December 2009	370,000	960,077	26,622	3,078	1,359,777
Comprising:					
Cost	144,617	960,077	26,622	3,078	1,134,394
Valuation - 2008	225,383	-	-	-	225,383
	370,000	960,077	26,622	3,078	1,359,777
DEPRECIATION					
At 1 January 2008	45,524	340,063	14,262	-	399,849
On acquisition of subsidiary	-	-	688	-	688
Charge for the year	7,892	92,635	1,708	-	102,235
Write back on revaluation	(53,416)	-	-	-	(53,416)
Eliminated on disposals	-	(7,590)	(9,877)	-	(17,467)
At 31 December 2009	-	425,108	6,781	-	431,889
At 1 January 2009	-	425,108	6,781	-	431,889
On acquisition of subsidiary	-	16,152	4,710	-	20,862
Translation adjustments	-	487	128	-	615
Charge for the year	11,212	107,142	2,990	-	121,344
Eliminated on disposals	-	(10,512)	(2,676)	-	(13,188)
At 31 December 2009	11,212	538,377	11,933	-	561,522
NET BOOK VALUE					
At 31 December 2009	358,788	421,701	14,689	3,078	798,255
At 31 December 2008	370,000	263,360	8,082	32,555	673,997

Buildings were revalued at Shs 370 million as at 31 December 2008 by registered, independent valuers, Knight Frank Limited on an open market value basis by reference to market evidence of recent transactions for similar properties. At 31 December 2009, the net book value of buildings based on original cost was Shs 117,738,000 (2008 - Shs 121,135,000).

Included in motor vehicles and furniture, fittings and equipment are assets with a cost of Shs 319,164,165 (2008 - Shs 295,312,706) which were fully depreciated. The normal depreciation charge on these assets would have been Shs 70,598,376 (2008 - Shs 64,766,851). Computers are included under furniture, fittings and equipment. Work in progress relates to the ongoing branch expansion program into Meru Municipality.

27) 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 2008	315,665	535,687	18,053	37,257	906,662
Additions	-	49,394	6,795	103,564	159,753
Transfers	-	108,266	-	(108,266)	-
Disposals	-	(7,797)	(9,985)	-	(17,782)
Surplus on revaluation	54,335	-	-	-	54,335
At 1 January 2009	370,000	685,550	14,863	32,555	1,102,968
Additions	-	206,137	1,974	7,792	215,903
Transfers	-	37,269	-	(37,269)	-
Disposals	-	(11,273)	(2,748)	-	(14,021)
	370,000	917,683	14,089	3,078	1,304,850
Comprising:					
Cost	144,617	917,683	14,089	3,078	1,079,467
Valuation – 2008	225,383	-	-	-	225,383
	370,000	917,683	14,089	3,078	1,304,850
DEPRECIATION					
At 1 January 2008	45,524	340,063	14,262	-	399,849
Charge for the year	7,892	91,924	1,662	-	101,478
Write back on revaluation	(53,416)	-	-	-	(53,416)
Eliminated on disposals	-	(7,590)	(9,143)	-	(16,733)
At 31 December 2008	-	424,397	6,781	-	431,178
At 1 January 2009	-	424,397	6,781	-	431,178
Charge for the year	11,212	104,293	2,006	-	117,511
Eliminated on disposals	-	(10,512)	(2,676)	-	(13,188)
	11,212	518,178	6,111	-	535,501
NET BOOK VALUE					
	358,788	399,505	7,978	3,078	769,349
	370,000	261,153	8,082	32,555	671,790

Buildings were revalued at Shs 370 million as at 31 December 2008 by registered, independent valuers, Knight Frank Limited on an open market value basis by reference to market evidence of recent transactions for similar properties. At 31 December 2009, the net book value of buildings based on original cost was Shs 117,738,000 (2008 – Shs 121,135,000).

Included in motor vehicles and furniture, fittings and equipment are assets with a cost of Shs 304,803,088 (2008 – Shs 295,312,706) which were fully depreciated. The normal depreciation charge on these assets would have been Shs 68,869,844 (2008 – Shs 64,766,851). Computers are included under furniture, fittings and equipment. Work in progress relates to the ongoing branch expansion program into Meru Municipality.

28) Intangible assets

	Note	GROUP		BANK	
		2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Computer software	28(a)	66,280	53,910	57,893	53,910
Goodwill	28(b)	375,426	119,371	-	-
NSE Licence	28(c)	251,000	251,000	-	-
		692,706	424,281	57,893	53,910

Details of the intangible assets are as follows:

a) Computer software
COST

At 1 January	188,962	159,858	188,962	159,858
On acquisition of subsidiary	795	-	-	-
Translation adjustments	(531)	-	-	-
Additions	37,225	29,104	28,444	29,104
At 31 December	226,451	188,962	217,406	188,962

AMORTISATION

At 1 January	135,052	114,655	135,052	114,655
On acquisition of subsidiary	265	-	-	-
Charge for the year	24,854	20,397	24,461	20,397
At 31 December	160,171	135,052	159,513	135,052

NET BOOK VALUE

At 31 December	66,280	53,910	57,893	53,910
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b) Goodwill

At 1 January	119,371	-		
On acquisition of NIC Capital Securities Limited	39(a)	-	119,371	
On purchase of additional shares in NIC Capital Securities Limited	39(a)	4,059	-	
On acquisition of Savings and Finance Commercial Bank Limited	39(b)	251,996	-	
At 31 December	375,426	119,371		

Goodwill is reviewed annually for impairment or more frequently when there are indications that impairment may have occurred. There was no impairment identified in 2009 (2008: Shs nil).

28) Intangible assets (continued)

	2009 Shs'000	2008 Shs'000
c) NSE Licence	<u>251,000</u>	<u>251,000</u>

The above licence refers to the seat at the Nairobi Stock Exchange held by the Group through NIC Capital Securities Limited. The license has an indefinite useful life and is not amortised but 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.

29) Operating lease prepayments – Leasehold land

GROUP AND BANK

	2009 Shs'000	2008 Shs'000
COST		
At 31 December	<u>10,000</u>	<u>10,000</u>
AMORTISATION		
At 1 January	2,125	2,000
Charge for the year	125	125
At 31 December	<u>2,250</u>	<u>2,125</u>
NET BOOK VALUE	<u>7,750</u>	<u>7,875</u>

30) Customer deposits

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Current accounts	12,723,823	8,577,185	12,097,064	8,577,185
Savings accounts	1,515,384	2,806,009	1,011,510	2,806,009
Call deposits	4,084,115	4,255,052	2,709,443	4,255,052
Fixed deposits	21,070,658	19,503,419	21,039,049	19,503,419
Other	120,295	96,716	120,294	96,716
	<u>39,514,275</u>	<u>35,238,381</u>	<u>36,977,360</u>	<u>35,238,381</u>

31) Deposits and balances due to banking institutions

Maturing within 90 days:

Deposits due to banking institutions	<u>56,767</u>	<u>4,843</u>	-	<u>4,843</u>
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The weighted average effective interest rate for deposits due to banking institutions at 31 December 2009 is 3.5% (2008 – 5.3%).

32) Line of credit

GROUP AND BANK

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 2009, the amount outstanding was US \$ 6,139,663 (2008 – US \$ 8,503,525).

	2009 Shs'000	2008 Shs'000
Maturity		
Payable within one year	210,336	219,383
Payable after one year and within three years	218,472	342,900
Payable after three years	36,394	100,992
	465,202	663,275

The weighted average effective interest rate on the line of credit at 31 December 2009 was 3.5% (2008 – 5.2%).

33) Amounts due to group companies

BANK

	2009 Shs'000	2008 Shs'000
Deposits held		
- NIC Capital Limited	11,522	38,401
- Mercantile Finance Company Limited	5,210	5,210
- NIC Capital Securities Limited	163,886	204,197
- NIC Insurance Agents Limited	1,452	585
Other payables		
- Mercantile Finance Company Limited	42,020	42,020
	224,090	290,413

34) Other liabilities

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Bills payable	192,001	343,783	177,190	343,783
Other payables and accruals	349,566	393,586	274,400	365,311
Legal and other claims	52,389	83,788	24,980	20,000
Trade payables	51,551	76,402	-	-
Leave pay provision	20,900	14,293	15,653	13,881
	666,407	911,852	492,223	742,975

Claims relate substantially to a provision for charges brought against the group by customers of the brokerage subsidiary, NIC Capital 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 2009.

35) Deferred tax (asset) / liability

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

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Assets:				
Leave pay provision	(4,954)	(4,288)	(4,696)	(4,164)
Accelerated capital allowances	(26,598)	(22,428)	(26,293)	(22,386)
Collective allowance for impairment	(28,249)	(25,806)	(24,254)	(25,806)
Tax losses	(17,790)	-	-	-
	(77,591)	(52,522)	(55,243)	(52,356)
Liabilities:				
Unrealized exchange gains	6	-	-	-
Revaluation surplus	73,894	74,659	73,894	74,659
	(3,691)	22,137	18,651	22,303
Movement in net deferred tax is as follows:				
As at 1 January	22,138	7,222	22,303	7,319
Acquired from subsidiary	(2,042)	-	-	-
Exchange differences on translation	8,723	-	-	-
Credited directly to revaluation surplus (note 36(b))	-	32,325	-	32,325
Income statement credit (note 14 (a))- current year	(29,154)	(17,410)	(3,652)	(17,341)
Income statement credit (note 14 (a))- prior year	(3,356)	-	-	-
At 31 December	(3,691)	22,137	18,651	22,303
Comprising:				
Deferred tax asset	(22,342)	-	-	-
Deferred tax liability	18,651	22,137	18,651	22,303
At 31 December	(3,691)	22,137	18,651	22,303

36) Share capital and reserves

(a) Share Capital and Share Premium

GROUP AND BANK	Number of shares	Share	Share
		capital Shs'000	premium Shs'000
Balance at 1 January 2009	296,692,384	1,483,462	340,946
Bonus issue	29,669,238	148,346	(148,346)
Balance at 31 December 2009	326,361,622	1,631,808	192,600
Balance at 31 December 2008	296,692,384	1,483,462	340,946

36) Share capital and reserves (continued)

(a) Share Capital and Share Premium (continued)

As at 31 December 2009 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 2009 are 326,361,622 (2008: 296,692,384) and are fully paid.

During the year, the company capitalized the sum of Sh 148,346,190 from the credit of the 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 last Annual General Meeting.

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.

(b) Revaluation surplus

		GROUP Available - for- sale investments Shs'000	Total Shs'000	BANK Building Revaluation Shs'000
	Note	Building Revaluation Shs'000		
As at 1 January 2008		101,775	-	101,775
Transfer of excess depreciation		(4,276)	-	(4,276)
Deferred tax on excess depreciation		1,283	-	1,283
Changes in fair value on available for sale financial assets	26(a)	-	(12,923)	-
Surplus on revaluation		107,750	-	107,750
Deferred tax on revaluation surplus	35	(32,325)	-	(32,325)
As at 31 December 2008		174,207	(12,923)	174,207
Transfer of excess depreciation		(6,830)	-	(6,830)
Deferred tax on excess depreciation		2,049	-	2,049
Changes in fair value on available for sale financial assets	26(a)	-	8,769	-
As at 31 December 2009		169,426	(4,154)	165,272

(c) Statutory reserve

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. These reserves are not distributable.

(d) Translation reserve

The reserve represents exchange differences arising from translation of the net assets of the Group's foreign operation (Savings & Finance Commercial Bank) from their functional currency (Tanzania Shillings) to the Group's presentation currency (Kenya Shillings). These differences are recognised directly in other comprehensive income and accumulated in the foreign currency translation reserve. The Group acquired effective control of Savings & Finance Commercial Bank on 1 May 2009.

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

(a) Contingent liabilities

	GROUP		BANK	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Letters of credit	2,685,558	1,303,084	2,539,359	1,303,084
Letters of guarantee and performance bonds	4,377,451	4,391,968	4,299,236	4,391,968
	7,063,009	5,695,052	6,838,595	5,695,052

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 prepayment

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:

	2009 Shs'000	2008 Shs'000
Within one year	1,194	1,801
In the second to fifth year inclusive	4,774	199
	5,968	2,000

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 outstanding commitments under operating leases which fall due as follows:

	2009 Shs'000	2008 Shs'000
Within one year	1,836	50,483
In the second to fifth year inclusive	100,983	115,837
	102,819	166,320

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

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

(c) Capital commitments

	2009 Shs'000	2008 Shs'000
Authorised and contracted for	-	103,752
Authorised but not contracted for	251,792	268,232
	<u>251,792</u>	<u>371,984</u>

(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 consolidated statement of cashflows

(a) Cash generated from operations

	2009 Shs'000	2008 Shs'000
Reconciliation of profit before taxation to cash (used in)/ generated from operations		
Profit before taxation	1,526,793	1,484,175
Adjustments for:		
Depreciation	121,344	102,235
Amortisation of operating lease prepayments	125	125
Amortisation of intangible assets	24,854	20,397
Profit on sale of equipment	(1,843)	(4,948)
Profit before working capital changes	1,671,273	1,601,984
Increase in balances with Central Banks (cash ratio requirement)	(125,484)	(255,892)
Increase in balances with Central Bank of Kenya (Domestic Foreign Currency Clearing Deposit)	(33,451)	(49,955)
Increase in loans and advances to customers	(920,464)	(7,745,762)
Increase in Treasury bonds – held to maturity	(1,030,098)	(437,486)
Increase in Treasury bonds – fair value through profit or loss	-	(304,698)
Increase in Treasury bills maturing after 90 days	(656,187)	(74,664)
Net movement in derivatives held for risk management	(82,963)	168,746
Decrease in other assets	20,172	22,063
Increase in customer deposits	1,598,308	10,432,786
Decrease in other liabilities	(460,132)	(192,217)
(Decrease) / increase in line of credit	(198,073)	13,175
Cash (used in)/ generated from operations	<u>(217,099)</u>	<u>3,178,080</u>

38) Notes to the consolidated statement of cashflows (continued)

(b) Cash and cash equivalents

	2009 Shs'000	2008 Shs'000
Analysis of balances of cash and cash equivalents as shown in the consolidated statement of financial position and notes		
Cash on hand	635,529	492,080
Balance with Central Bank of Kenya under repurchase agreement	-	199,864
Balance with Central Banks – other	955,874	211,360
Treasury bills (maturing within 90 days)	418,616	1,689,330
Deposits and balances due from banking institutions	4,936,616	4,095,851
Items in course of collection	197,149	575,644
Deposits and balances due to banking institutions	(56,767)	(4,843)
	7,087,017	7,259,286

(c) Proceeds from sale of equipment

Disposal at cost (note 27)	14,021	17,782
Depreciation eliminated on disposal (note 27)	(13,188)	(16,733)
Profit on disposal of equipment (note 10)	1,843	4,948
	2,676	5,997

39) Business combinations

a) Brokerage

On 31 December 2007, the bank acquired 57.7% of NIC Capital 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 has increased its share of the subsidiary to 91.3% (2008: 88.3%).

i. Purchase consideration

	2009 Shs'000	2008 Shs'000
Purchase consideration	14,949	423,421
Fair value of net assets acquired	10,890	304,050
	4,059	119,371

Goodwill is attributable to the acquisition of NIC Capital Securities Limited, one of the brokerage companies in the country. The brokerage company has a seat in the Nairobi Stock Exchange which gives the group the right to directly deal and trade on the bourse.

39) Business combinations (continued)

a) Brokerage (continued)

II. Acquisition of subsidiary, net of cash used

	2009 Shs'000	2008 Shs'000
Fair value of net assets	345,869	345,329
Non-controlling interest	(30,929)	(41,279)
Goodwill	123,430	119,371
Total purchase consideration	438,370	423,421
Purchase consideration settled in cash	438,370	423,421
Less: amounts paid out in prior years	(423,421)	(157,138)
Cash and cash equivalents in acquired subsidiary	-	(204,160)
Cash outflow on acquisition	14,949	62,123

III. Non-controlling interest

At 1 January	41,279	39,361
On purchase of additional shares in NIC Capital Securities	(10,890)	-
Share of profit	540	1,918
At 31 December	30,929	41,279

b) Savings and Finance Commercial Bank

On 1 May 2009, the Group acquired a 51% stake in one of Tanzania's mid-sized commercial bank, Savings & Finance Commercial Bank Limited (S&F). S&F 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.

I. Purchase consideration

	2009 Shs'000
Purchase consideration	561,475
Direct costs relating to the acquisition	34,810
Total purchase consideration	596,285
Fair value of net assets acquired	
Cash and cash equivalents	993,161
Loans and advances to customers	870,488
Other assets	19,722
Customers deposits	(1,380,762)
Other liabilities	(158,320)
	344,289
Goodwill (note 28(b))	251,996

39) Business combinations (continued)**b) Savings and Finance Commercial Bank (continued)****I. Purchase consideration (continued)**

The Goodwill arising from this acquisition is attributable to the expected benefits of providing to our regionally and internationally connected businesses and individuals a regional branch presence.

II. Acquisition of subsidiary, net of cash used

	2009
	Shs'000
Fair value of net assets	675,076
Non-controlling interest	(330,787)
Goodwill	251,996
Total purchase consideration	596,285
Purchase consideration settled in cash	596,285
Cash and cash equivalents in acquired subsidiary	(1,688,477)
Cash inflow on acquisition	(1,092,192)

III. Non-controlling interest

On acquisition of subsidiary	330,787
Share of post acquisition profit	6,062
At 31 December	336,849

c) Total non-controlling interest

	2009	2008
	Shs'000	Shs'000
At 1 January	41,279	-
On acquisition of Savings and Finance Commercial Bank	330,787	-
On acquisition of NIC Capital Securities	-	39,361
On acquisition of additional share capital in NIC Capital Securities	(10,886)	-
Share of profit for the year	6,601	1,918
At 31 December	367,781	41,279

The total non controlling interest consists of equity interest in subsidiaries not attributable to the parent company in:

	2009		2008	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
Savings & Finance Commercial Bank	49.0	336,852	-	-
NIC Capital Securities	8.7	30,929	11.7	41,279
At 31 December		367,781		41,279

39) Business combinations (continued)

d) Total Goodwill

	Note	2009 Shs'000	2008 Shs'000
At 1 January		119,371	-
On acquisition of additional share capital in NIC Capital Securities	39(a)	4,059	-
On acquisition of NIC Capital Securities		-	119,371
On acquisition of Savings and Finance Commercial Bank	39(b)	251,996	-
At 31 December		375,426	119,371

The total goodwill consists of equity interest held by the group in:

	2009		2008	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
Savings & Finance Commercial Bank	51.0	251,996	-	-
NIC Capital Securities	91.3	123,430	88.3	119,371
At 31 December		375,426		119,371

40) 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.

Placements are made in the bank by staff, directors, their associates and companies associated with directors. Advances to customers include advances and loans to staff and to companies associated with directors. Contingent liabilities include guarantees and letters of credit for companies associated with directors.

	Companies Associated to directors		Employees / Staff	
	2009 Shs'000	2008 Shs'000	2009 Shs'000	2008 Shs'000
Loans and advances to customers:				
At 1 January	444,408	326,860	300,014	233,913
Net movement during the year	352,405	117,548	90,305	66,101
At 31 December	796,813	444,408	390,319	300,014
Interest earned	50,507	56,795	25,533	25,483

These loans and advances are performing and are adequately secured.

40) Related party transactions (continued)

	Companies Associated to directors		Employees / Staff	
	2009	2008	2009	2008
	Shs'000	Shs'000	Shs'000	Shs'000
Customer deposits:				
At 1 January	4,501,976	3,534,295	50,487	29,307
Net movement during the year	284,098	967,681	31,438	21,180
At 31 December	4,786,074	4,501,976	81,925	50,487
Interest paid	276,324	209,246	2,910	1,932
Guarantees and letters of credit to companies associated with directors	325,078	302,205	-	-

Other amounts outstanding at the end of the reporting period are disclosed in notes 25 and 33.

Key management compensation

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

	2009 Shs'000	2008 Shs'000
Salaries and other benefits	318,154	239,097
Directors' remuneration		
Fees for services as directors	5,705	5,200
Other emoluments (included in key management compensation above)	85,495	66,025
	91,200	71,225

41) Assets pledged as security

As at 31 December 2009, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities (2008: Sh nil).

42) Fiduciary activities

The bank holds asset security documents on behalf of customers with a value of Shs 23,403,759,517. (2008 – Shs 19,505,377,920). These securities are held by the custody services department and comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others.

NOTES TO THE FINANCIAL STATEMENTS (continued)

43) Liquidity risk	a) Liquidity risk	2009							Total Shs'000
		Upto 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		
FINANCIAL ASSETS									
	Cash and balances with Central Banks	2,313,851	848,729	467,467	13,588	-	111,143	-	3,754,778
	Items in the course of collection	197,149	-	-	-	-	-	-	197,149
	Deposits and balances due from banking institutions	4,384,078	171,740	380,798	-	-	-	-	4,936,616
	Government securities	-	78,712	2,820,817	806,262	99,253	527,035	-	4,332,079
	Derivative assets held for risk management	1,400	-	-	-	-	-	-	1,400
	Loans and advances to customers	4,015,781	1,988,046	8,931,499	9,167,794	5,569,872	2,838,090	-	32,511,083
	Total assets	10,912,259	3,087,227	12,600,581	9,987,644	5,669,126	3,476,268	-	45,733,105
FINANCIAL LIABILITIES									
	Customer deposits	17,205,549	17,090,656	5,134,008	84,062	-	-	-	39,514,275
	Deposits and balances due to banking institutions	56,767	-	-	-	-	-	-	56,767
	Line of credit	29,952	-	180,384	218,472	36,394	-	-	465,202
	Total liabilities	17,292,268	17,090,656	5,314,392	302,534	36,394	-	-	40,036,244
	Net liquidity gap	(6,380,009)	(14,003,429)	7,286,189	9,685,110	5,632,732	3,476,268	-	5,696,861
2008									
	Total assets	10,918,146	4,795,599	10,158,942	9,058,596	5,012,342	1,328,598	-	41,272,223
	Total liabilities	15,854,083	16,475,458	3,270,325	381,970	100,992	-	-	36,082,828
	Net liquidity gap	(4,935,937)	(11,679,859)	6,888,617	8,676,626	4,911,350	1,328,598	-	5,189,395

43) Liquidity risk (continued)	2009						
	Undiscounted cash flow	Upto 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	17,793,405	17,660,345	5,647,408	113,694	-	41,214,852	
Line of credit	30,078	-	186,715	241,477	40,226	498,496	
Total financial liabilities	17,823,483	17,660,345	5,834,123	355,171	40,226	41,713,348	
FINANCIAL ASSETS							
Deposits and balances due from banking institutions	4,771,013	172,285	385,634	-	-	5,328,932	
Government securities	-	81,577	3,128,850	1,070,393	153,445	4,434,265	
Loans and advances to customers	4,084,399	2,063,644	9,959,199	13,169,112	11,680,763	40,957,112	
Total financial assets	8,855,412	2,317,506	13,473,683	14,239,505	11,834,208	50,720,314	
Net liquidity gap	(8,968,071)	(15,342,839)	7,639,560	13,884,334	11,793,982	9,006,966	
2008							
Financial liabilities	15,915,082	17,801,473	3,425,502	438,640	116,807	37,697,504	
Financial assets	9,538,842	4,138,566	10,847,523	12,365,286	9,016,953	45,907,170	
Net liquidity gap	6,376,240	13,662,907	(7,422,021)	(11,926,646)	(8,900,146)	(8,209,666)	

NOTES TO THE FINANCIAL STATEMENTS (continued)

44) Interest rate risk

	2009						Total Shs'000
	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	Non -interest Bearing Shs'000	
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	3,754,778	3,754,778
Items in the course of collection	-	-	-	-	-	197,149	197,149
Deposits and balances due from banking institutions	4,384,078	171,740	380,798	-	-	-	4,936,616
Government securities	-	78,712	2,820,817	806,263	626,288	-	4,332,080
Derivative assets held for risk management	1,400	-	-	-	-	-	1,400
Loans and advances to customers	31,858,102	51,795	464,735	136,450	-	-	32,511,082
Total financial assets	36,243,580	303,247	3,666,350	942,713	626,288	3,951,927	45,733,105
FINANCIAL LIABILITIES							
Customer deposits	5,107,475	17,090,656	5,134,008	84,062	-	12,098,074	39,514,275
Line of credit	403,383	-	-	34,052	27,767	-	465,202
Total financial liabilities	5,510,858	17,090,656	5,134,008	118,114	27,767	12,098,074	39,979,477
Interest rate sensitivity gap	30,732,722	(16,788,409)	(1,467,658)	824,599	598,521	(8,146,147)	5,753,628
2008							
Total financial assets	34,857,071	661,624	1,964,702	430,925	258,681	3,099,220	41,272,223
Total financial liabilities	9,998,879	16,480,301	3,158,589	39,070	-	6,311,223	35,988,062
Interest rate sensitivity gap	24,858,192	(15,818,677)	(1,193,887)	391,855	258,681	(3,212,003)	5,284,161

45) Foreign exchange (currency) risk

	2009					2008				
	GBP Shs'000	USD Shs'000	EURO Shs'000	OTHERS Shs'000	TOTAL Shs'000					
FINANCIAL ASSETS										
Cash and balances with Central Banks	130,677	454,046	79,582	24,163	688,469					
Deposits and balances due from banking institutions	391,427	2,256,765	760,827	458,695	3,867,713					
Loans and advances to customers	270,533	8,078,986	185,480	-	8,534,999					
Other assets	124,866	377,233	54,963	1,756	558,818					
Total financial assets	917,503	11,167,031	1,080,852	484,614	13,649,999					
FINANCIAL LIABILITIES										
Customer deposits	777,748	6,634,474	791,997	8,114	8,212,062					
Deposits due to banking institutions	-	-	-	-	-					
Other liabilities	16,585	21,159	4,515	2,700	44,959					
Line of credit	-	403,383	61,819	-	465,202					
Total financial liabilities	794,063	7,059,016	858,331	10,814	8,722,223					
Net balance sheet position	123,440	4,108,015	222,521	473,800	4,927,776					
Off balance sheet position	(121,634)	(3,887,537)	(210,402)	(458,695)	(4,678,268)					
FINANCIAL ASSETS										
Total financial assets	733,183	8,700,821	746,187	767,493	10,947,684					
Total financial liabilities	748,366	5,735,935	765,567	24,671	7,274,539					
Net balance sheet position	(15,183)	2,964,886	(19,380)	742,822	3,673,145					
Off balance sheet position	-	(2,924,897)	-	(709,967)	(3,634,864)					

NOTES TO THE FINANCIAL STATEMENTS (continued)

46) Segmental reporting – by business segments

	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
2009											
Total operating income	1,657,560		473,388		742,690		704,790		262,650		3,841,078
Profit before tax and impairment allowances	951,132		247,251		293,905		458,038		39,951		1,990,276
Loans and advances	20,474,881		-		3,330,225		8,435,175		1,485,738		33,726,019
Customer deposits	28,157,135		-		8,820,225		-		2,536,915		39,514,275
2008											
Total operating income	1,377,194		397,859		789,893		573,757		125,750		3,164,453
Profit before tax and impairment allowances	873,849		156,859		310,487		325,441		12,119		1,678,726
Loans and advances	17,040,367		-		4,121,505		9,500,455		-		30,662,327
Customer deposits	27,073,895		-		8,165,486		-		-		35,238,381

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.

Notice is hereby given that the fiftieth Annual General Meeting of the shareholders of NIC Bank Limited will be held at the Kenyatta International Conference Centre (KICC), Nairobi on Wednesday 12th May 2010, at 11.00 am for the following purposes:-

1. To receive, consider and if thought fit, adopt the Financial Statements for the year ended 31st December 2009 and the Directors' and Auditors' Reports thereon.
2. To confirm the payment of the interim dividend of 5% (Shs 0.25 per share) paid on 2 October, 2009 and to approve the payment of a final dividend of Shs 0.25 (2008 Shs 0.25 per share) on the paid up capital of Shs 1,631,808,110.
3. To approve the payment of fees to the Directors for the year ended 31st December 2009.
4. 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.

5. To elect Directors:

- i. In accordance with Articles 97 of the Company's Articles of Association, P V Shah who was appointed to the Board since the last Annual General Meeting, retires from office and, being eligible, offers himself for re-election.
- ii. 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:

- a) J P M Ndegwa
- b) F N Mwanzia

6. Special business:

- i. F M Mbiru , 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 F M Mbiru, a Director who has attained the age of 70 years, be and is hereby re-elected as a director of the Company".

ii. Bonus issue

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 the sum of Shs 163,180,810 being part of the amount standing to the credit of the share premium reserve 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 25th March, 2010 subject to 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 25th March, 2010 and to apply such sum on behalf of such holders in paying up in full at par 32,636,162 of the unissued shares of 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 of one new ordinary shares for every ten 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 think fit subject always to the Articles of Association of the Company".

7. To transact any other business of the Annual General Meeting of which due notice has been received.

BY ORDER OF THE BOARD

L Murage – Group Company Secretary
Nairobi , 12 April 2010

"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 Company Secretary at the Company's registered office situated at NIC Bank Limited, NIC House, Masaba Road, Nairobi, Kenya, before 11 am on Tuesday 11th May 2010, 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 linatolewa hapa kuhusu Mkutano Mkuu wa Mwaka wa hamsini wa Wenye-hisa wa Benki ya NIC utakaofanyika katika Jumba la mikutano la KICC, Nairobi, mnamo siku ya Jumatano tarehe 12 Mei 2010, kuanzia saa tano asubuhi (5.00) kwa sababu zifuatazo:-

1. Kupokea, kukubali na kama itawezekana, kupitisha Taarifa za Kifedha za mwaka uliomalizikia Desemba 31 2009 na Ripoti za Wakurugenzi Wakuu pamoja na zile za Wakaguzi wa Kifedha kwa wakati huo.
2. Kupitisha malipo ya mgawo wa hisa ya asilimia 5 ambayo ni (Shs 0.25 kwa kila hisa) iliyolipwa mnamo tarehe 2, Oktoba 2009 na kuidhinisha malipo ya mgawo wa mwisho wa shilingi 0.25 (2008 shilingi 0.25 kwa kila hisa) katika malipo ya mtaji ya Shs 1,631,808,110.
3. Kupitisha malipo ya ada kwa Wakurugenzi kwa mwaka uliomalizikia tarehe 31 Desemba 2009.
4. Ili kufahamu ya kwamba kampuni ya Deloitte & Touche wataendelea kuhudumu kama Wakaguzi wa Kifedha kulingana na Kifungu cha 159(2) cha Sheria za Kampuni (Ibara ya 486) kwa kutegemea kuidhinishwa na Benki Kuu ya Kenya kulingana na kifungu cha sheria cha 24(1) cha Sheria ya Benki (Ibara ya 488) na kuwaruhusu Wakurugenzi kutoa maamuzi kuhusu malipo yao.

5. Ili kuteua Wakurugenzi:

- i. Kulingana na Kifungu cha 97 cha Sheria za Ushirika za Kampuni, P V Shah ambaye alichaguliwa kuwa Mkurugenzi wa kampuni kutoka Mkutano Mkuu wa mwaka jana, anastaafu an ana fursa ya kupigania tena mamlaka zake za ukurugenzi.
- ii. Kulingana na Kifungu cha 108, 109 na 110 cha Sheria za Ushirika za Kampuni, Wakurugenzi wafuatao hustaafu kwa zamu na wana fursa ya kupigania tena mamlaka yao ya ukurugenzi:
 - a) J P M Ndegwa
 - b) F N Mwanzia

6. Biashara Maalum:

- i. F M Mbiru, ambaye amefikisha umri wa miaka 70, anastaafu kulingana na kifungu cha 186 (2) cha Sheria za Kampuni (Ibara ya 486). Tangazo Maalum limepokelewa na Kampuni kulingana na Kifungu cha 142 cha Sheria za Kampuni, kwamba maamuzi yafuatayo yanafaa kupendekezwa kulingana na kifungu cha sheria cha 186 (5) cha sheria hiyo, na, ikiwa imewaziwa vyema, ipitishwe na wanachama:

“Kwamba F M Mbiru, Mkurugenzi ambaye amefikisha umri wa miaka 70, aweze na hivyo basi anachaguliwa upya kama Mkurugenzi wa kampuni”.

ii. Kutolewa kwa Bonasi

Ili kupitisha hoja hiyo ikiwa suala hilo limeeleweka vyema, pitisha maamuzi yafuatayo yatakayopendekezwa kama MAAMUZI YA KAWAIDA;

“Kwamba inafaa kufuatia kifungu cha 152 cha Sheria za Kiushirika ili kuwekeza shilingi 163,180,810 kama fedha za mkopo wa kibaba cha hifadhi ya mgawo wa hisa za kampuni na kwa misingi hiyo, kiwango hicho cha fedha kiwekezwe ili kwamba Wakurugenzi wawe na waruhusiwe kuwagawia wamiliki wa hisa za kawaida zilizosajiliwa kufikia mwisho wa saa za kazi mnamo tarehe 19, Machi 2009 kwa kutegemea ukubalifu wa kampuni kupitia kwa wasimamizi husika. Kwa desturi, huwa wameombwa ruhusa, kuambatana na kiwango cha hisa za kawaida wanazomiliki mtawaliao na tarehe 25 Machi 2010 na pia kuitisha kiwango hicho cha fedha kwa niaba ya wamiliki ili kulipa pesa zote kiukamilifu sawa na 32,636,162 za hisa ambazo hazikugawanywa za mtaji wa kampuni, hisa kama hizo za kutengwa, kugawanywa na kuidhinishwa kwamba zimelipwa kikamilifu kwa na miongoni mwa wenye-hisa hao kwa mgao wa hisa moja ya kawaida kwa kila hisa kumi za kawaida zinazomilikiwa. Kadhalika, hisa mpya kama hizo huwekwa katika kiwango cha matumizi ya jumla (pari passu) pamoja na hisa za kampuni zilizopo zilizotolewa na ya kwamba Wakurugenzi waruhusiwe kwa jumla kufanya na kutekeleza shughuli zitakazosaidia utekelezaji wa Maamuzi na kuangazia masuala ya kiakisami kwa hali hiyo ikiwa wataonelea inafaa kuwa mada katika Vifungu vya sheria ya Kampuni za Kenya”.

7. Kuendesha biashara nyinginezo za Mkutano Mkuu wa Mwaka ambao tangazo lake kamili limepokelewa.

KWA AMRI YA HALMASHAURI KUU

L Murage – Katibu wa Kampuni
Nairobi, Tarehe 12 Aprili 2010

“Mwanachama aliyedhinishwa kuhudhuria na kupiga kura kwenye mkutano na Yule ambaye hataweza kuhudhuria ana fursa ya kumchagua muwakilishi wake ili kumuwakilisha. Muwakilishi huyo sio lazima awe mtanyikazi wa kampuni hii. Ili kukubalika kama muwakilishi, mwanachama huyo anahitajika kufikisha jina la yule atakayemuwakilishakwa afisi za Katibu wa Kampuni zilizosajiliwa na zilizoko katika Benki ya NIC, NIC House, Masaba Road, Nairobi, Kenya, kabla ya saa tano asubuhi (5) siku ya Jumatano tarehe 11 Mei 2010, bila ya hivyo uwakilishi wake utabatilishwa. Ikiwa Mwanachama ni Kampuni, basi muwakilishi wake ni lazima apigwe muhuri wa uwakilishi.”

PROXY FORM

The Group Company Secretary
NIC Bank Limited
NIC House
Masaba Road
P.O. Box 44599
Nairobi GPO, 00100

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
12 May 2010 and at any adjournment thereof.

As witness my / our hand this _____ day of _____ 2010

Signature(s) of _____

Note: In case of a Corporation, the Proxy must be made under its Common Seal.



FOMU YA UWAKILISHI

Katibu wa Kampuni
NIC Bank Limited
NIC House
Masaba Road
P.O. Box 44599
Nairobi GPO, 00100

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 12 Mei 2010 au tarehe yoyote iwapo mkutano utahairishwa.

Nashuhudia kwa mkono / mikono yangu / yetu siku hii ya

Tarehe

mwezi wa

2010

Sahihi

Elewa : Mwakala akiwa anawakilisha kampuni yoyote au shirika nilazima atumie muhuri rasmi wa kampuni hiyo (common seal)



The Bank Branches are located as follows:

Nairobi

NIC House Branch - Masaba Road
City Centre Branch - Prudential Building, Wabera Street
Harambee Avenue Branch - JeevanBharat Building,
Harambee Avenue, opposite Electricity House
The Mall Branch - Westlands
Junction Branch - Ngong Road
Prestige Plaza Branch - Ngong Road

Mombasa

Harbour House Branch - Moi Avenue
Nkrumah Road Branch - NSSF Building, Nkrumah Road
Nyali Branch - Nakumatt Nyali Complex

Nakuru

Nakuru Branch - Vickers Building, Kenyatta Avenue

Thika

Thika Arcade - Kenyatta Avenue

Kisumu

Kisumu Branch - Oginga Odinga Street, Opposite Mega Plaza

Meru

Meru Branch - Njuri Ncheke Road

one life



one bank

NIC BANK LIMITED

Head Office

NIC House, Masaba Road, Nairobi

P.O Box 44599 - 00100 GPO Nairobi

Tel: (254-20) 2888000 / 2718200 | Fax: (254-20) 2888505

Email: info@nic-bank.com

Website: www.nic-bank.com