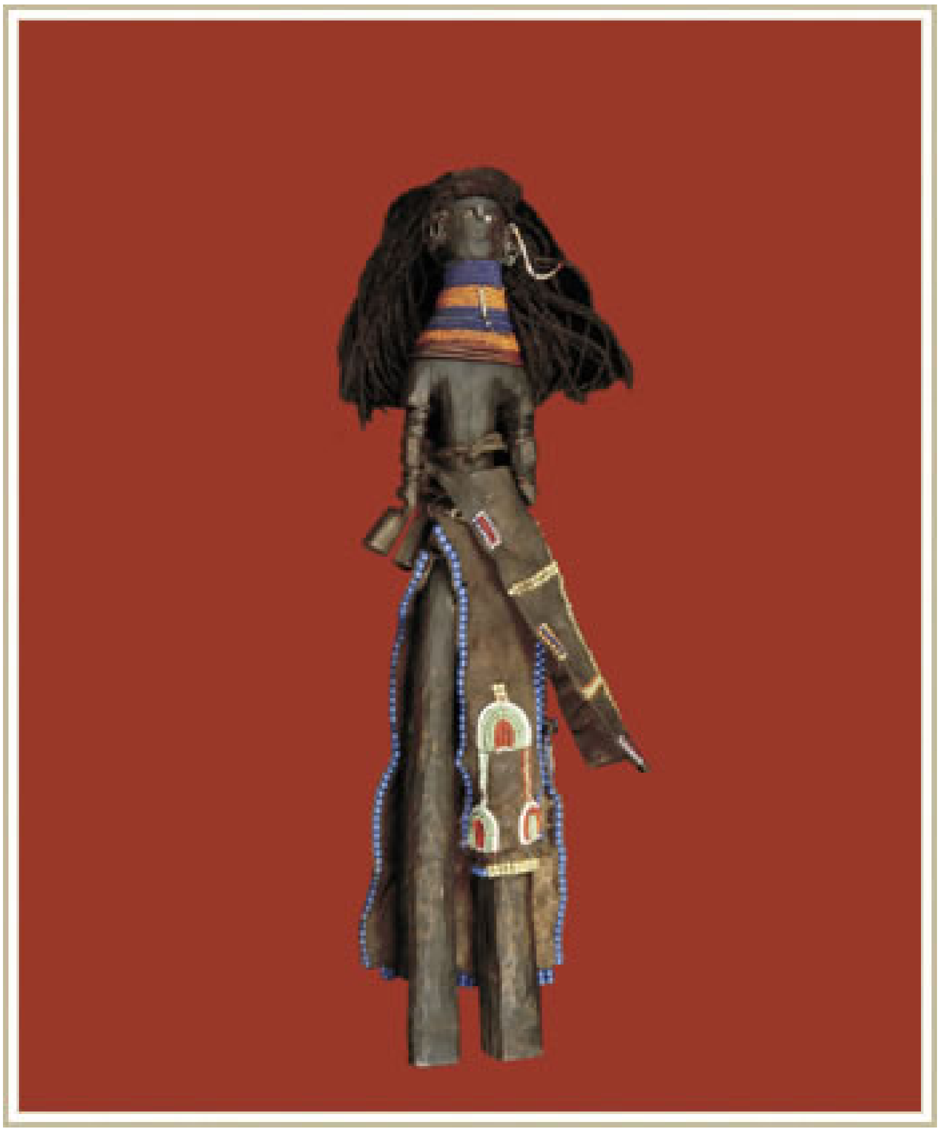

A visit to musée du quai Branly

This year, the 2006 annual reports of the BANK OF AFRICA Group pay tribute to an event that took place in Paris on June 23, 2006: the opening of the musée du quai Branly.

Dedicated to the arts and civilisations of Africa, Asia, Oceania and the Americas, this museum aims to showcase and preserve the collections for whichit was designed by the architect Jean Nouvel.

Viewed by visitors from all over the world, the collections include pure masterpieces as well as simple objects from everyday life, each item reflecting an extraordinary cultural diversity.

Cover pages

The emblem of the BANK OF AFRICA represents a stylized Ashanti "fertility doll". Since fertility is a universal symbol of prosperity, home pages of the reports are illustrated with a variety of different and varied objects linked to this theme.

Thanks

The BANK OF AFRICA would like to thank Mr Stéphane Martin, Chairman of the musée du quai Branly, the Department of Cultural Development and in particular Hélène Cerutti, Céline Martin-Raget and Agathe Moroval, for the loan of the photos shown in these reports and the exceptional transfer of usage rights.

Fertility doll

Turkana. Kenya.

Wood, skin, glass beads, cord. 20.8 x 7.5 x 7.5 cm. 174g

The Turkana nomads, who are found between Lake Turkana and Uganda, in north-west Kenya, lead a pastoralist existence with their cattle despite the extreme aridity of the region. This doll wears the traditional costume of the Turkana women. The soil's fertility is just as important as women's in this desert-like, unpopulated spot. Given the rarity of vegetation, wood is a precious material.

Inventory No.: 71.1996.66.7

Managing Director's Message

The year 2006 was again favorable to the banking industry in Kenya and our Bank was able to progress steadily in that enabling environment.

The Bank developed its retail activities taking advantage of the various products launched in 2005 - saving accounts, kids accounts, personal loans and Sesame cards - thereby opening an increasing number of accounts. The retail branch located in Westlands area that was opened in mid 2005 registered impressive performance in collecting funds/deposits from the public.

On the corporate side, the Bank embarked on new activities relevant to the needs of small and medium size companies by launching new products such as Bills discounting, Asset financing and Insurance Premium financing. In 2007, we will continue to offer our existing products such as B-Web and endeavor to come up with more innovative products to meet customer needs.
In April shareholders of BANK OF AFRICA KENYA decided to increase the capital of the Bank from Kes 500 million to Kes 750 million in order to increase its loan capacity to customers. The capital increase coupled with good performance raised the core capital to almost Kes 1 billion.

In May the Bank organized and hosted a meeting of all Senior Managers of the Group in Nairobi. That event provided an opportunity to the management of the Group to get a global view of our business in the East African region.

In October the Bank acquired a capital share of 46% in ALLIED BANK Int. (U), which became BANK OF AFRICA - UGANDA in January 2007 when the new license was granted by Ugandan Authorities. That event was in line with the Groupe BANK OF AFRICA's expansion strategy in East Africa.

AUREOS East Africa Funds LLC joined us as a shareholder in November by purchasing some of the shares already owned by BOA-CÔTE D'IVOIRE, BOA-BENIN and BOA-MADAGASCAR in BANK OF AFRICA KENYA. AUREOS becomes now a significant shareholder with 20% of our capital. That involvement will help the Bank to enlarge its business in the region.

As scheduled, the Bank opened a new branch in Nairobi in December located along Uhuru Highway opposite Nyayo National Stadium bringing the total number of branches to 4.

The Bank's balance sheet at the end of the year amounts to Kes 6.5 billion compared with Kes 5.3 billion at the end of 2005 while our deposit base increased by Kes 812 million and reached a total of almost Kes 5 billion. The bank's loan portfolio increased from Kes 3 billion to Kes 3.73 at the end of 2006.

Total staff number increased from 60 to 66 as of 31 December 2006.

The impact of BANK OF AFRICA - UGANDA Ltd in our accounts boosted part of our results.

Results before tax improved from Kes 7.5 million to Kes 61.3 million at the end of December 2006 and net result increased to Kes 52.6 million compared with Kes 3.8 million in 2005.

Philippe LEON-DUFOUR
Managing Director

Key facts 2006

JANUARY

- After signing of our agreement with KENSWITCH in december 2005, our customers have been able to withdraw money in the 33 ATM available in the country with their SESAME Card.

APRIL

- Increase of capital from KES 500 to 750 million by existing shareholders.

MAY

- Organization and participation in the Groupe BANK OF AFRICA's meeting in Nairobi.

SEPTEMBER

- Contract agreement signed with WESTERN UNION as General Agent.

OCTOBER

- Signing ceremony in Kampala (Uganda) for the purchase of ALLIED BANK International (U) Ltd by BANK OF AFRICA KENYA Ltd.

NOVEMBER

- Introduction of AUREOS East Africa Fund LLC as new shareholder of BANK OF AFRICA - KENYA.
- AUREOS acquired 20% of the existing capital.

DECEMBER

- Opening of a new branch, UHURU HIGHWAY BRANCH, in Nairobi to the public.

Key figures 2006 (in KES'000)

ACTIVITY	
Deposits	4,935,542
Loans	3,773,768

INCOME	
Operating Income	379,440
Operating Expense	357,602
Profit before Tax	61,359

STRUCTURE	
Total Assets	6,488,089
Number of employee	66

(1 EURO = 91.73 KES)

Board of Directors

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

- Paul Derreumaux, Chairman
- Georges Aballo
- Francis Sueur
- Alexandre Randrianasolo
- Philippe Leon-Dufour, Managing Director

Capital

The authorised and issued capital of the bank is KES 750,000,000 divided in 750,000 ordinary shares with par value of KES 1,000 each.

The following is the bank's shareholding structure as at 31st December 2006

AFRICAN FINANCIAL HOLDING	10.0%
AFRICAN FINANCIAL HOLDING - OCEAN INDIEN	15.0%
BANK OF AFRICA - BENIN	12.5%
BANK OF AFRICA - COTE D'IVOIRE	10.0%
BANK OF AFRICA - MADAGASCAR	12.5%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	20.0%
AUREOS CAPITAL LLC	20.0%

Auditors

- PriceWaterhouseCoopers

Directors' report

Report and financial statements

The directors submit their report together with the audited financial statements for the year ended 31 December 2006, which disclose the state of affairs of the bank.

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

The net profit for the year of Shs 52,625,000 has been added to retained earnings. The directors recommend the approval of a first and final dividend of Shs 40 per share, amounting to Shs 30 million (2005: Nil).

DIRECTORS

The directors who held office during the year and to the date of this report were:
Paul Derreumaux, Chairman
Georges Aballo
Francis Sueur
Alexandre Randrianasolo
Philippe Leon-Dufour, Managing Director

AUDITORS

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

By order of the Board

Ramesh VORA

Secretary

2007

Statement of Directors' responsibilities

Report and financial statements

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Companies Act.

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

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

Paul DERREUMAUX	
Chairman	Philippe LEON-DUFOUR
2007	Managing Director

Report of the independent Auditors to the members of BANK OF AFRICA KENYA LIMITED

We have audited the accompanying financial statements of BANK OF AFRICA KENYA Limited set out on pages 12 to 38. These financial statements comprise the balance sheet at 31 December 2006, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the company's financial affairs at 31 December 2006 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

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

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

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

	PriceWaterhouseCoopers Certified Public Accountants 2007 Nairobi

Profit and loss account

	Notes	AT 31 DECEMBER 2006 Shs'000	AT 31 DECEMBER 2005 Shs'000
Interest income	5	434,569	332,928
Interest expense	6	-185,054	-147,509
Net interest income		249,515	185,419
Fee and commission income		67,221	48,464
Fee and commission expense		-8,791	-10,526
Net fee and commission income		58,43	37,938
Foreign exchange income		69,699	77,968
Other operating income		1,796	86
Operating income		379,44	301,411
Operating expenses	7	-357,602	-293,925
Impairment losses on loans and advances	13	-263	-
Negative goodwill	25	32,359	-
Share of profits from associate	25	7,425	-
Profit before income tax		61,359	7,486
Income tax expense	9	-8,734	-3,675
Profit for the year		52,625	3,811

Balance Sheet

Assets

ASSETS	Notes	At 31 December 2006 Shs'000	At 31 December 2005 Shs'000
Cash and balances with CENTRAL BANK OF KENYA	10	732,239	368,387
Government securities held-to-maturity	11	255,05	653,261
Placements with other banks	12	1,126,470	1,015,568
Amounts due from group companies	24	75,015	25,506
Investment in associate	25	162,889	-
Loans and advances to customers	13	3,773,768	3,036,151
Tax recoverable		135	135
Property and equipment	14	85,352	62,29
Intangible assets	15	44,676	55,247
Prepaid operating lease rentals	26	5,288	5,373
Deferred tax asset	16	-	5,671
Other assets	17	227,207	145,119
Total assets		6,488,089	5,372,708

LIABILITIES

LIABILITIES	Notes	At 31 December 2006 Shs'000	At 31 December 2005 Shs'000
Customer deposits	18	4,935,542	4,123,179
Deposits from other banks	19	197,676	323,327
Amounts due to group companies	24	212,446	66,868
Deferred tax liability	16	3,063	-
Other liabilities	20	160,931	183,528
Total liabilities		5,509,658	4,696,902

SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY	Notes	At 31 December 2006 Shs'000	At 31 December 2005 Shs'000
Share capital	21	750,000	500,000
Statutory credit reserve		39,395	33,5
Retained earnings		159,036	142,306
Proposed dividends		30	-
Total shareholders' equity		978,431	675,806
Total equity and liabilities		6,488,089	5,372,708

The financial statements on pages 12 to 38 were approved for issue by the board of directors on 14th March 2007 and signed on its behalf by:

Paul DERREUMAUX
Chairman
Philippe LEON-DUFOUR
Managing Director
Alexandre RANDRIANASOLO
Director

Ramesh VORA
Company Secretary

Statement of changes in equity

Statement of changes in equity	Notes	Share capital Shs'000	*Statutory credit reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total
Year ended 31 December 2005						
At start of year (as previously stated)		500	-	148,545	-	648,545
Reversal of statutory provision						
previously in retained earnings				33,5	-	33,5
Statutory credit reserve		-	33,5	-33,5	-	-
Deferred tax on restatement	16	-	-	-10,05	-	-10,05
As restated		500	33,5	138,495	-	671,995
Profit for the year		-	-	3,811	-	3,811
At end of year	21	500	33,5	142,306		675,806
Year ended 31 December 2006						
At start of year		500	33,5	142,306	-	675,806
Issue of shares		250	-	-	-	250
Statutory credit reserve		-	5,895	-5,895	-	-
Profit for the year		-	-	52,625	-	68,327
Proposed dividends		-	-	-30	30	-
At end of year	21	750	39,395	159,036	30	978,431

* The statutory credit risk reserve is non distributable.

Cash flow Statement

	Notes	2006 Shs'000	2005 Shs'000
Cash flows from operating activities			
Interest receipts		431,804	332,613
Interest payments		-180,311	-132,426
Net fee and commission receipts		58,43	37,938
Other income received		69,773	77,996
Recoveries from other assets previously written off		-	242
Payments to employees and suppliers		-328,954	-273,375
Income tax paid		-	-
Cash flows from operating activities before changes			
in operating assets and liabilities		50,742	42,988
Changes in operating assets and liabilities:			
• Loans and advances		-734,83	55,293
• Cash reserve requirement		-24,092	-45,464
• Other assets		-81,563	-24,211
• Customer deposits		810,376	912,947
• Other liabilities		-22,596	-64,297
• Treasury bills and bonds maturing after 91 days		199,699	517,453
Net cash from operating activities		197,736	1,394,709
Cash flows from investing activities			
Acquisition of ALLIED BANK INTERNATIONAL (Uganda) Ltd		-123,105	-
Purchase of property and equipment	14	-38,815	-50,188
Purchase of intangible assets	15	-2,678	-62,3
Proceeds from sale of property and equipment		2,234	23
Net cash used in investing activities		-162,364	-112,465
Cash flows from financing activities			
Issue of ordinary shares		250	-
Net cash from financing activities		250	-
Net increase in cash and cash equivalents		285,372	1,282,244
Cash and cash equivalents at start of year	23	1,020,772	-261,472
Cash and cash equivalents at end of year	23	1,306,144	1,020,772

Notes

1. General information

BANK OF AFRICA KENYA Limited is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:
RE-INSURANCE PLAZA
TAIFA ROAD - P.O. BOX 69562
00400 NAIROBI

2. Summary of significant accounting policies

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

(a) Basis of preparation

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

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

Adoption of new and revised standards

In 2006 new and revised standards and interpretations became effective for the first time and have been adopted by the company where relevant to its operations. The adoption of these new and revised standards had no material effect on the company's accounting policies or disclosures.

Standards, interpretations and amendments to published standards that are not yet effective. The following amendment to an existing standard and new standard will be mandatory for the company's accounting periods beginning on or after 1 January 2007, but which the company has not early adopted:

- IAS 1 Amendment, Capital Disclosures. The amendment to IAS 1 introduces disclosures about the level of the company's capital and how it manages capital

- IFRS 7, Financial Instruments: Disclosures. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

(b) Interest income and expense

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

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

Fees and commission income

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

(d) Translation of foreign currencies

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

(e) Financial assets

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

(a) Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money, goods or services directly to a debtor with no intention of trading the receivable.

(b) Held-to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Were the bank to sell more than an insignificant amount of held-to-maturity assets, the entire category would have to be reclassified as available for sale.

As at the balance sheet date the bank has not designated at initial recognition any financial liability as at fair value through profit or loss. Neither has the bank designated or acquired any available for sale instruments.

Purchases and sales of financial assets held to maturity are recognised on trade date - the date on which the company commits to purchase or sell the asset. Financial asset are initially recognised at fair value plus transaction cost.

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

(f) Impairment of financial assets

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

a) significant financial difficulty of the issuer or obligor;

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

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

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

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

f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

Assets carried at amortised cost:

The bank assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

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

Portfolio provisions for the impairment of performing loans cover losses, which, although not yet specifically identified, are present in any portfolio of BANK OF AFRICA advances based on historic loss patterns.

Where impairment losses required by regulations exceed those computed under IFRS, the excess is recognised as a statutory credit risk reserve and is accounted for as an appropriation of retained earnings. The statutory credit risk reserve is non-distributable.

(g) Property and equipment

All property and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Depreciation is calculated on the straight line basis to write down their cost to their residual values over their estimated useful lives, as follows:

Buildings	1.5%
Fixtures, fittings and equipment	20%
Motor vehicles	33.3%
Leasehold Improvement	10,0%

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

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

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

(h) Intangible assets

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

(i) Income tax

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

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

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

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

(j) Accounting for leases

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

(k) Employee benefits

(i) Retirement benefit obligations

The company operates a defined contribution post-employment benefit scheme for all its employees.

The scheme is funded from contributions from both the company and employees. The company and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

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

(ii) Other entitlements

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

(l) Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value.

The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the profit and loss account.

(m) Borrowings

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred.

Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(n) Offsetting

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

(o) Sale and repurchase agreements

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

p) Acceptances and letters of credit

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

q) Associates

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

r) Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year. Comparative figures have been restated to correct statutory credit reserve previously charged to profit and loss account.

3. Financial risk management

(a) Strategy in using financial instruments

By their nature, the bank's activities are principally related to the use of financial instruments including derivatives. The bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-balance sheet loans and advances; the bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

Foreign exchange and interest rate exposures associated derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

(b) Credit risk

The bank takes on exposure to credit risk, which is the risk that a counter party will be unable to pay amounts in full when due. Impairment provisions are provided for losses that have been incurred at the balance sheet date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the bank's portfolio, could result in losses that are different from those provided for at the balance sheet date. Management therefore carefully manages its exposure to credit risk.

The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are monitored on a revolving basis and subject to annual or more frequent review.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the ability of borrower and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

(c) Concentrations of risk

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

At 31 December 2006	**Loans and advances %**	**Credit commitments %**	**Customer deposits %**
Manufacturing	35%	14%	4%
Wholesale and retail trade	28%	14%	6%
Transport and communications	5%	7%	16%
Business services	1%	-	5%
Agricultural	11%	-	5%
Electricity and water	1%	-	6%
Social, community and personal service	2%	-	7%
Other	17%	65%	51%
TOTAL	100%	100%	100%

At 31 December 2005			
Manufacturing	47%	17%	2%
Wholesale and retail trade	28%	43%	14%
Transport and communications	5%	6%	15%
Business services	-	-	3%
Agricultural	2%	-	1%
Electricity and water	1%	1%	5
Social, community and personal service	-	-	8%
Other	17%	33%	52%
Total	100%	100%	100%

(d) Currency risk

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

The bank had the following significant foreign currency positions (all amounts expressed in thousands of Kenya Shillings):

At 31 December 2006	**USD**	**GBP**	**Euro**	**Other**	**Total**
Assets					
Cash and balances with CENTRAL BANK OF KENYA	29,393	1,602	6,532	-	37,527
Placements with other banks	694,452	276,002	234,271	7,267	1,211,992
Loans and advances to customers	1,211,207	13,688	258,631	15	1,483,541

Other assets	94	-	319	-	413
Total assets	1,935,146	291,292	499,753	7,282	2,733,473
Liabilities					
Customer deposits	1,648,696	281,295	194,544	6,135	2,130,670
Deposits from other banks	80,795	-	40,62	17	121,432
Amounts due to group companies	53,877	-	157,631	-	211,508
Other liabilities	151,742	9,997	106,958	1,13	269,827
Total liabilities	1,935,110	291,292	499,753	7,282	2,733,437
Net on-balance sheet position	36	-	-	-	36
Net off-balance sheet position	286,532	-	-	-	286,532
Overal net position	286,568	-	-	-	286,568

At 31 December 2005					
Total assets	1,474,210	84,679	495,293	16,706	2,070,888
Total liabilities	1,563,958	86,228	484,404	15,366	2,149,956
Net on-balance sheet position	-89,748	-1,549	10,889	1,34	-79,068
Net off-balance sheet position	178,789	-	-	-	178,789
Overal net position	89,041	-1,549	10,889	1,34	99,721

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

(e) Interest rate risk

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

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

At 31 December 2006	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**Over 1 year**	**Non-interest bearing**	**Total**
ASSETS						
Cash and balances with CENTRAL BANK OF KENYA	249,957	-	-	-	482,282	732,239
Government securities	-	50,476	200	-	4,574	255,05
Deposits and balances due from banking institutions	943,216	9,156	-	-	174,098	1,126,470
Amounts due from group companies	-	70	-	5,015	75,015	
Investments in associates					162,889	162,889

Loans and advances to customers	2,993,629	108,546	123,933	486,393	61,267	3,773,768
Property and equipment	-	-	-	-	85,352	85,352
Intangible assets	-	-	-	-	44,676	44,676
Prepaid operating Lease rentals					5,288	5,288
Tax recoverable	-	-	-	-	135	135
Other assets	-	-	-	-	227,207	227,207
Total assets	4,186,802	168,178	393,933	486,393	1,252,783	6,488,089
LIABILITIES & SHAREHOLDERS' FUNDS						
Customer deposits	2,954,160	391,346	319,325		1,270,711	4,935,542
Deposits and balances due to banking institutions	189,006		1,168		7,502	197,676
Amounts due to group companies	176,61	-	30,216	-	5,62	212,446
Other liabilities	-	-		-	160,931	160,931
Deferred tax liability	-	-		-	3,063	3,063
Shareholders'funds	-	-		-	978,431	978,431
Total liabilities & shareholders'funds	3,319,776	391,346	350,709	-	2,426,258	6,488,089
Interest sensitivity gap	867,026	- 223,168	43,224	486,393	(1,122,602)	-
Total assets	3,604,531	414,025	310,829	307,423	712,45	5,349,258
Total liabilities & shareholders' funds	2,906,255	464,738	143,213	-	1,835,052	5,349,258
Interest sensitivity gap	698,276	-50,713	167,616	307,423	(1,122,602)	-

The effective interest rates by major currency for monetary financial instruments not carried at fair value through profit or loss at 31 December 2005 and 2004 were in the following ranges :

	2006		**2005**	
Assets	In Shs	In US$	In Shs	In US$
Government securities	6.0%	-	6.19%	-
Deposits with banking institutions	6.5%	4.0%	8.5%	4%
Loans and advances to customers	11.46%	7.73%	11%	6%
Amounts due from group companies			9%	-
Liabilities				
Customer deposits	4.6%	2.2%	6%	2%
Deposits due to banking institutions	6.5%	-	8%	4%
Amounts due to group companies	-	2.2%	-	3%

(f) Liquidity risk

The bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty.

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

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

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. All figures are in thousands of Kenya Shillings.

At 31 December 2006	**Up to 1 month**	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**Over 5 years**	**Total**
ASSETS						
Cash and bank balances with CENTRAL BANK OF KENYA	693,429	21,313	17,497	-	-	732,239
Government securities	-	50,476	204,574	-	-	255,05
Deposits and balances due from banking institutions	1,117,294	9,176		-	-	1,126,470
Amounts due from group companies	4,097		70,918	-	-	75,015
Investments in associates					162,889	162,889
Loans and advances to customers	2,424,232	277,142	466,845	534,739	70,81	3,773,768
Prepaid operating Lease rentals				5,288		5,288
Property and equipment	-	-	-	76,270	9,082	85,352
Intangible assets	-	-	-	44,676	-	44,676
Tax recoverable	-	-	-	-	135	135
Other assets	221,919	3,213	2,075	-	-	227,207
Total assets	4,460,971	361,32	761,909	660,973	242,916	6,488,089
LIABILITIES & EQUITY						
Customer deposits	4,224,871	391,345	319,326	-	-	4,935,542
Deposits and balances due to banking institutions	196,507	-	1,169	-	-	179,676
Amounts due to group companies	181,862	-	30,584	-	-	212,446

Shareholders' funds	-	-	-	-	978,431	978,431
Deferred tax liability	-	-	-	-	3,063	3,063
Other liabilities	94,584	-	34,79	31,557	-	160,931
Total liabilities & equity	4,697,824	391,345	385,869	31,557	981,494	6,488,089
Net liquidity gap	-236,853	-30,025	376,04	629,416	-738,578	-

At 31 December 2005						
Total assets	4,044,192	398,426	333,262	515,796	57,582	5,349,258
Total liabilities & equity	3,963,283	485,178	183,196	65,245	652,356	5,349,258
Net liquidity gap	80,909	-86,752	150,066	450,551	-594,774	-

(G) Fair values of financial assets and liabilities

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

4. Critical accounting estimates and judgements in applying accounting policies

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio.

This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) Held-to-maturity investments

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

5. Interest income

	2006 Shs'000	2005 Shs'000
Loans and advances	348,031	276,895
Government securities	33,757	38,385
Balances with other banking institutions	52,781	17,648
Total	434,569	332,928

6. Interest expense

	2006 Shs'000	2005 Shs'000
Customer deposits	166,444	122,839
Deposits by banks	18,61	24,67
Total	185,054	147,509

7. Operating expenses

The following items are included within operating expenses:

Operating expenses	2006 Shs'000	2005 Shs'000
Staff Costs (Note 8)	154,59	126,265
Depreciation (Note 14)	15,242	10,121
Amortisation of intangible asset (Note 15)	13,249	10,641
Operating lease rentals	17,022	17,393
Auditors' remuneration	2,76	2,536
Amortisation of prepaid operating lease rentals	85	85

8. Staff costs

The following items are included within staff costs:

	2006 Shs'000	2005 Shs'000
Retirement benefit costs		
defined contribution scheme	4, 407	4,98
National Social Security Fund	143	127

9. Income tax expense (credit)

	2006 Shs'000	2005 Shs'000
Deferred income tax (Note 16)	8,734	3,675
Tax for the period	-	-
TOTAL	8,734	3,675

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

	2006 Shs'000	2005 Shs'000
Profit before income tax	21,575	7,486
Tax calculated at the statutory income tax rate of 30% (2005 : 30%)	6,473	2,246

Tax effect of :		
Income not subject to tax	-474	-
Expenses not deductible for tax purposes	6,003	1,505
Utilisation of previously unrecognised tax losses		-76
Prior year over provision of deferred tax	-3,268	-
Income tax expense	8,734	3,675

10. Cash and balances with Central Bank of Kenya

	2006 Shs'000	2005 Shs'000
Cash in hand	99,756	113,038
Balances with CENTRAL BANK OF KENYA	632,483	255,349
TOTAL	732,239	368,387

11. Government securities held-to-maturity

	2006 Shs'000	2005 Shs'000
Treasury bills and bonds:		
Maturing within 91 days of the date of acquisition	50,476	245,76
Maturing after 91 days of the date of acquisition	204,574	407,501
TOTAL	255,05	653,261

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

12. Placements with other banks

	2006 Shs'000	2005 Shs'000
Placements Included in cash and cash equivalents	928,801	910,607
Loans and advances to other banks	197,669	104,961
TOTAL	1,126,470	1,015,568

13. Loans and advances to customers

	2006 Shs'000	2005 Shs'000
Overdrafts	2,317,268	2,186,881
Personal loans	135,774	24,141
Mortgages	62,066	64,551
Commercial loans	1,258,234	785,458
Discounted bills	29,242	4,444
Gross loans and advances	3,802,584	3,065,475
Less: Provision for impairment of loans and advances		
Specific	-28,816	-29,324
Unidentified	-	-
TOTAL	3,773,768	3,036,151

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

	Specific provision Shs'000	Unidentified provision Shs'000

Year ended 31 December 2005		
At start of the year	30,878	33,5
Transfer to retained earnings	-	-33,5
Exchange difference	-1,554	-
At end of year	29,324	-
Year ended 31 December 2005		
At start of year	29,324	-
Charge for the year	263	-
Exchange difference	-771	-
At end of year	28,816	-

The comparatives have been restated to account for the statutory credit reserve previously charged to the profit and loss account.

14. Property and equipment

	Buildings Shs'000	Motor vehicles Shs'000	Fixtures, fittings and equipment Shs'000	Work in progress Shs'000	Total Shs'000
At 1 January 2005					
Cost or valuation	12	3,207	10,545	-	25,752
Accumulated depreciation	90	509	10,545	-	3,288
Net book amount	11,91	2,698	7,856	-	22,464
Year ended 31 December 2005					
Opening net book amount	11,91	2,698	7,856	-	22,464
Additions		2.065	48,123	-	50,188
Disposals			-241	-	-241
Depreciation charge	-180	-1,746	-8,195	-	-10,121
Closing net book amount	11,73	3,017	47,543	-	62,29
At 31 December 2005					
Cost or valuation	12	5,272	58,276	-	75,548
Accumulated depreciation	270	2,255	10,733	-	13,258
Net book amount	11,73	3,017	47,543	-	62,29
Year ended 31 December 2006					
Opening net book amount	11,73	3,017	47,543	-	62,29
Additions		5,718	12,03	21,067	38,815
Disposals	-	-	-511	-	-511
Depreciation charge	-180	-3,014	-12,048	-	-15,242
Closing net book amount	11,55	5,721	47,014	21,067	85,352
At 31 December 2006					
Cost or valuation	12	10,467	69,109	21,067	112,643
Accumulated depreciation	450	4,746	22,095	-	27,291
Net book amount	11,55	5,721	47,014	21,067	85,352

15. Intangible assets

	2006 Computer software licences Shs'000	2005 Computer software licences Shs'000
Year ended 1 January		

Opening net book amount	55,247	3,632
Additions	2,678	62,3
Disposals	-	-44
Amortisation	13,249	10,641
At end of year	44,676	55,247
At 31 December		
Cost	66,846	64,168
Accumulated amortisation	22,17	8,921
Net book amount	44,676	55,247

16. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2005: 30%). The movement on the deferred income tax account is as follows:

	2006 Shs'000	2005 Shs'000
At start of year (as previously stated)	-15,721	-19,396
Write back on creation of statutory credit reserve	10,05	10,05
At start of year as restated	-5 671	-9,436
Income statement charge (Note 9)	8,734	3,675
At end of the year	3,063	-5,671

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

	31.12.2005 as restated Shs'000	Charged/ (credited) to P/L Shs'000	31.12.2006 Shs'000
Deferred income tax liabilities			
Property and equipment	3,816	1,655	5,471
Deferred income tax assets			
Provisions	-1,84	-245	-2,085
Tax losses	-7,647	7,324	-323
Net deferred income tax asset	-5,671	8,734	3,063

17. Other assets

	2006 Shs'000	2005 Shs'000
Uncleared effects	212,154	122,054
Other	15,053	23,065
TOTAL	227,207	145,119

18. Customer deposits

	2006 Shs'000	2005 Shs'000
Current and demand deposits	3,391,974	2,916,297
Savings accounts	102,906	22,177
Fixed deposit accounts	1,440,662	1,184,705

TOTAL	4,935,542	4,123,179

19. Deposits from other banks

	2006 Shs'000	2005 Shs'000
Overnight borrowing	47	200,089
Other balances due to banks	197,629	123,238
TOTAL	197,676	323,327

20. Other liabilities

	2006 Shs'000	2005 Shs'000
Items in transit	3,926	1,702
Bills payable	87,37	48,868
Due to Calyon Paris	66,347	97,205
Other	3,288	35,753
TOTAL	160,931	183,528

21. Share capital

	Number of shares	Ordinary shares Shs'000
Balance at 1 January 2005	500	500
Balance at 1 January 2006	500	500
Issue of shares	250	-
Balance at 31 December 2006	750	500

The total authorised number of ordinary shares is 750,000 with a par value of Shs 1,000 per share. All issued shares are fully paid.

22. Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities.

The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

	2006 Shs'000	2005 Shs'000
Contingent liabilities		
Acceptances and letters of credit	279,955	186,698
Guarantee and performance bonds	734,417	509,57
Total	1,014,372	696,268

Nature of contingent liabilities

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

Guarantees are generally written by a bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default.

Other commitments	**2006 Shs'000**	**2005 Shs'000**
Foreign exchange forward contracts	376,578	178,789

Nature of commitments
Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The bank may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer. At the end of the year, the unutilised commitments amounted to Kshs 1,968 million.

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

23. Analysis of cash and cash equivalents as shown in the cash flow statement

	2006 Shs'000	**2005 Shs'000**
Cash and balances with CENTRAL BANK OF KENYA (Note 10)	732,239	368,387
Less : cash reserve requirement (see below)	-267,934	-243,842
Government securities (Note 11)	50,476	245,76
Placements with other banks (Note 12)	1,126,470	1,015,380
Amounts due from group companies (net)	-137,431	-41,747
Due to banks and non-bank financial institutions (Net)	-197,676	-323,166
TOTAL	1,306,144	1,020,772

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

Banks are required to maintain a prescribed minimum cash balance with the CENTRAL BANK OF KENYA that is not available to finance the bank's day-to-day activities. The amount is determined as 10% of the average outstanding customer deposits over a cash reserve cycle period of one month.

24. Related party transactions

The bank is controlled by AFRICAN FINANCIAL HOLDING (AFH) incorporated in Luxembourg There are other companies which are related to BANK OF AFRICA KENYA Limited through common shareholdings or common directorships.

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

	2006 Shs'000	2005 Shs'000
Amounts due from group companies Due from NETHERLANDS DEVELOPMENT FINANCE COMPAGNY (FMO)(included under other assets)	-	13,618
Due from AFH (included under other assets)	40	557
BANK OF AFRICA - MALI (BOA-MALI)	224	
BANK OF AFRICA - NIGER (BOA-NIGER)	122	
BANK OF AFRICA - BENIN (BOA-BENIN)	29	
TOTAL	415	14,175
Amounts due from group banks		
Bank of Africa - Madagascar (BOA-MADAGASCAR	70,918	25,506