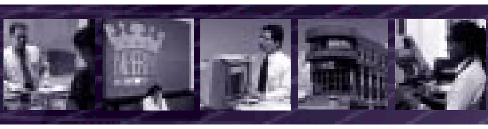

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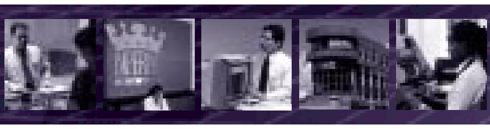
Five-Year Financial Review

	Minimum statutory requirement	*2004 Shs '000*	*2003 Shs '000*	*2002 Shs '000*	*2001 Shs '000*	*2000 Shs '000*
Interest income		934,241	743,296	680,915	615,298	547,167
Non-fund based income		222,757	185,899	110,826	81,063	68,192
Total income		1,156,998	929,195	791,741	696,361	615,359
Operating expenses		338,348	282,286	233,015	191,741	148,838
Impairment losses on loans and advances		110,230	30,472	46,446	69,376	92,360
Profit before tax		267,682	253,879	187,480	147,618	112,810
Net profit for the year		184,368	175,021	127,377	101,635	78,094
Profit margin		23.14%	27.32%	23.68%	21.20%	18.33%
Non - fund based income to total income		19.25%	20.01%	14.00%	11.64%	11.08%
Earnings per share-basic and diluted		Shs 369	Shs 350	Shs 255	Shs 203	Shs 156
Dividends per share		Shs 100	Shs 100	Shs 87.50	Shs 100	-
Dividend pay out ratio		27.12%	28.57%	27.48%	34.44%	-
Loans and advances to customers (gross)		4,323,562	3,282,928	3,206,006	2,992,864	2,169,738
Provisions for impaired loans and advances		(328,204)	(274,640)	(274,445)	(267,640)	(248,095)
Unearned interest		(125,514)	(111,775)	(345,761)	(340,424)	-
Loans and advances to customers (net)		3,869,844	2,896,513	2,585,800	2,384,800	1,921,643
Cash and short-term funds		1,089,312	1,221,869	940,906	632,555	566,268
Government securities		588,941	620,624	496,984	494,739	454,580
Property and equipment		265,658	181,584	157,437	132,985	71,397
Total assets		5,813,755	4,920,590	4,181,127	3,645,079	3,013,888
Customer and banking institutions deposits		4,680,607	3,902,703	3,381,548	2,988,233	2,428,652
Other liabilities		206,674	225,781	147,494	97,138	127,163
Total liabilities		4,887,281	4,128,484	3,529,042	3,085,371	2,555,815
Shareholders' funds		926,474	792,106	652,085	559,708	458,073
Contingent liabilities		1,140,042	885,450	731,624	381,931	345,609
Performance ratios:						
Return on core capital		33.08%	34.80%	31.46%	30.04%	25.41%
Return on total assets		4.99%	5.58%	4.79%	4.43%	3.98%
Impairment charges to net advances		8.48%	9.48%	10.61%	11.22%	12.91%
Balance sheet ratios:						
Gross advances to deposits		92.37%	84.12%	94.81%	100.15%	89.34%
Gross advances to deposits and shareholders funds		77.11%	69.93%	79.48%	84.35%	75.16%
Non performing advances less provisions to total advances		4.58%	2.98%	2.33%	2.53%	5.14%
Liquidity	20%	24.00%	25.00%	27.00%	26.00%	32.00%
Core capital to customer deposits	8%	17.29%	18.69%	17.62%	16.44%	18.28%
Core capital to risk weighted assets	8%	22.00%	24.88%	21.26%	20.06%	22.70%
Total capital to total risk weighted assets	12%	23.04%	26.84%	23.11%	22.00%	24.73%
Other information:						
Gross non - performing advances		358,742	241,317	235,325	229,244	255,936
Number of branches		5	5	4	3	2
Number of employees		129	107	89	84	61
Expenditure on intangible assets and property and equipment		114,327	53,759	50,877	83,005	53,592



BOARD OF DIRECTORS

Directors Name	Age	Nationality	Position	Date of Appointment	Other Directorships	Qualifications	Percentage of Individual Share Holding in the Bank
Mr. Alnashir Popat	53	Kenyan	Chairman	24th Dec 1992	Simba Colt Motors Ltd. Downtown Hire Purchase Co. Ltd.	BA in Business Studies	2.40%
Mr. Abdulmalek Janmohamed	45	Kenyan	Managing Director	24th Dec 1992	Janco Investments Ltd. Downtown Hire Purchase Co. Ltd.	BSC in Finance & Management Data Systems	10.80%
Mr. Anwar Hajee	48	Kenyan	Non-Executive	15th Nov 1993	African Business Consortium Ltd. Interconnect Ltd. Abdulmal Investments Ltd. Downtown Hire Purchase Co. Ltd.	ACMA CPA (K)	7.00%
Mr. Jinit Shah	48	Kenyan	Non-Executive	3rd Nov 1997	Kenblest Ltd. Kifaru Textiles Mills Ltd. Nav Plastics Ltd. Mcneel Millers Ltd. Deepna Industries Ltd.	Higher National Diploma in Business Studies	2.50%
Mr. Mukesh Kumar Patel	46	Kenyan	Non-Executive	3rd Nov 1997	Automatic Controls Ltd. Switch Gear & Controls Ltd. Hard Tech. Ind. Supplies Ltd. Tausi Assurance Co. Ltd. Momentum Holdings Ltd.	O'Levels	6.25%
Mr. Vishnu Dhutia	45	Kenyan	Non-Executive	15th Feb 1995	East African Motor Industries Ltd. East African Motor Industries (Sales & Services) Ltd.	Diploma in Business Administration	5.50%
Mr. Hanif Mohamed Amirali Somji	49	Kenyan	Non-Executive	31st July 2002	Freight Forwarders Kenya Ltd. The Combined Warehouses Ltd. Reynolds & Co. Ltd. Craysell Investments Ltd.	BA (Economics & Accounting)	5.60%

PRINCIPAL SHAREHOLDERS

Simba Colt Motors Limited	14%
Abdulmal Investments Limited	14%
Janco Investments Limited	13.5%
Rex Motors Limited	12.5%
Kenblest Limited	12.5%
Momentum Holdings Limited	12.5%
E.A. Motor Industries (Sales & Services) Limited	11%
Reynolds & Company Limited	10%

There has not been any movement in the shareholding during the year.

COMPANY SECRETARIES
Equatorial Secretaries and Registrars
Certified Public Secretaries
P.O. Box 47323, 00100, Nairobi, Kenya

AUDITORS
KLSA Pannell Kerr Forster
Certified Public Accountants
Kalamu House, Waiyaki Way
P.O. Box 47323, 00100, Nairobi, Kenya

PRINCIPAL VALUERS
Hass Consult Real Estate
Knight Frank Kenya Limited
RR Oshwald & Co
Lloyd Masika Limited
Tysons Limited
Datoo Kithikii
Bum & Fawcett
Maimi Shah

LEGAL ADVISERS
Hamilton, Harrison & Mathews
Kairu & McCourt
Kapila, Anjarwalla & Khanna
Pramod Patel
A. B. Patel and Patel
Inamdar & Inamdar
Shapely Barret & Co
Theuri Wanjohi & Co
Mohamed Madhani & Co
Shah & Shah Advocates
Ghalia & Ghalia

PRINCIPAL CORRESPONDENTS
United Kingdom: Citibank N.A., London
United States of America: Citibank N.A., New York
India: Citibank N.A., Mumbai, ICICI Bank Mumbai
South Africa: Citibank N.A., South Africa
Malta: First International Merchant Bank

PRINCIPAL OFFICERS

Pramila Aggarwal (Ms.) *(General Manager)*
Naeem Shah *(Credit Manager)*
Nina Shah (Ms.) *(Treasury Manager)*
James Kaburu *(Finance Manager)*
Mustaq Dar *(Branch Manager - Mombasa)*
Balaram Menon *(Head of Marketing and Product Development)*
Siraj Siddiqui *(Head of IT)*
Jessie Arigala Smiles *(Head of Operations)*

REGISTERED OFFICE

LR. Plot No. 209/11623
Bunyala Road, Upper Hill
P.O. Box 44905, 00100, Nairobi, Kenya
Telephone: (020) 2719617, 342380
Fax: (020) 2719498, 2719705
E-mail: info@imperialbank.co.ke

BRANCH NETWORK

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P.O. Box 44905, 00100, Nairobi, Kenya
Tel: (020) 2719617, 342380
Fax: (020) 2719498, 2719705
E-mail: info@imperialbank.co.ke

IPS Branch/Card Centre
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Tel: (020) 252175-8, 252184/5, 225060
Fax: (020) 230994, 250137
E-mail: infoips@imperialbank.co.ke

Parklands Branch
1st Floor, Caltex Plaza, Limuru Road, Parklands
P.O. Box 44905, 00100, Nairobi, Kenya
Tel: (020) 3752320, 3752321, 3752322
Fax: (020) 3752325
E-mail: infoparklands@imperialbank.co.ke

Mombasa Branch
Imperial Bank Building, Kaunda Avenue
P.O. Box 16460, 80100, Mombasa, Kenya
Tel: (041) 2228915, 2230999
Fax: (041) 2227588, 2229304
E-mail: infomombasa@imperialbank.co.ke

Malindi Branch
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P.O. Box 319, Malindi, Kenya
Tel: (042) 30054
Fax: (042) 30680
E-mail: infomalindi@imperialbank.co.ke

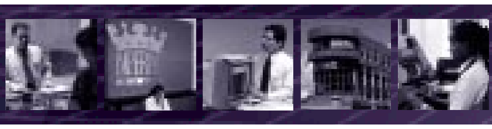
CONTINUED

BOARD COMMITTEES

The board committees as at the date of this report comprise:

	Executive Committee	Board Audit Committee	Credit Committee	Automation Committee
Composition	Six non-executive and one executive director	Three non-executive directors	Executive director, general manager and credit manager	Non-executive director, executive director and Head of IT
Main Function	Stategic decision making in accordance with powers conferred by the shareholders	Strengthening the control environment, financial reporting and auditing function	Appraisal and approval of credit applications and reviewing credit portfolio	Appraisal, budgeting and approval of hardware and software purchases
Frequency of meetings per annum	Monthly	Three times	As and when neccessary	As and when neccessary
Chairman	Alnashir Popat	Anwar Hajee	Abdulmalek Janmohamed	Anwar Hajee
Members	Abdulmalek Janmohamed Anwar Hajee Vishnu Dhutia Mukesh Patel Jinit Shah Hanif Somji	Jinit Shah Mukesh Patel	Pramila Aggarwal (Ms.) Naeem Shah	Abdulmalek Janmohamed Siraj Siddiqui

	Asset and Liability Committee	Human Resources Committee	Ethics Committee
Composition	Executive director, general manager, credit manager, treasury manager and finance manager	Two non executive directors, executive director and general manager	Non-executive director, executive director, general manager, credit manager, treasury manager and finance manager
Main Function	Monitoring and management of the balance sheet including liquidity risk, maturity risk, interest rate risk, foreign currency risk and compliance with all statutory requirements	Set and review human resources policies and approve senior management appointments	Set and review ethical standards for the board and the management
Frequency of meetings per annum	Weekly	As and when necessary	As and when necessary
Chairman	Abdulmalek Janmohamed	Alnashir Popat	Anwar Hajee
Members	Pramila Aggarwal (Ms.) Naeem Shah Nina Shah (Ms.) James Kaburu	Jinit Shah Abdulmalek Janmohamed Pramila Aggarwal (Ms.)	Abdulmalek Janmohamed Pramila Aggarwal (Ms.) Naeem Shah Nina Shah (Ms.) James Kaburu



Corporate governance is the process by which companies are directed and controlled with the objective of increasing shareholders value and satisfying them. This is achieved by establishing a system of clearly defined authorities and responsibilities which result in the system of internal controls that is regularly tested to ensure effectiveness.

At Imperial, the Board places a high degree of importance on the maintaining of a sound control environment and applying the highest standards of business integrity and professionalism in all areas of the bank's activities. The Board has adopted the Code of Best Practice for Corporate Governance issued by the Centre of Corporate Governance as its benchmark in developing the corporate governance principles.

RESPECTIVE RESPONSIBILITIES

The shareholders' role is to appoint the Board and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board is responsible for the governance of the bank and to conduct the business and operations of the bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

BOARD OF DIRECTORS

The composition of the Board is set out on page 3. The Board is chaired by a non-executive chairman and comprises the managing director and five other non-executive directors. All non-executive directors are independent of management. The Board has varied and extensive skills in the areas of banking, business management and information communication and technology. The directors' responsibilities are set out in the Statement of Directors Responsibilities on page 16. The directors are responsible for the development of internal financial controls which give reasonable assurance against material mis-statements.

The chairman provides the overall leadership to the Board without limiting the principle of collective responsibility for Board decisions. He acts as the link between the Board and the managing director and plays a lead role in consensus building between the Board members, the managing director and senior management. The chairman has the casting vote on all decisions of the Board. The Board has delegated the authority for day to day management to the managing director. It however retains the overall responsibility for financial and operating decisions and monitoring performance of senior management.

The Board meets monthly and has a formal schedule of matters reserved to it. Board papers are generally circulated two weeks prior to the Board meetings. Directors are required to disclose all areas of conflict of interest to the Board and are excluded from voting on such areas. The Board has access to the company secretary and legal counsel. The key function of the Board is the identification of current and future business risks and to ensure that the necessary systems and controls are in place to enable such risks to be monitored and effectively managed. The Board approves the annual budgets, credit facilities as per the set limits to a single group and the quarterly and annual financial reports.

New directors are required to undergo a formal induction process to ensure that they are fully familiar with the bank's policies, organization structure and corporate governance principles. The Board has not developed a formal evaluation criteria and a development and succession plan for non executive directors, however the managing director is evaluated annually by the Board against pre-set performance criteria. The Board is currently in the process of developing a formal evaluation criteria and succession plan for all directors. Directors are not subject to retirement by rotation.

The Board has appointed various sub-committees to which it has delegated certain responsibilities with the chairmen of the sub-committees reporting to it. The composition of the sub-committees is set out on page 6.

BOARD COMMITTEES

EXECUTIVE COMMITTEE

The committee which is the working committee of the Board is chaired by the Chairman and whose other members are the managing director and five non-executive directors. The committee meets on a monthly basis and is responsible for the overall strategic decision making and for establishing and maintaining a system of internal controls.

BOARD AUDIT COMMITTEE

The committee, chaired by a non-executive director comprises three non-executive directors and meets on a quarterly basis. The functions of the committee include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Financial Institutions Supervision Department of Central Bank of Kenya.

- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the Central Bank of Kenya Prudential guidelines, International Financial Reporting Standards, applicable legislations and other pronouncements.

ETHICS COMMITTEE
To strengthen the corporate governance structures, the Ethics Committee is mandated with the task of setting and reviewing the ethical standards for the Board and management. It is chaired by a non-executive director and includes the managing director and members of senior management. The committee meets on a need basis.

AUTOMATION COMMITTEE
The committee, headed by a non-executive director with extensive experience in the field of information communication and technology, develops the long term automation plan for the Board approval. The committee appraises the capital budgets for all hardware and software purchases for recommendation to the Board and meets on a need basis.

HUMAN RESOURCES COMMITTEE
The committee is headed by the Chairman and comprises the managing director, a non-executive director and the general manager. The committee develops and reviews human resources policies and approves senior management appointments and remuneration. The committee meets on a need basis. The committee is currently developing a new organisation structure for the bank and setting performance based remuneration structure for all senior management staff.

CREDIT COMMITTEE
The committee is chaired by the managing director and comprises the general manager and the advances manager and meets on a need basis. The functions of the committee include appraisal and approval of credit applications. Facility approvals to a single group over the Board's set limits require its approval. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and the Board.

ASSET AND LIABILITY COMMITTEE
The committee chaired by the managing director and comprising all departmental heads meets on a weekly basis to discuss operational issues and to monitor and manage the balance sheet to ensure that adequate resources are available to meet anticipated fund demands and compliance with all statutory requirements.

The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, interest rate, exchange rate, strategic, credit, reputational and regulatory risks for approval by the Board.

DIRECTORS REMUNERATION
The remuneration paid to the managing director is disclosed in note 30 of the financial statements. No remuneration was paid during the year to the chairman and the non-executive directors.

RELATIONSHIP WITH SHAREHOLDERS
The company is a private company with the details of the shareholders set out on page 4. There is no particular shareholder who has any powers whether direct or implied to control the company. Shareholders have full access through the Board to all the information they require in respect of the bank and its affairs. In accordance with the guidelines issued by The Central Bank of Kenya, we publish quarterly accounts in the dailies.

Alnashir Popat
Chairman

21 March 2005

It gives me immense pleasure to present to you the bank's annual report and financial statements for the year ended 31st December 2004. The bank continued its strong performance and expansion strategies successfully. It also set the benchmark for financial reporting in Kenya by winning the Financial Reporting for Excellence (FiRe) for the third straight year in both the banking and the overall categories.

REVIEW OF THE KENYA ECONOMY

The economy showed mixed signs of recovery during the year. It grew by 4.3% compared to 2.8% in 2003, being the highest growth since 2001. This was contributed by part resumption of donor funding, stable macro-economic policies and growth in the key economic sectors. However, the socio-political uncertainties, high cost of doing business, unstable international fuel prices, insecurity and the high cost of production together with a divided Government on key issues continue to grapple sustainable growth and long-term investor confidence.

On a sector basis, manufacturing, construction, wholesale and retail trade, tourism, transport and communications sectors grew by 4.1%, 3.5%, 9.5%, 15.1% and 9.7% respectively. The growth in the agricultural sector reduced from 2.7% in 2003 to 1.4% in 2004. Wheat, tea, horticulture and sugar cane production recorded strong growths in output of 16.8%, 10.5%, 24.7% and 10.9% respectively, while maize and coffee recorded decline in outputs of 15.0% and 12.6% respectively. The decline in maize output resulted in an importation of the same. Coffee and maize prices recorded their highest levels in the last five years.

The budget deficit increased from Shs. 3.1 billion in the previous year to Shs. 54.4 billion in 2004/5 resulting in a budget deficit of 4.3% of GDP. The increase was mainly due to free primary education and the increased cost of recurring government expenditure. Deficit financing could have a future negative impact if revenue outturn does not improve and there is lack of fiscal discipline. The tight monetary policy pursued by the Central Bank of Kenya resulted in money supply growing by 8.6%.

Overall inflation increased from 9.8% to 11.6% against a target of 10.0%. The upward trend resulted from increase in prices of both basic foodstuff and in global petroleum prices.

Interest rates continued in an upward spiral. The benchmark 91-day treasury bill rate increased by 6.6% to 8.1% in December 2004. Total public debt increased from Shs. 711.3 billion in December 2003 to Shs. 730.2 billion in December 2004. Total domestic debt decreased from Shs. 301.2 billion to Shs. 295.4 billion during the same period. The stock of treasury bills continued to decline in line with the government policy of restructuring the domestic debt portfolio with the average maturity of securitized domestic debt increasing from 1.6 years in June 2003 to 2.1 years in December 2004. The high level of debt overhang continued to deprive the private sector of cheaper credit.

The Shilling depreciated against all the major currencies trading in December 2004 at Shs. 79.77, Shs. 153.94 and Shs. 106.84 against the US Dollar, Sterling Pound and Euro respectively compared to Shs. 76.02, Shs. 132.93 and Shs. 93.28 in December 2003. On the regional front, the Shilling appreciated against the Tanzania and Uganda Shilling by 5.5% and 17.0% respectively making Kenyan goods further uncompetitive in the region. The import cover reduced from 4.1 months to 3.3 months.

The government continues to lay a solid foundation for social development and stability of the agricultural and tourism sectors. However, more needs to be done to improve security and bridge the widening gap in the government.

REVIEW OF THE BANKING SECTOR

Total assets stood at Shs. 583.4 billion from Shs. 513.3 billion, an increase of 13.6%, while deposits grew at 13.9% from Shs. 416.5 billion to Shs. 459.0 billion. Average liquidity in December 2004 was 42.4%. Overall, the average liquidity remained well over the minimum levels during the year. Pre-tax profit increased slightly by 4.0% from Shs. 15.1 billion to Shs. 15.7 billion. After a long time, domestic credit to the private sector showed a significant increase growing by Shs 45.6 billion.

High levels of non-performing advances continued to remain the greatest challenge. Gross non-performing advances at Shs. 71.2 billion remained at a similar level. Provision for impaired advances was at Shs. 40.7 billion. Taking into account the realisable value of securities of Shs. 33.4 billion on these accounts, the uncovered exposure amounted to Shs. 2.9 billion. Total non-performing advances as a percentage of total advances reduced from 25.7% in 2003 to 20.8%, still far higher than the accepted benchmark of 5%.

The banking industry is moving towards implementing recommendations made by Basel Committee on banking supervision. This shift will bring about significant changes in the capital requirements of banks and also in the way banks manage their risks. The Central Bank of Kenya continues to provide leadership in this area and is currently working towards risk based supervision.

A SOLID PERFORMANCE AT IMPERIAL

I am pleased to report that the bank continued with its exceptional all round performance in 2004.

Pre tax profit increased from Shs. 253.9 million to Shs. 267.7 million. The growth was largely attributed to increase in non-fund based income and a growth in net interest income. Total income grew from Shs. 929.2 million to Shs. 1,156.9 million, with non-fund based income growing by Shs. 36.9 million, an increase of 19.8%. Overall total operating expenses as a percentage of total income at 38.8% remained below the industry average of approximately 50%.

Income from fixed income securities grew by 18.9% mainly due to the upward movements in interest rates on these securities. The average interest rate on advances and deposits decreased from 16% and 7% in 2003 to 13% and 4% respectively in 2004.

The bank achieved earnings per share of Shs. 369.0 from Shs. 350.0 in 2003. Return on core capital and return on gross assets stood at 33% and 5% respectively, well above the industry averages.

The continued recovery in the private sector saw credit to the sector increase. Net loans and advances to customers grew by 33.6% to Shs. 3.870 billion. The bank continued to exercise caution in lending by adopting prudent credit policies. Lending was focused to the private sector and generally credit to all the sectors increased particularly to trading, tourism, and transport and communications sectors. As part of prudent accounting, the bank provided Shs. 129.4 million towards non-performing advances compared to Shs. 24.4 million in 2003. Gross non-performing advances stood at Shs. 358.7 million. After a specific provision of Shs. 290.0 million, the carrying value of these advances is Shs. 177.3 million. Non-performing advances less provisions to total advances stood at 4.6%, making the asset quality of the bank strong.

Total assets grew by 18.1% from Shs. 4.921 billion to Shs. 5.814 billion. The increase was largely attributed to a 33.6% increase in net loans and advances. The growth was funded by a 13.9% increase in customer deposits which grew from Shs. 3.865 billion to Shs. 4.401 billion and an 18.1% increase in core capital. The sustained growth in our customer deposit base is largely attributed to the level of confidence our customers have in our bank and the expansion strategies adopted by the bank.

Average liquidity through the year remained at 24% while the year end liquidity was 25.3%, in excess of the Central Bank of Kenya minimum requirement of 20%. The capital base strengthened with retention of Shs. 134.4 million from the current years profit to stand at Shs. 876.5 million.

The ratio of core capital to total risk weighted assets and total capital to total risk weighted assets stood at 20% and 21% respectively, in excess of the statutory requirement of 8% and 12%.

Off-balance sheet items also grew by 28.8% from Shs. 885.5 million to Shs. 1,140 million. Once again the above reflects a strong performance in all areas of the bank's activities.

CORPORATE GOVERNANCE

The Ethics Committee set up last year has embarked on setting guidelines for ethical business practices for the board and the staff. The bank has also commenced a project to review the organisation structure to facilitate more effective interaction of the managing director and senior management with the various board committees.

The bank created a record in winning for the third year running the first prize in the overall category and the banking categories for its 2003 Annual Report and Financial Statements in the Financial Reporting for Excellence Award (FiRe) from the Institute of Certified Public Accountants of Kenya, Nairobi Stock Exchange and Capital Markets Authority. This award is the premier award for financial, corporate governance and corporate social responsibility in Kenya.

The internal audit function was revamped during the year to change the audit approach from traditional financial audit to a holistic risk based one with focus on increasing the efficiency and performance of the bank.

RISK MANAGEMENT

Risk- taking is an inherent element of banking and, indeed, profits are in part the reward for successful risk taking in business. On the other hand, excessive, poorly managed risk can lead to losses and thus endanger the safety of the bank's deposits.

Risks are warranted when they are understandable, measurable, controllable and within the financial institution's capacity to readily withstand adverse results. Sound risk management systems will enable the managers of Imperial Bank Limited to take risks knowingly, reduce risks where appropriate and strive to prepare for a future that cannot be predicted with absolute certainty. Risk management is a discipline at the core of every financial institution and encompasses all activities that affect its risks profile.

The most common risks in financial institutions are, namely; Strategic Risk, Credit risk, Liquidity Risk, Interest Rate Risk, Foreign Exchange Risk, Operational Risk, Reputational Risk and Compliance / Regulatory Risk.

STRATEGIC RISK MANAGEMENT

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes.

The Board retains the overall responsibility for strategic risk management of the institution. In turn senior management have a duty to ensure that there is an effective strategic risks management process.

Imperial Bank Limited has strong internal control systems that ensures that it is not unduly exposed to strategic risks.

CREDIT RISK MANAGEMENT

Credit risk is the current or prospective risk to earnings and capital arising from an obligor's failure to meet the terms of any contract with the bank or if an obligor otherwise fails to perform as agreed. The largest source of credit risk is loans.

Imperial Bank Limited has an effective and sound credit risk management which is critical to the stability of any institution. The Board carries the ultimate responsibility of approving and reviewing the credit risk strategy and credit risk policies of the institution. The senior management on the other hand has the responsibility of implementing the credit strategy approved by the Board and developing policies and procedures for effective management of the credit risk.

LIQUIDITY RISK MANAGEMENT

Liquidity risk is the current or prospective risk to earnings and capital arising from a bank's inability to meet its liabilities when they fall due without incurring unacceptable losses.

The prerequisites of an effective liquidity risk management include an informed Board, capable management, staff having relevant expertise and effective systems and procedures. It is the responsibility of Board and management to ensure the institution has sufficient liquidity to meet its obligations as they fall due.

Imperial Bank Limited has adequate information systems that can capture significant information for measuring, monitoring, and controlling existing as well as future liquidity risks and reporting them to senior management.

INTEREST RATE RISK MANAGEMENT

Interest rate risk is the current or prospective risk to earnings and capital arising from adverse movements in interest rates. Excessive interest rate risk can pose a significant threat to a financial institution's earnings and capital base.

The Board has the ultimate responsibility for understanding the nature and the level of interest rate risk taken by Imperial Bank Limited and for ensuring that management takes steps necessary to identify, measure, monitor and control these risks.

Imperial Bank Limited has clearly defined policies and procedures for limiting and controlling interest rate risk.

FOREIGN EXCHANGE RATE RISK MANAGEMENT

Foreign exchange rate risk is the current or prospective risk to earnings and capital arising from adverse movement in currency exchange rates. The potential for loss arises from the process of revaluing foreign currency positions in shilling terms.

The Board and senior management of Imperial Bank Limited are ultimately responsible for the institution's exposure to foreign exchange risk and the level of risk assumed. Imperial Bank limited has well articulated policies, and objectives on the foreign exchange risk management strategy.

OPERATIONAL RISK MANAGEMENT

Proper operational risk management prevents losses resulting from inadequate or failed internal processes, people and system or from external events. It is the risk of loss arising from the potential that inadequate information system; technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems may result in unexpected losses.

The Board and senior management of Imperial Bank Limited ensures that there is an effective, integrated operational risk management framework. This encompasses clearly defined organizational structures, with defined roles and responsibilities for all aspects of operational risk management/monitoring and there are appropriate tools that support the identification, assessment, control and reporting of key risks.

REPUTATIONAL RISKS MANAGEMENT

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Ultimate accountability for reputational risk management rests with the Board. The Board reviews policies, processes and procedures on an on going basis to control or mitigate material reputational risks.

REGULATORY RISK MANAGEMENT

Regulatory risk is the current and prospective risk to earnings or capital arising from violations of, or non-conformance with laws, rules, regulations, prescribed practice, or ethical standards issued by the regulator from time to time. Regulatory risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested.

Regulatory risk exposes an institution to fines, civil money penalties, payment of damages, and the violation of contracts. It can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential and an inability to enforce contracts. The Board has instituted compliance systems that mitigate against such risks.

SOCIAL RESPONSIBILITY

At Imperial, we believe in contributing to the society at large within which we operate and improving our staff welfare.

As the Bank expands, our corporate social responsibility programme expands too. In the past we have assisted three school feeding programmes and this has continued during the year. Orphans' homes, mosques, churches, the street children rehabilitation project, the sponsoring of bright children from needy homes, and other charitable organizations also benefited from donations by the bank. Environmental projects such as fencing the Aberdare Forest have also continued receiving support from the bank. All these summed together is 2.6 million.

Staff training continues to be provided to staff in their respective functions. Staff in the just launched Visa Card section attended a course in South Africa. There were also various training modules developed for internal training aimed at standardising the operational practices across the branch network. Staff in different departments were required to undergo refresher courses.

OTHER DEVELOPMENTS

In my last year's statement, I had eluded to the bank acquiring the Visa license for both debit and credit cards being the only medium sized bank to be licensed directly by Visa. The card operations commenced successfully on 4th March 2005. Apart from enjoying the normal benefits associated with credit cards, Imperial Visa card holders will enjoy additional benefits which will make our card one of choice.

On 7th February 2005, we commenced operations in our modern state-of-art, custom-built Mombasa branch building whose design is based on an Islamic architecture. The branch will continue to provide full range of banking services to our clients in the coastal region.

The Malindi and Parklands branches are now fully fledged and provide personalized banking services. The recruitment of head of marketing and head of operations in 2004 has led to streamlining of our operations with focus on customer service delivery at the heart of our restructuring and expansion objectives.

FUTURE DEVELOPMENTS

The core banking system project is currently ongoing, and once fully enhanced will provide greater efficiency and speed in all transactions between the customer and branches.

Having successfully launched the visa card, the bank is in the process of introducing a debit card that will enable our customers to access their account information as well as to withdraw cash from countrywide locations. It will also ensure that our customers have access to banking facilities at all times.

The bank is currently introducing the concept of relationship management. This will mean that customers will be managed on a relationship and not on a product basis. This new approach will enable the bank to get much closer to its customers and establish a personalized relationship that will accrue many benefits for the customers including increased profitability.

The bank will continue to explore expansion strategies. There are plans to open branches at strategic locations with the aim of developing a seamless bank with a centralized back office, credit and treasury functions.

The Economy is expected to continue in the current growth momentum. Inflation is expected to stabilize at around 5 to 7% while interest rates on the 91 day treasury will remain at the same levels with regional partners. The uncertainties on the political front, increasing security concerns and high cost of doing business in Kenya will continue to hamper the private sector growth.

The challenge in 2005 will remain on customer focus and providing personalized services to our clients.

ACKNOWLEDGEMENT

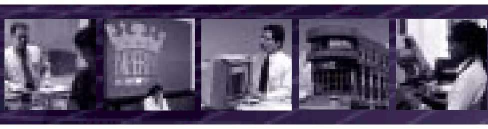
The success of the bank would not have been possible without the continued support of our customers. On behalf of the Board, I take this opportunity to once again extend my gratitude to them for their valuable support and confidence in our bank.

I would like to thank the managing director and all the staff for their dedication and commitment that has ensured that the bank maintains a sound position in Kenya's banking industry.

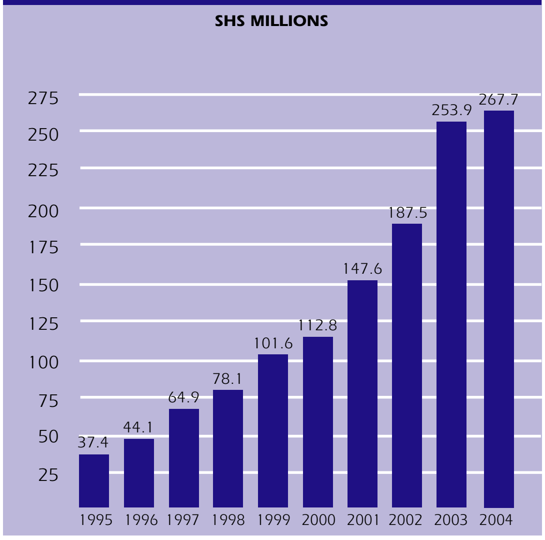
I would also like to thank my fellow Board members for their vision and support they have accorded to me and the bank.

Finally, I would like to extend my appreciation to the Central Bank of Kenya for the continued co-operation and support at all times.

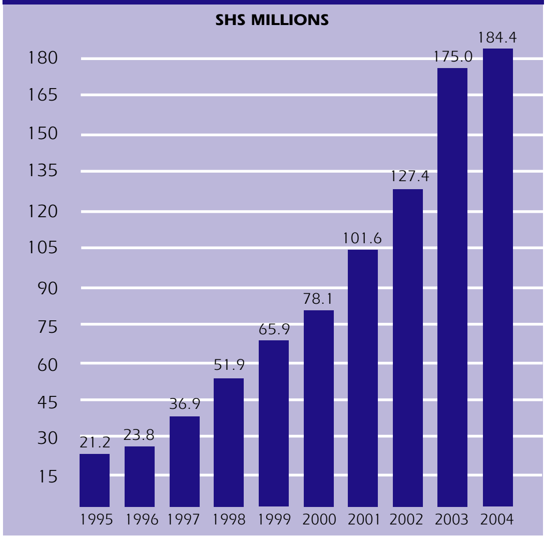
Alnashir Popat
Chairman
21 March 2005



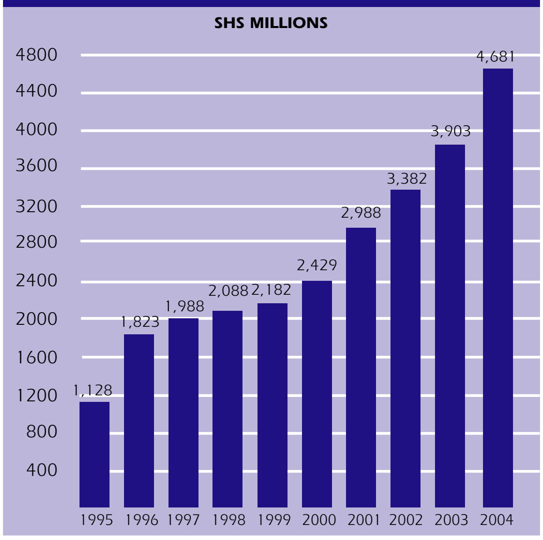
PROFIT BEFORE TAX



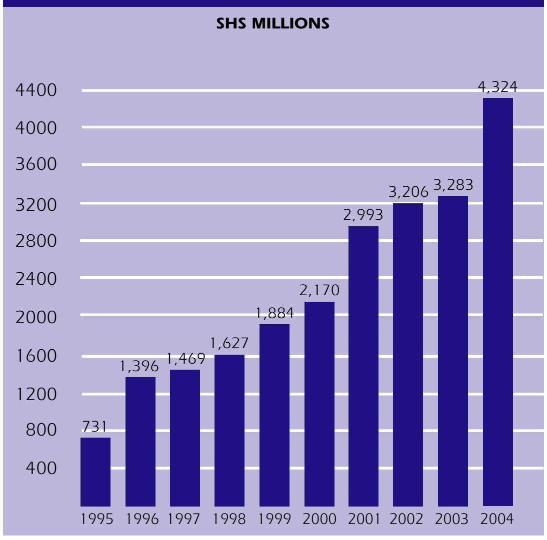
PROFIT AFTER TAX



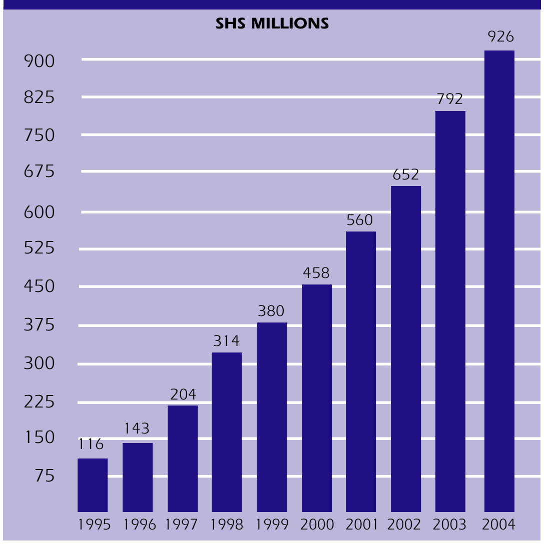
DEPOSITS



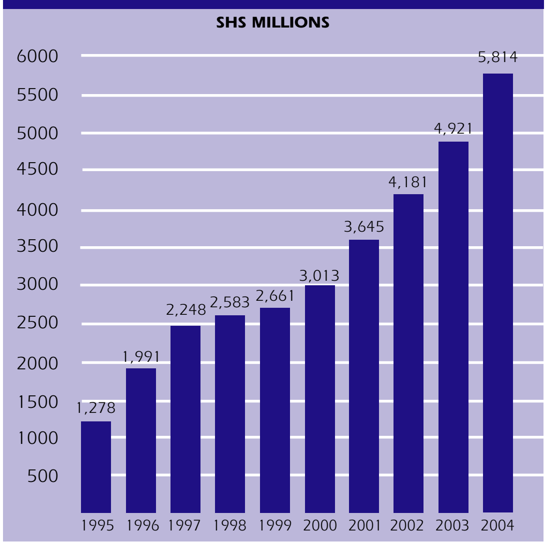
ADVANCES



SHAREHOLDERS FUNDS

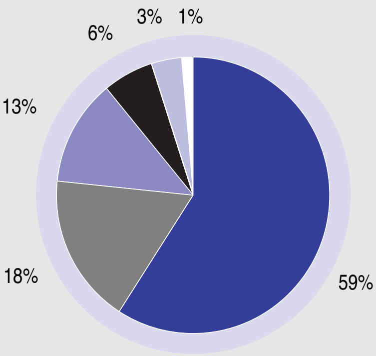


TOTAL ASSETS

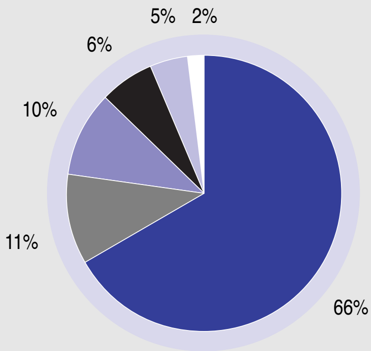


DISTRIBUTION OF ASSETS

2003



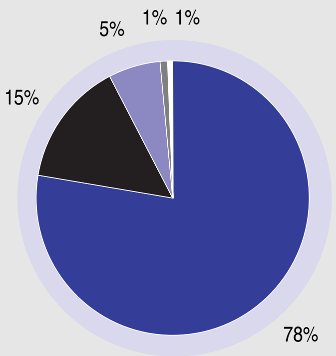
2004



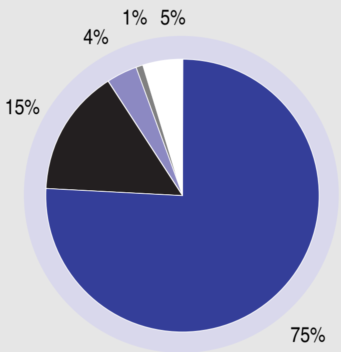
	2003	2004
Loans and advances to customers	2,897	3870
Deposits with banking institutions	875	618
Government securities	621	589
Cash and Central Bank of Kenya balances	280	368
Property and equipment	181	266
Other assets	67	103
	4,921	5,814

LIABILITIES, SHAREHOLDERS AND EQUITY COMPOSITION

2003



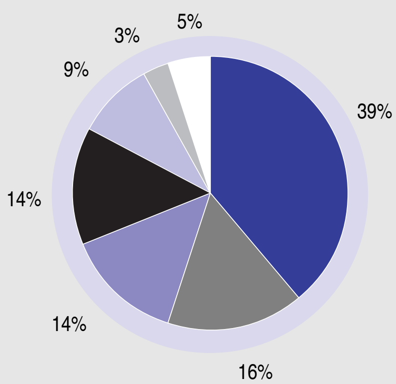
2004



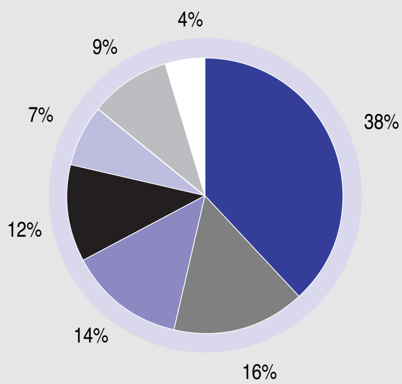
	2003	2004
Customer deposits	3,865	4,401
Core capital	742	877
Other liabilities	226	207
Proposed dividends	50	50
Deposits from banking institutions	38	279
	4,921	5,814

DISTRIBUTION OF INCOME

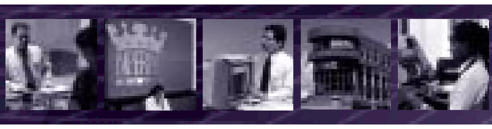
2003



2004



	2003	2004
Interest expense	363	441
Other operating expenses	151	181
Staff expenses	131	158
Retention	125	134
Government	79	83
Impairment losses	30	110
Shareholders dividends	50	50
	929	1,157



The directors submit their report together with the audited financial statements for the year ended 31 December 2004, in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act, which disclose the state of affairs of the company.

PRINCIPAL ACTIVITIES

The company is licensed under the Banking Act and provides banking, financial and related services.

RESULTS

The net profit for the year was Shs 184.368 million (2003: Shs 175.021 million).

DIVIDENDS

The directors propose a final dividend of Shs 100 per share amounting to Shs 50 million (2003: Shs 50 million).

FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The company's activities expose it to a variety of financial risks, including credit, the effects of changes in liquidity, foreign currency exchange rates and interest rates. The company's overall risk management programme focuses on the acceptable level of risk and the unpredictability of financial markets and seeks to minimise potential adverse effects on its financial performance.

The company has policies in place to ensure that banking services are availed to customers with performance and credit history.

DIRECTORS

The names of the directors who held office during the year to the date of this report are set out on page 3.

In accordance with the company's Articles of Association, no director is due for retirement by rotation.

AUDITORS

KLSA Pannell Kerr Forster have expressed their willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap 486), subject to approval by the Central Bank of Kenya in accordance with section 24(1) of the Banking Act (Cap 488).

By Order of the Board
Company Secretary

Nairobi
21 March 2005

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31 DECEMBER 2004

The Companies Act (Cap. 486) 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 operating results for that year. It also requires the directors to ensure that the company maintains proper accounting records which disclose, with reasonable accuracy, the financial position of the company. The directors 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, consistent with prior years and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). 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 company as at 31 December 2004 and of its operating results for the year then ended. The directors further confirm the accuracy and completeness of the accounting records maintained by the company which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the board of directors on 21 March 2005 and signed on its behalf by:

Alnashir Popat
Chairman

Abdulmalek Janmohamed
Managing Director

TO THE MEMBERS OF IMPERIAL BANK LIMITED

We have audited the financial statements of Imperial Bank Limited for the year ended 31st December 2004 as set out on pages 18 to 44.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors are responsible for the preparation of the financial statements as set out on page 16. Our responsibility is to express an independent opinion on the financial statements based on our audit.

BASIS OF OPINION

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. It also includes assessing the accounting principles used and significant estimates made by the management, as well as an evaluation of the overall presentation of the financial statements. 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 and believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, proper books of account have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the company as at 31 December 2004 and of its profits and cash flows for the year then ended and comply with the Companies Act (Cap. 486) and the International Financial Reporting Standards.

KLSA Pannell Kerr Forster
Certified Public Accountants
Nairobi

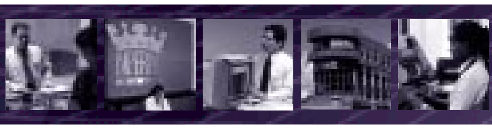
21 March 2005

Income Statement

FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 Shs '000	2003 Shs '000
Interest income	1	**934,241**	743,296
Interest expense	2	**(440,738)**	(362,558)
NET INTEREST INCOME		**493,503**	380,738
Fees and commission income		**156,110**	122,144
Foreign exchange trading income		**64,365**	61,823
Dividend income	3	**344**	16
Gains arising from available-for-sale investment securities	4	**1,002**	492
Other income	5	**936**	1,424
OPERATING INCOME		**716,260**	566,637
Impairment losses on loans and advances	6	**(110,230)**	(30,472)
Other operating expenses	7	**(338,348)**	(282,286)
PROFIT BEFORE TAX		**267,682**	253,879
Tax	8	**(83,314)**	(78,858)
NET PROFIT		**184,368**	175,021
EARNINGS PER SHARE			
Basic and diluted (Shs per share)	9	**369**	350
DIVIDEND			
Proposed dividend for the year (Shs '000)	10	**50,000**	50,000
DIVIDEND PER SHARE (Shs per share)	10	**100**	100

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the financial statements. Report of the independent auditors - Page 17.



Balance Sheet

AS AT 31 DECEMBER 2004

ASSETS	*Note*	***2004 Shs '000***	*2003 Shs '000*
Cash in hand		**48,117**	57,660
Balances with Central Bank of Kenya	11	**319,774**	222,027
Government securities	12	**588,941**	620,624
Placements with and loans and advances to other banking institutions	13	**618,477**	874,966
Other assets	14	**42,690**	27,184
Loans and advances to customers	15	**3,869,844**	2,896,513
Investment securities	16	**-**	806
Property and equipment	17	**137,461**	143,411
Prepaid operating lease rentals	18	**18,468**	18,612
Capital work in progress	19	**109,729**	19,561
Deferred tax	20	**21,208**	39,226
Tax recoverable		**39,046**	-
TOTAL ASSETS		**5,813,755**	4,920,590
LIABILITIES			
Customer deposits	21	**4,401,413**	3,864,500
Deposits due to other banking institutions	22	**279,194**	38,203
Other liabilities	23	**206,674**	191,408
Current tax		**-**	34,373
TOTAL LIABILITIES		**4,887,281**	4,128,484
SHAREHOLDERS' EQUITY			
Share capital	24	**500,000**	500,000
Retained earnings		**376,474**	242,106
Proposed dividend	10	**50,000**	50,000
TOTAL SHAREHOLDERS' EQUITY		**926,474**	792,106
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**5,813,755**	4,920,590

The financial statements on pages 18 to 44 were approved for issue by the board of directors on 21 March 2005 and were signed on its behalf by:

Alnashir Popat - *Chairman*
Abdulmalek Janmohamed - *Managing Director*
Anwar Hajee - *Director*
Equatorial Secretaries and Registrars - *Company Secretary*

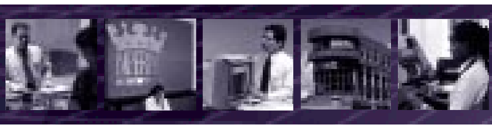
The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the financial statements. Report of the independent auditors - Page 17.

Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2004

Year ended 31 December 2003	*Note*	***Share capital Shs '000***	***Retained earnings Shs '000***	***Proposed dividend Shs '000***	***Total Shs '000***
At start of year		400,000	217,085	35,000	652,085
Net profit for the year		-	175,021	-	175,021
Bonus issue of shares	24	100,000	(100,000)	-	-
Dividends:					
- 2002 dividend paid		-	-	(35,000)	(35,000)
- proposed for 2003	10	-	(50,000)	50,000	-
At end of year		500,000	242,106	50,000	792,106
Year ended 31 December 2004					
At start of year		500,000	242,106	50,000	792,106
Net profit for the year		-	184,368	-	184,368
Dividends:					
- 2003 dividend paid		-	-	(50,000)	(50,000)
- proposed for 2004	10	-	(50,000)	50,000	-
At end of year		**500,000**	**376,474**	**50,000**	**926,474**

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the financial statements. Report of the independent auditors - Page 17.



Cash Flow Statement

FOR THE YEAR ENDED 31 DECEMBER 2004

CASH FLOWS FROM OPERATING ACTIVITIES	*Note*	***2004 Shs '000***	*2003 Shs '000*
Interest receipts		**979,580**	793,550
Interest payments		**(437,774)**	(325,917)
Fees and commission receipts		**220,475**	183,967
Loans and advances written off		**-**	(401)
Payments to employees and suppliers		**(283,236)**	(248,321)
Tax paid		**(138,716)**	(64,425)
Cash flows from operating activities before changes in operating assets and liabilities		**340,329**	338,453
Changes in operating assets and liabilities:			
- loans and advances		**(645,127)**	(369,614)
- other assets		**(270,941)**	(472,191)
- customer deposits		**536,913**	441,301
- other liabilities		**14,570**	41,173
NET CASH FROM OPERATING ACTIVITIES		**(24,256)**	(20,878)
Cash flows from investing activities			
Purchase of property and equipment	17	**(23,996)**	(34,198)
Investment in capital work in progress	19	**(90,168)**	(19,561)
Purchase of investment securities	16	**(39,577)**	-
Purchase of prepaid operating lease rentals	18	**(163)**	-
Dividends received		**344**	16
Proceeds from disposal of investment securities		**41,045**	-
Proceeds from disposal of property and equipment		**1,250**	2,438
NET CASH USED IN INVESTING ACTIVITIES		**(111,265)**	(51,305)
Cash flows from financing activities			
Dividend paid		**(50,000)**	(35,000)
NET CASH USED IN FINANCING ACTIVITIES		**(50,000)**	(35,000)
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(185,521)**	(107,183)
CASH AND CASH EQUIVALENTS AT START OF THE YEAR	25	**1,047,503**	1,154,686
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	25	**861,982**	1,047,503

The accounting policies on pages 22 to 24 and the notes on pages 25 to 44 form an integral part of the financial statements. Report of the independent auditors - Page 17.

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a) **Basis of Preparation:**
The financial statements are prepared in accordance with and comply with International Financial Reporting Standards and are prepared under the historical cost convention as modified by fair value adjustment to certain financial instruments.

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reporting amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reporting amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results may differ from those estimates.

(b) **Revenue Recognition:**
Interest income is recognised on an accruals basis in the income statement using the effective yield on the asset. Interest income includes coupons earned on fixed income investment securities and accrued discount and premium on treasury bills and bonds. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount. Finance lease income is recognised to reflect a constant rate of return on the investment and is accrued over the agreement period using the reducing balance method.

Fees and commissions income and hire purchase option fees are recognised at the time of effecting the transaction.

Dividend income is recognised when declared.

Revenue is recognised only when it is probable that the economic benefit associated with the transaction will flow to the bank.

(c) **Foreign Currencies:**
Transactions in foreign currencies during the year are converted into Kenya Shillings at rates ruling at the transaction dates. Assets and liabilities at the balance sheet date which are expressed in foreign currencies are translated into Kenya Shillings at rates ruling at that date. The resulting differences from conversion and translation are dealt with in the income statement in the year in which they arise.

(d) **Property and Equipment:**
Property and equipment is stated at historical cost less accumulated depreciation.

Depreciation is calculated on a straight line basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate - %
Building	2.5
Office renovations	Over the operating lease period of the building
Computers, copiers and faxes	30
Motor vehicles	25
Furniture and fittings	12.5
Office equipment	20

Property and equipment are periodically reviewed for impairment. Where the carrying amount of property and equipment is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

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

(e) **Pension Obligations:**
The bank operates a defined contribution pension scheme for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. The pension plan is funded by contributions from the employees and the company. The bank's contributions are charged to the income statement in the year to which they relate.

The employees and the bank also contribute to the National Social Security Fund, a national retirement benefit scheme. Contributions are determined by local statute and the company's contributions are charged to the income statement in the year to which they relate.

(f) **Employee Entitlements:**
Employee entitlements to long term service awards are recognised when they accrue to employees.

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

(g) **Loans and provisions for loan impairment:**
Loans and advances are recognised when cash is advanced to borrowers and are subsequently carried at amortised cost less provision for impairment losses.

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. In arriving at such provisions, present value of future expected cash flows, including amounts recoverable from securities, discounted at effective interest rates of loans are taken into account.

A general provision for loan impairment is established to cover losses that are adjudged to be present in the lending portfolio at the balance sheet date but which have not been specifically impaired as such. The provision is based on the directors' assessment of the latent risk of default known to be present in the portfolio of the bank's advances.

Where a loan or an advance is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries of amounts previously written off are credited to the income statement in the year of recovery.

(h) Leases:

Finance leases as a lessor

Leases of property and equipment including hire purchase agreements where the company transfers substantially all the risks and rewards incident to ownership are classified as finance leases. Assets held under finance leases are recognised as receivables at the amount equal to the net investment in the lease. Subsequently, the net investment in leases is carried at amortised cost, less provision for impairment losses. Each lease repayment is treated as repayment of principal and finance income so as to reflect a constant rate of return on the investment. At the end of the lease term the lessee has an option to purchase the asset.

Operating leases as a lessee

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight line basis over the lease period.

Prepaid operating lease rentals are recognised as an asset and are subsequently amortised over the lease period.

(i) Taxation:

Current tax

Current tax is provided on the basis of the results for the year, adjusted in accordance with tax legislation.

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates at the balance sheet date are used to determine deferred tax. Deferred 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) Financial Instruments:

The bank's financial instruments fall into the following four categories :

- Held for trading - financial instruments that are acquired or incurred principally for the purpose of generating a profit from short term fluctuation in price or dealer's margin. Such instruments are carried at fair value where fair value gains or losses are included in the income statement for the period.
- Held to maturity - financial instruments with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Such instruments are carried at amortised cost using the effective interest rate method.
- Originated loans and receivables-financial instruments that are created by the company by providing money or products directly to a debtor other than those with the intent to be sold immediately or in the short term. Such instruments are carried at amortised cost using the effective interest rate method.
- Available-for-sale financial instruments that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such instruments are carried at fair value where fair value gains or losses are included in the net income statement for the period.

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. The amount of the impairment loss for assets carried at amortised cost is calculated as the difference between the assets carrying amount and the present values of expected future cash flows, including security realisation, discounted at the financial instrument's effective interest rate. Impairment losses are taken into account in determining operating profit.

Management classifies Financial Instruments as follows:

(i) Cash in hand and balances with Central Bank of Kenya and other banking institutions are classified as originated loans and are carried at amortised cost.

(ii) Government securities acquired on first issue directly from the government are classified as originated loans and are carried at armortised cost. Those acquired from the secondary trading market are classified as available-for-sale and are accordingly carried at fair value.

(iii) Loans and advances to customers are classified as originated loans and are carried at amortised cost.

(iv) Investment securities are classified as available- for-sale and are carried at fair value. Where the securities are disposed off, gains or losses are taken into account in determining operating profit.

Financial liabilities
Financial liabilities are recognised initially at cost and subsequently measured at amortised cost.

Customer deposits are classified as financial liabilities and are carried at amortised cost.

(k) Dividends:
Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

(l) Cash and Cash Equivalents:
For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition and include cash and balances with the Central Bank of Kenya (excluding cash reserve ratio), government securities and deposits and balances due to and from banking institutions.

(m) Contingent Liabilities:
Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the directors. Any expected loss is charged to the income statement.

(n) Foreign exchange forward contracts:
Foreign exchange forward contracts are marked to market and are carried at their fair value and shown as commitments. Gains and losses on foreign exchange forward contracts are dealt with on a net basis in the income statement in the year in which they arise.

(o) Sale and Repurchase Agreements:
Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counter party liability included in amounts due to banking institutions.

Securities purchased under agreement to resell (Reverse Repos) comprise of treasury bills that are held until maturity of the Reverse Repo agreement after which they are re-sold and as such they are not negotiable/discountable during the tenure of the Reverse Repo agreement. These are included in government securities.

Cash flows from Repo agreements are included as part of cash flows from operating activities.

(p) Offsetting:
Financial assets and liabilities are offset and stated at net amounts in the balance sheet when there is a legally enforceable right to set off, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(q) Provisions:
Provisions are recognised when the bank has a present legal or constructive obligation, as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(r) Comparatives:
Where necessary comparative figures have been adjusted to conform with changes in presentation in the current year.

	2004 Shs '000	2003 Shs '000
1. INTEREST INCOME		
Loans and advances including finance lease income	901,612	717,543
Government securities	23,844	20,060
Placements with and loans and advances to other banking institutions	4,446	3,228
Others	4,339	2,465
	934,241	743,296
2. INTEREST EXPENSE		
Customer deposits	421,883	347,520
Deposits from other banking institutions	18,621	15,034
Others	234	4
	440,738	362,558
3. DIVIDEND INCOME		
Dividends from investment securities	344	16
4. GAINS ARISING FROM AVAILABLE-FOR-SALE INVESTMENT SECURITIES		
Increase in fair value of investment securities (Note 16)	-	492
Gain on disposal of investment securities	1,002	-
	1,002	492
5. OTHER INCOME		
Gain on disposal of property and equipment	936	1,424
6. IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
Loans and advances to customers:		
- net increase in specific provision (Note 15 (b))	129,392	24,431
- net decrease in general provision (Note 15 (b))	(19,162)	5,640
Loans and advances written off	-	401
	110,230	30,472

7. *(a) OTHER OPERATING EXPENSES*

	2004 Shs '000	2003 Shs '000
Staff costs (Note 7(b))	158,264	130,646
Directors' emoluments - fees	-	10,500
- other	15,026	7,026
Depreciation on property and equipment (Note 17)	29,632	28,294
Amortisation of prepaid operating lease rentals (Note 18)	307	304
Auditors' remuneration - current year	1,792	1,740
- under/(over) provision in prior year	104	(169)
Contribution to Deposit Protection Fund	4,920	4,128
Operating lease rentals	9,969	8,674
Other administrative expenses	91,785	70,333
Other operating expenses	26,549	20,810
	338,348	282,286

(b) STAFF COSTS

The following items are included in staff costs:

Staff leave accrual	3,456	3,422
Pension costs - defined contribution scheme	8,597	6,810
- National Social Security Fund	549	247

The number of persons employed by the company at the year end was 129 (2003: 107).

8. *TAX*

	2004 Shs '000	2003 Shs '000
Current tax	65,296	96,277
(Over) provision of tax in prior year	-	(150)
Deferred tax (credit)/charge (Note 20)	18,018	(17,269)
	83,314	78,858

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

	2004 Shs '000	2003 Shs '000
Profit before tax	267,682	253,879
Tax calculated at a rate of 30% (2003: 30%)	80,305	76,164
Expenses not deductible for tax purposes	3,112	3,423
(Over) provision of tax in prior year	-	(150)
Income not subject to tax	(103)	(579)
Tax charge	83,314	78,858

9. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year.

	2004	2003
Net profit for the year attributable to shareholders (Shs '000)	**184,368**	175,021
Adjusted weighted average number of ordinary shares in issue	**500,000**	500,000
Earnings per share - basic and diluted (Shs)	**369**	350

There were no potentially dilutive shares outstanding at 31 December 2004 and 31 December 2003.

10. DIVIDEND

At the forthcoming annual general meeting a final dividend in respect for the year ended 31 December 2004 of Shs 100 per share, amounting to Shs 50 million is to be proposed (2003: Shs 100 per share amounting to Shs 50 million).

Where applicable, payment of dividends is subject to deduction of withholding tax at a rate of 5% for residents.

11. BALANCES WITH CENTRAL BANK OF KENYA

	2004 Shs '000	2003 Shs '000
- cash reserve ratio	274,542	218,933
- other (Note 25)	45,232	3,094
	319,774	222,027

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2004 the cash reserve ratio requirement was 6% (2003: 6%) of all customer deposits. These funds are not available to finance the bank's day to day operations.

12. GOVERNMENT SECURITIES	2004 Shs '000	2003 Shs '000
Treasury bills	324,869	149,986
Treasury bonds - held to maturity	140,773	470,638
- available-for-sale	123,299	-
	588,941	620,624
Comprising		
Maturing within 91 days of the date of acquisition (Note 25)	429,350	149,986
Maturing after 91 days of the date of acquisition	159,591	470,638
	588,941	620,624

13. PLACEMENTS WITH AND LOANS AND ADVANCES TO OTHER BANKING INSTITUTIONS

	2004 Shs '000	2003 Shs '000
Balances with banking institutions in Kenya	13,138	159,664
Balances with banking institutions abroad	122,167	69,031
Term deposits with banking institutions in Kenya	118,329	194,833
Term deposits with banking institutions abroad	208,830	163,698
Items in course of collection from banking institutions	156,013	287,740
	618,477	874,966

14. OTHER ASSETS

	2004 Shs '000	2003 Shs '000
Receivables and prepayments	39,149	13,634
Foreclosed assets	3,541	13,550
	42,690	27,184

Foreclosed assets comprise moveable properties (motor vehicles) recovered following default of contractual terms of the loans and advances to customers. These are held for sale. In the opinion of the directors, adequate allowance has been made for impairment of the values of these assets.

15. LOANS AND ADVANCES TO CUSTOMERS

(a) Loans and advances	2004 Shs '000	2003 Shs '000
Overdrafts	1,966,845	1,716,332
Commercial loans	844,346	554,756
Bills discounted	26,159	126,044
Gross investment in finance leases (Note 15 (d))	1,486,212	885,796
Gross loans and advances	4,323,562	3,282,928
Unearned interest (Note 15 (d))	(125,514)	(111,775)
Provision for impaired loans and advances (Note 15(b))	(328,204)	(274,640)
Loans and advances net of provision for impairment	3,869,844	2,896,513

(b) Provisions for impaired loans and advances

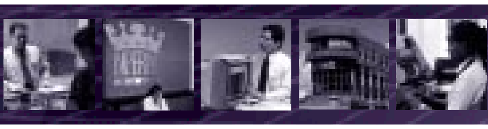
Year ended 31 December 2004	*Specific provision Shs '000*	*General provision Shs '000*	*Total Shs '000*
At start of year	217,231	57,409	274,640
New provisions	124,287	-	124,287
Increased provisions	18,916	-	18,916
Provisions no longer required	(13,811)	(19,162)	(32,973)
Net increase in provision for impairment charged to income statement	129,392	(19,162)	110,230
Provision utilised during the year for write off	(56,666)	-	(56,666)
At end of year	289,957	38,247	328,204

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(b) Provisions for impaired loans and advances (continued)

Year ended 31 December 2003	*Specific provision Shs '000*	*General provision Shs '000*	*Total Shs '000*
At start of year	222,676	51,769	274,445
New provisions	42,977	5,640	48,617
Increased provisions	20,889	-	20,889
Provisions no longer required	(39,435)	-	(39,435)
Net increase in provision for impairment charged to income statement	24,431	5,640	30,071
Provisions utilised during the year for write off	(29,876)	-	(29,876)
At end of year	217,231	57,409	274,640

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to Shs 358.742 million (2003: Shs 303.679 million). These are included in the balance sheet net of provisions at Shs 177.340 million (2003: Shs 86.447 million). In the opinion of the directors sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to Shs 190.863 million (2003: Shs 134.042 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the bank.



15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(c) Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2004 Shs '000	**2004 %**	*2003 Shs '000*	*2003 %*
Manufacturing	432,176	10	389,327	12
Wholesale, retail trade and hotels	1,184,592	28	952,144	29
Transport and communications	618,406	14	402,560	12
Agriculture	118,389	3	63,478	2
Hire purchase and insurance	501	-	7,926	-
Business services	185,807	4	131,755	4
Building, construction and real estate	252,629	6	145,358	4
Social, community and personal services	16,027	-	33,230	1
Others	1,515,035	36	1,157,150	36
	4,323,562	100	3,282,928	100

(d) Finance leases

The loans and advances to customers include finance lease receivables, which may be analysed as follows:

	2004 Shs '000	*2003 Shs '000*
Gross investment in finance leases:		
- maturing not later than 1 year	178,817	381,256
- maturing later than 1 year and not later than 5 years	1,307,395	504,540
	1,486,212	885,796
Unearned future finance income on finance leases	(125,514)	(111,775)
Net investment in finance leases	1,360,698	774,021
The net investment in finance leases may be analysed as follows:		
- not later than 1 year	110,749	326,675
- later than 1 year and not later than 5 years	1,249,949	447,346
	1,360,698	774,021

15. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) **Credit risk**

The bank undertakes an exposure to credit risk, which is the risk that a counterparty will be unable to pay amounts in full when due. The bank structures the levels of credit risk it undertakes by placing limits on amounts 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 exchange contracts. Actual exposures against limits are monitored daily.

Exposure to credit risk is managed through regular analysis of the liability of borrowers 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, corporate and personal guarantees. Credit risk is spread over a diversity of personal and commercial customers as set out in note 15 (c). The credit risk exposure relating to contingencies and commitments is further outlined in note 26.

16. INVESTMENT SECURITIES

	2004 Shs '000	2003 Shs '000
Quoted equity investments:		
At start of year	806	314
Additions	39,577	-
Disposals	(40,383)	-
Fair value gain (Note 4)	-	492
At end of the year	-	806

The entire portfolio of investment securities comprising quoted equity investments was disposed off during the year realising a gain of Shs 1.002 million. In the prior year, the above quoted equity investments were stated at fair value based on listed stock exchange prices at the balance sheet date.

17. PROPERTY & EQUIPMENT

	Building *Shs '000*	*Office renovations* *Shs '000*	*Computers, copiers & faxes* *Shs '000*	*Motor vehicles* *Shs '000*	*Furniture & fittings* *Shs '000*	*Office equipment* *Shs '000*	*Total* *Shs '000*
COST							
At start of year	65,363	15,107	42,270	28,090	78,041	31,299	260,170
Additions	2,500	-	5,939	10,813	2,129	2,615	23,996
Disposals	-	-	-	(3,720)	(208)	-	(3,928)
At end of year	**67,863**	**15,107**	**48,209**	**35,183**	**79,962**	**33,914**	**280,238**
DEPRECIATION							
At start of year	4,734	15,107	36,257	16,113	25,671	18,877	116,759
Charge for the year	1,697	-	5,520	7,594	9,672	5,149	29,632
On disposal	-	-	-	(3,406)	(208)	-	(3,614)
At end of year	**6,431**	**15,107**	**41,777**	**20,301**	**35,135**	**24,026**	**142,777**
NET BOOK VALUE							
At 31 December 2004	**61,432**	**-**	**6,432**	**14,882**	**44,827**	**9,888**	**137,461**
At 31 December 2003	60,629	-	6,013	11,977	52,370	12,422	143,411

In the opinion of directors there is no impairment of property and equipment. Property and equipment with a cost of Shs 67.355 million (2003: Shs 54.849 million) was fully depreciated at the balance sheet date. The depreciation charge in respect of these assets for the year would have been Shs 13.891 million (2003: Shs 10.652 million) had they not been fully depreciated.

18. PREPAID OPERATING LEASE RENTALS

Amounts paid on acquisition of leasehold land are classified under prepaid operating lease rentals. The movement in prepaid operating lease rentals during the year was as follows:

	2004 Shs '000	2003 Shs '000
Cost		
At start of year	19,748	19,748
Additions	163	-
At end of year	19,911	19,748
Amortisation		
At start of year	1,136	832
Amortisation	307	304
At end of year	1,443	1,136
Net book value	18,468	18,612

19. CAPITAL WORK IN PROGRESS

	2004 Shs '000	2003 Shs '000
At start of year	19,561	-
Additions	90,168	19,561
At end of year	109,729	19,561

Capital work in progress relates to ongoing construction of bank premises in Mombasa. The expected date of completion is March 2005.

20. DEFERRED TAX

Deferred tax is calculated on all temporary timing differences under the liability method using a principal tax rate of 30%. The movement on the deferred tax account is as follows:

	2004 Shs '000	*2003 Shs '000*
At start of year	39,226	21,957
(Charged)/credited to income statement	(18,018)	17,269
At end of year	21,208	39,226

Deferred tax assets and deferred tax credited/(charged) to the income statement are attributable to the following:

	At 1 January 2004 Shs '000	***Credited/ (charged) to income statement Shs '000***	***At 31 December 2004 Shs '000***
Deferred tax assets			
Excess depreciation over capital allowances	5,986	820	6,806
General provision for bad and doubtful debts	17,223	(5,749)	11,474
Provision for staff leave accrual	2,114	814	2,928
Other general provisions	13,903	(13,903)	-
	39,226	(18,018)	21,208

21. CUSTOMER DEPOSITS

	2004 Shs '000	2003 Shs '000
Call deposits	66,088	88,298
Current and demand accounts	670,673	416,830
Savings accounts	572,444	688,152
Term deposits	1,927,862	1,879,666
Foreign currency deposits	1,164,346	791,554
	4,401,413	3,864,500

Analysis of customer deposits by maturity:

	2004 Shs '000	2003 Shs '000
Payable within 90 days	3,222,009	3,274,983
Payable after 90 days and within one year	1,139,863	589,517
Payable after one year	39,541	-
	4,401,413	3,864,500

Concentration:
The economic sector concentrations within the customer deposits portfolio were as follows:

	2004 Shs '000	2004 %	2003 Shs '000	2003 %
Non private institutions and individuals	3,007,563	68	2,625,658	68
Private companies	1,345,207	31	1,199,556	31
Insurance companies	47,200	1	17,156	-
Hire purchase companies	1,443	-	22,130	1
	4,401,413	100	3,864,500	100

22. DEPOSITS DUE TO OTHER BANKING INSTITUTIONS

	2004 Shs '000	2003 Shs '000
Call deposits	-	35,541
Current and demand accounts	18,973	2,662
Term deposits	260,221	-
	279,194	38,203

23. OTHER LIABILITIES

	2004 Shs '000	2003 Shs '000
Outstanding bankers cheques	51,396	54,707
Staff leave accrual	9,761	7,048
Sundry creditors	145,517	129,653
	206,674	191,408

24 . SHARE CAPITAL

	No. of ordinary shares		Issued and paid up capital	
	2004	2003	2004 Shs '000	2003 Shs '000
At start of year	500,000	400,000	500,000	400,000
Bonus issue of shares	-	100,000	-	100,000
At end of year	500,000	500,000	500,000	500,000

The total authorised number of ordinary shares is 500,000 with a par value of Shs 1,000 per share. All issued shares are fully paid.

25. CASH AND CASH EQUIVALENTS

	2004 Shs '000	2003 Shs '000	Changes during the year Shs '000
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:			
Cash in hand	48,117	57,660	(9,543)
Balances with Central Bank of Kenya (Note 11)	45,232	3,094	42,138
Government securities (Note 12)	429,350	149,986	279,364
Placements with and loans and advances to other banking institutions (Note 13)	618,477	874,966	(256,489)
Deposits due to other banking institutions (Note 22)	(279,194)	(38,203)	(240,991)
	861,982	1,047,503	(185,521)

26. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantees. The majority of these facilities are offset by corresponding obligations from third parties. Other off balance sheet financial instruments include forward contracts for the purchase and sale of foreign currencies.

Contingent liabilities	2004 Shs '000	2003 Shs '000
Letters of credit	384,087	197,321
Letters of guarantees	446,062	397,051
Acceptances	309,893	291,078
	1,140,042	885,450

26. *OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)*

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. 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 credit compliant documents which are subsequently reimbursed by customers.

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

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

The bank has open lines of credit facilities with correspondent banks. The liability outstanding at the year end is Shs 693.980 million (2003: Shs 502.801 million). These facilities are unsecured.

Commitments	***2004***	*2003*
	Shs '000	*Shs '000*
Undrawn formal stand-by facilities, credit lines and other commitments to lend	657,822	434,311
Foreign exchange forward contracts	287,804	-
	945,626	434,311

Commitments to lend are agreements to lend to customers 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 facilities by giving reasonable notice to the customer.

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

Capital commitments

Capital expenditure contracted for at the balance sheet date but not recognised in the financial statements is as follows:

	2004	*2003*
	Shs '000	*Shs '000*
Property and equipment (Capital work-in-progress)	25,000	75,000

	2004	*2003*
Operating lease commitments	***Shs '000***	*Shs '000*
The future minimum lease payments under non-cancellable operating leases are as follows:		
- not later than 1 year	7,394	8,422
- later than 1 year and not later than 5 years	9,487	16,881
- later than 5 years	-	-
	16,881	25,303

The directors are of the view that future net revenues and funding will be sufficient to cover these commitments.

27. CURRENCY RISK

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondent banks and takes deposits and lends in other currencies. The bank's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

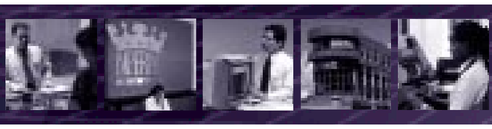
The significant currency positions are detailed below:

At 31 December 2004	*US$* *Shs '000*	*GB£* *Shs '000*	*Euro* *Shs '000*	*Indian Rupee* *Shs '000*	*South African Rand* *Shs '000*	*Others* *Shs '000*	*Total* *Shs '000*
Assets							
Cash and bank balances	38,460	78,509	31,689	-	29	1,320	150,007
Balances with banks abroad	216,600	38,093	72,597	2,250	1,170	287	330,997
Loans and advances to customers	310,221	59,761	22,445	-	40	-	392,467
Other assets	-	-	32	-	-	-	32
Total assets	565,281	176,363	126,763	2,250	1,239	1,607	873,503
Liabilities							
Customer deposits	735,898	262,191	166,210	-	40	-	1,164,339
Deposits due to other banking institutions	18,973	-	-	-	-	-	18,973
Other liabilities	17,869	89,297	1,173	-	-	348	108,687
Total liabilities	772,740	351,488	167,383	-	40	348	1,291,999
Net balance sheet position	(207,459)	(175,125)	(40,620)	2,250	1,199	1,259	(418,496)
Off balance sheet net notional position	640,420	99,067	28,745	-	279	709	769,220
At 31 December 2003							
Total assets	627,393	87,588	81,277	1,203	251	735	798,447
Total liabilities	667,106	118,355	68,843	-	120	-	854,424
Net balance sheet position	(39,713)	(30,767)	12,434	1,203	131	735	(55,977)
Off balance sheet net notional position	483,627	67,799	36,154	-	-	21,413	608,993

28. INTEREST RATE RISK

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The company does not bear an interest rate risk on off balance sheet items.

At 31 December 2004	*Upto 1 month Shs '000*	*1-3 months Shs '000*	*3-12 months Shs '000*	*1-5 years Shs '000*	*Over 5 years Shs '000*	*Non interest bearing Shs '000*	*Total Shs '000*
ASSETS							
Cash in hand	-	-	-	-	-	48,117	48,117
Balances with Central Bank of Kenya	-	-	-	-	-	319,774	319,774
Government securities	325,000	100,000	10,050	120,000	24,700	9,191	588,941
Placements with and loans and advances to other banking institutions	327,159	-	-	-	-	291,318	618,477
Other assets	-	-	-	-	-	42,690	42,690
Loans and advances to customers	3,604,010	-	-	-	-	265,834	3,869,844
Property and equipment	-	-	-	-	-	137,461	137,461
Prepaid operating lease rentals	-	-	-	-	-	18,468	18,468
Capital work in progress	-	-	-	-	-	109,729	109,729
Deferred tax	-	-	-	-	-	21,208	21,208
Tax recoverable	-	-	-	-	-	39,046	39,046
Total assets	**4,256,169**	**100,000**	**10,050**	**120,000**	**24,700**	**1,302,836**	**5,813,755**
LIABILITIES AND SHAREHOLDERS' EQUITY							
Customer deposits	1,661,677	970,918	1,139,859	39,541	-	589,418	4,401,413
Deposits from other banking institutions	269,158	10,036	-	-	-	-	279,194
Other liabilities	-	-	-	-	-	206,674	206,674
Shareholders' equity	-	-	-	-	-	926,474	926,474
Total liabilities and shareholders' equity	**1,930,835**	**980,954**	**1,139,859**	**39,541**	**-**	**1,722,566**	**5,813,755**
On balance sheet interest sensitivity gap	**2,325,334**	**(880,954)**	**(1,129,809)**	**80,459**	**24,700**	**(419,730)**	**-**
At 31 December 2003							
Total assets	3,790,116	2, 737	21,724	295,150	148,334	662,529	4,920,590
Total liabilities and shareholders' equity	1,786,447	888,358	504,296	85,221	-	1,656,268	4,920,590
On balance sheet interest sensitivity gap	**2,003,669**	**(885,621)**	**(482,572)**	**209,929**	**148,334**	**(993,739)**	**-**



28. INTEREST RATE RISK (CONTINUED)

The table below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

	2004				*2003*			
	Shs	*US$*	*GB£*	*Euro*	*Shs*	*US$*	*GB£*	*Euro*
	%	%	%	%	%	%	%	%
Government securities	8	-	-	-	10	-	-	-
Deposits and balances due from banking institutions	3	2	-	3	2	2	3	3
Loans and advances to customers	13	6	8	9	16	6	7	7
Customer deposits	4	2	3	2	7	3	3	3
Deposits and balances due to banking institutions	6	2	-	3	4	2	4	3

29. LIQUIDITY RISK

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 maturity 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 and exchange rates.

The company does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with high level of certainty. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sufficient liquidity is maintained to meet maturing deposits. The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (6%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 24% (2003: 25%) during the year.

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date:

At 31 December 2004	*Upto 1 month Shs '000*	*1-3 months Shs '000*	*3-12 months Shs '000*	*1-5 years Shs '000*	*Over 5 years Shs '000*	*Total Shs '000*
ASSETS						
Cash in hand	48,117	-	-	-	-	48,117
Balances with Central Bank of Kenya	185,746	60,562	71,000	2,466	-	319,774
Government securities	324,869	104,479	10,994	123,446	25,153	588,941
Placements with and loans and advances to other banking institutions	618,477	-	-	-	-	618,477
Other assets	30,024	10,236	-	-	2,430	42,690
Loans and advances to customers	1,188,069	107,265	1,517,667	975,425	81,418	3,869,844
Property and equipment	-	-	-	-	137,461	137,461
Prepaid operating lease rentals	-	-	-	-	18,468	18,468
Capital work in progress	-	-	-	-	109,729	109,729
Deferred tax	-	-	-	-	21,208	21,208
Tax recoverable	-	-	39,046	-	-	39,046
Total assets	**2,395,302**	**282,542**	**1,638,707**	**1,101,337**	**395,867**	**5,813,755**
LIABILITIES AND SHAREHOLDERS' EQUITY						
Customer deposits	2,251,095	970,918	1,139,859	39,541	-	4,401,413
Deposits from other banking institutions	269,158	10,036	-	-	-	279,194
Other liabilities	197,470	7,031	1,878	295	-	206,674
Shareholders' equity	-	-	-	-	926,474	926,474
Total liabilities and shareholders' equity	**2,717,723**	**987,985**	**1,141,737**	**39,836**	**926,474**	**5,813,755**
Net liquidity gap	**(322,421)**	**(705,443)**	**496,970**	**1,061,501**	**(530,607)**	**-**
At 31 December 2003						
Total assets	1,917,715	113,323	1,382,267	1,131,210	376,075	4,920,590
Total liabilities and shareholders' equity	2,604,552	894,834	628,470	628	792,106	4,920,590
Net liquidity gap	**(686,837)**	**(781,511)**	**753,797**	**1,130,582**	**(416,031)**	**-**

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

30. RELATED PARTY TRANSACTIONS

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities (Note 26) include guarantees and letters of credit which have been issued to related companies.

The following transactions were carried out with related parties:

(a) Interest received from loans and advances to:	***2004 Shs '000***	2003 *Shs '000*
Related companies	**848**	37,259
Senoir management employees	**320**	319
Other employees	**668**	1,106
	1,836	38,684

(b) Interest paid on deposits from:	***2004 Shs '000***	*2003 Shs '000*
Directors	**3,083**	4,765
Related companies	**18,450**	15,418
Senoir management employees	**848**	963
Other employees	**815**	1,055
	23,196	22,201

	Directors		***Related companies***		***Senior management employees***		***Other employees***	
(c) Outstanding loans and advances:	***2004 Shs '000***	*2003 Shs '000*	***2004 Shs '000***	*2003 Shs '000*	***2004 Shs '000***	*2003 Shs '000*	***2004 Shs '000***	*2003 Shs '000*
At start of year	-	-	**225,702**	154,946	**3,303**	5,080	**16,333**	9,906
Advances during the year	-	-	**34,907**	593,040	**1,185**	-	**27,636**	16,674
Interest charged	-	-	**848**	28,425	**320**	319	**668**	1,106
Repayments during the year	-	-	**(234,204)**	(550,709)	**(1,153)**	(2,096)	**(13,882)**	(11,053)
At end of year	-	-	**27,253**	225,702	**3,655**	3,303	**30,755**	16,633
Contingent liabilities	-	-	-	26,288	-	-	-	-

The loans and advances to related parties are performing and are not fully secured. No provisions have been recognised in respect of the loans and advances to directors, related parties or staff.

30. RELATED PARTY TRANSACTIONS (CONTINUED)

	Directors		*Related companies*		*Senior management employees*		*Other employees*	
(d) Deposits	***2004 Shs '000***	*2003 Shs '000*	***2004 Shs '000***	*2003 Shs '000*	***2004 Shs '000***	*2003 Shs '000*	**2004 Shs '000**	*2003 Shs '000*
At start of year	**192,869**	46,854	**617,999**	371,670	**12,145**	10,263	**12,355**	11,119
Deposits received during the year	**132,751**	652,454	**1,154,473**	823,343	**41,538**	33,230	**64,479**	41,441
Interest paid during the year	**3,083**	4,765	**18,450**	15,418	**848**	963	**815**	1,055
Withdrawals during the year	**(219,248)**	(511,204)	**(1,430,157)**	(592,432)	**(40,016)**	(32,311)	**(65,606)**	(41,260)
At end of year	**109,455**	192,869	**360,765**	617,999	**14,515**	12,145	**12,043**	12,355

	2004 Shs '000	*2003 Shs '000*
(e) Undrawn formal stand by facilities, credit lines and other commitments to lend:		
Related companies	**4,792**	641

(f) Directors emoluments:	***2004 Shs '000***	*2003 Shs '000*
- Fees	**-**	10,500
- Others	**15,026**	7,026

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

31. COUNTRY OF INCORPORATION

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

32. CURRENCY

The financial statements are presented to the nearest thousand Kenya Shillings (Shs’ 000)