AFRICAN BANKING CORPORATION
2014 ANNUAL REPORT AND ACCOUNTS

30 YEARS OF BANKING EXCELLENCE

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AS WE CELEBRATE

30

YEARS IN BANKING

OUR **PROMISE** IS TO CONTINUE TO DEMONSTRATE OUR **COMMITMENT** TO OUR **CUSTOMERS**, OUR **PEOPLE**, OUR INVESTORS AND THE COMMUNITY **WITHIN WHICH WE OPERATE...**

30 YEARS OF BANKING EXCELLENCE

Vision

Empowering you to achieve the extraordinary

Mission

To nurture lasting relationships with all our stakeholders through innovative, value adding financial solutions and services that help them realize their objectives.

ACHIEVE THE EXTRA-ORDINARY

Our Core Values

Customer centricity- We strive to be an understanding, friendly, flexible and reliable bank in meeting our customer needs.

Professionalism – We exhibit professional conduct and sound judgment in standards and service. We are objective and focused on issues.

Teamwork – We believe that the path to greatness is along with others.

Excellence – We pride ourselves in our relentless pursuit of excellence by improving the quality of everything we do.

Commitment - We are deeply committed to our customers, to each other and to every community we serve.

CORPORATE INFORMATION

Directors

Richard Omwela - Chairman

Shamaz Savani - Group Managing Director

Sridhan Natarajan - Group Chief Executive Officer

Ashraf Savani

Joseph Muiruri

Anil Ishani

Alban Mwendar

Board Audit Committee

Joseph Muiruri - Chairman

Ashraf Savani

Anil Ishani

Board Credit Committee

Alban Mwendar - Chairman

Ashraf Savani

Shamaz Savani

Board Human Resources Committee

Alban Mwendar - Chairman

Shamaz Savani

Sridhar Natarajan

BOARD RISK AND COMPLIANCE COMMITTEE

Joseph Muiruri - Chairman

Richard Omwela

Anil Ishani

EXECUTIVE COMMITTEE

Shamaz Savani - Chairman

Sridhar Natarajan - Group Chief Executive Officer

Raj Pal Arora - Chief Operating Officer

Mary Mulili - Head of Corporate Banking

Samuel Muchiri - Head of Finance, Strategy and CMAC

Joel Mbuvi - Head of Treasury

Jesse Timbwa - Head of Credit and Legal

Corline Amanda - Head of Retail Banking

Lee Gachomba - Head of SME Banking

Peter Kinyanjui - General Manager –Business Development

Wambui Kaguongo - Head of Product Development & Marketing

ASSETS & LIABILITIES COMMITTEE

Sridhar Natarajan - Chairman

Shamaz Savani

Samuel Muchiri

Joel Mbuvi

Mary Mulili

Corline Amanda

Lee Gachomba

Jesse Timbwa

Peter Kinyanjui

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
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Nairobi

COMPANY SECRETARY

Victoria Nthenya Muya
Certified Public Secretary (Kenya)
P O Box 28896, 00100
Nairobi

REGISTERED OFFICE

ABC Bank House
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6th Floor, Woodvale Grove
P O Box 13889, 00800
Nairobi

HEAD OFFICE

ABC Bank House
6th Floor, Woodvale Groove
P O Box 13889, 00800
Nairobi

KEY EVENTS 2014

The year 2014 was a momentous one for us as we aggressively undertook various brand- building initiatives, signed strategic partnership agreements, and launched revolutionary products. We also celebrated several accolades for our service delivery and compliance to best practices in the industry.

Partnerships

Fortune Sacco & Postbank

ABC Bank recognizes the role of Saccos as a vehicle for mobilizing financial capital and savings. A key pillar of Kenya's financial economy, Saccos have provided many Kenyan's with much needed financial support to start and grow small businesses, with some growing to become large entities.

However, they face limitations due to the regulatory framework that prohibits them from offering certain services to their members. They do not, for instance, provide current account services, cheque books, and trade finance instruments such as bid bonds, performance bonds, and foreign currency transactions, which are provided only by commercial banks. This has necessitated creative solutions to enable them overcome this challenge.

In 2014, we partnered with Fortune Sacco and Postbank (which was established as a savings-only financial institution) to enable them offer their members with current account and cheque clearing services. We believe these partnerships will midwife the unlocking of economic and enterprise potential in the counties by empowering residents to create wealth and employment opportunities.

Ksh. 1 Billion Private bond issue

In order to boost capital structure and proactively manage upcoming capital adequacy ratio requirements in 2015, ABC Bank issued a Ksh. 1 billion cash call in March 2014. The funds raised would also boost the bank's total long term lending portfolio and support growth strategies that include solidifying and securing our position in the SME segment.

The bank issued a 5.25 year, Sh. 650 million bond, with a green shoe option of Sh. 350 million, which we exercised following huge investor appetite. The bond sale attracted a 157 percent subscription, with applications worth Ksh. 1.021 billion received, against an initial target of Ksh. 650million.

Awards

Banking Awards: In recognition of our commitment to innovation, we were awarded 1st Runners Up, Best Bank in Internet Banking category in the 2014 Banking Awards organized by Think Business.

COG Awards: We won two prestigious awards at the Champions of Governance 2014, organized by the Institute of Certified Public Secretaries of Kenya, ICPSK in November. We received the 1st Runners Up, Overall Champions and 1st Runners Up, Finance and Investment category.

Recognition

Customer Satisfaction Index:

An independent survey conducted by Infotrack Harris ranked ABC Bank as having the highest levels of customer satisfaction among other local banks in the same category.

The survey also ranked the bank second overall in service delivery. Customers, the study showed, received fast service in our banking halls and online. Ease of reaching us on our contact channels and that we promptly respond to customer email queries or requests are other reasons we were rated highly in service delivery.

Achievements

Upgraded credit rating:

ABC Bank's credit rating improved significantly to a national scale short term rating of A2 (KE) from the previous rating A3 (KE), as accorded by the Global Credit Rating Company. The international credit rating experts also affirmed our national scale long term rating of BBB (KE).

The rating upgrade is an affirmation of the positive operational changes in the business, and positions the bank as a safe and stable investment vehicle for investors, as it is a stamp of financial soundness.

The new ratings are supported by:

- The bank's business growth and financial risk profile,
- Efficiency in balance sheet, Cost control as well as success in the private bond issue in May 2014.
- Appropriate deployment of capital/funding,
- the diversification of income streams and a reduction in funding costs

Product Launches

To continue satisfying our customers' evolving needs, we introduced a number of revolutionary products in to the market. As the traditional markets mature and become price competitive, and customer needs change dramatically, we are entering new frontiers with a value-addition approach so as to remain competitive.

Cash Ready

We re-launched our invoice discounting product that helps entrepreneurs, especially in the Small and Medium Enterprise (SME) sector keep their businesses moving smoothly as they wait for payments for goods or services supplied to clients. The facility allows traders to draw up to 80 percent of their sales invoices, enabling them to bridge their cash-flow deficit.

This was a strategic move coming at a time when the National Assembly had just passed legislation to allow the youth get 30 percent of all government procurements.

USD Debit Card

The continued growth of the Diaspora segment makes it necessary to introduce need-specific financial solutions. The international ABC Bank USD MasterCard debit card makes it easier to make payment and withdrawal transactions in hundreds of countries. The card is EMV compliant and is applicable to ATM and Point of Sale (POS) transactions.

The introduction of this revolutionary payments solution is part of our strategy for Diaspora customer acquisition and also appropriately caters for local businesses dealing with international clients.

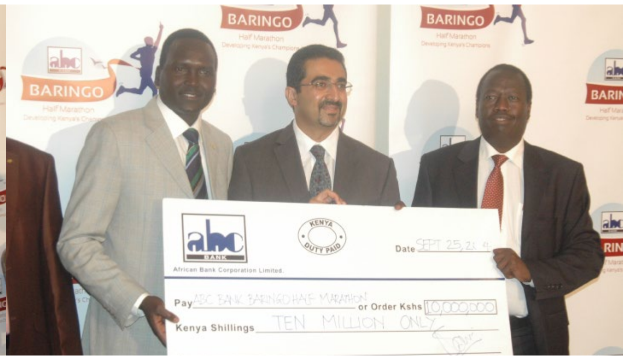
B2C (Account-to-Mpesa)

This is yet another revolutionary service that enables our customers, both domestic and Diaspora, transfer money from their ABC Bank accounts to any Mpesa account in real time using our Internet Banking platform.

This service gives customers extra convenience and peace of mind; they can comfortably make payments directly to suppliers or service providers as well as support their families from anywhere in the world at anytime.

ABC BANK
CSR 2014

CSR



ABC Bank Baringo Half Marathon

We continue to invest in community support initiatives in areas we operate in. Through our involvement in various Corporate Social Responsibility activities, we continue to foster goodwill in our partner communities, build on the strength of our relationships and promote the contributions by our staff in community projects.

Our flagship CSR initiative, the Baringo Half Marathon, is an annual sporting event that we stage in Baringo County. The objective of the marathon is to identify and nurture young athletic talent among the youth with a view to produce the next generation of world champions.

We took up the title sponsorship in 2013, and have since endeavoured to raise the event's profile in various ways, including increased participation and the enduring impact among the immediate communities.

In 2014 we boosted the sponsorship kitty to enable us host a more elaborate event than last year's, and more importantly to enhance our Athletes Development Program. The Athletes Development Program is the sustainability component of the marathon, which seeks to develop the young athletes to become all round successful individuals even off the track. The beneficiaries are promising athletes whom we identified for their stellar performance during the half marathon, and placed in various training camps in the North Rift region under dedicated professional coaches. The returns have been gratifying, as some of them have gone on to compete in both local and international races and won various accolades.

The marathon has also provided a useful platform for finding and developing new business relationships, as well as strengthening existing ones. It is a great avenue for raising brand awareness and venturing in to new frontiers.

Athletes boot camp

As part of the ABC Bank Baringo Half Marathon, we conducted a boot camp in Iten for young athletes in our Athletes Development Program to equip them with basic life skills such as public speaking, handling media interviews, personal finance and investments and handling of legal/ sponsorship contracts.

The Athletes Development Program is the sustainability vehicle for the marathon, which is our flagship Corporate Social Responsibility initiative.

Besides nurturing their athletic potential, we are also committed to their holistic development to help them lead successful lives off the track.

CHAIRMAN'S STATEMENT

It is with great pleasure that I present our annual report for 2014. Over the last 12 months, we have remained consistent in our commitment to providing tailor-made financial solutions to Kenyans through continuous innovation and focus on the products and services that make a real difference to our customers. Our pursuit of this objective continues to lead us to delivering our customer promise, while generating value for our stakeholders.

Operating Environment

Since the 2013 general election, the first under the new constitutional dispensation, Kenya has continued to stabilize politically. The new structure of government has re-energized the country's governance reforms, which has seen certain functions decentralized to the counties thus creating new economic hubs away from the capital.

Kenya's economy continued to expand, with annual inflation rate declining to 6.02 percent from 7.15 percent in 2013, due to falling fuel and energy costs. Similarly, the country's Gross Domestic Product (GDP) expanded by 5.7% to Kes 3.639 trillion as our economic growth was revised upwards, making Kenya a middle income economy.

This growth was in spite of the challenge of insecurity which saw several countries issue travel advisories against Kenya, thus negatively affecting the tourism industry. Growth in other sectors, namely, construction, finance and insurance, wholesale and retail trade, information and communication, and agriculture and forestry, cushioned the economy against the adverse effects of these advisories.

Banking Sector overview

The Kenyan banking sector comprised 43 commercial banks, one mortgage finance company, nine microfinance banks, seven representative offices of foreign banks, 94 foreign exchange bureaus, seven money remittance providers and two credit reference bureaus.

The sector reported a 19.36 percent growth in balance sheet from Kshs. 2.73 trillion in December 2013 to Kshs. 3.26 trillion in December 2014, while Gross loans expanded by 22.85% from Kshs. 1.60 trillion in December 2013 to Kshs. 1.97 trillion in December 2014. In its Credit Survey 2014, CBK attributed the increased credit demand to internal financing, loans from other banks, drop in cost of borrowing, increased available investment opportunities as a result of a stable macroeconomic environment, KBRR and the retention of CBR at 8.5%. Deposits grew by 17.68% from Kshs. 1.98 trillion in December 2013 to Kshs. 2.33 trillion in December 2014.

ABC Bank financial performance

The Bank has continued to deliver sustainable financial performance, thereby consistently building shareholder value through the years. Our Profit Before Tax (PBT) was reasonable at KShs. 337 million given the challenging operating environment in 2014, and our commitment to ensure we remain competitive in the market. Even though this performance was lower than 2013, the Board of Directors has recommended the payment of a final dividend of KShs. 0.80 per share.

We are happy to note that during the year, there was a marked improvement in the performance of our various Strategic Business Units in Kenya not to mention positive growth in our investment in Uganda. This is a result of our continued investment in human capital through recruitment and training as well as consistently leveraging on our robust information and communication technology (ICT) infrastructure to come up with innovative products and services to meet and exceed our customers' needs.

We are greatly indebted to our customers and partners for standing and walking with us through a challenging year, which enabled us to achieve these results.

Below are some of the key financial highlights of some of the factors that impacted our local operating environment in 2014.

Corporate Governance

The Board is pleased with both the Bank's performance in 2014 and the continuous overall growth and increased shareholder value year on year.

I'd like to thank our former Board Chairman, Mr. Ashraf Savani for his visionary leadership, commitment and stewardship that have propelled ABC Bank from a small financial institution to its current position of a reputable competitive provider of premium financial services in East Africa.

The present Board size of seven members is appropriate for the current scope of the Bank's operations and consists of individuals of calibre and diverse experience with the necessary skills and qualification, providing a mixture of core competencies such as finance, accounting, legal, business administration and management, economics, and human resource management, enhancing the effective functioning and discharging of the responsibilities of the Board.

The Board is fully committed to integrity and fair dealing in all its activities, and has adopted the best practice of corporate governance in all areas of its business towards enhancing business prosperity and corporate accountability with the ultimate objective of safeguarding the interests of all stakeholders and enhancing shareholders' value.
In order to keep ourselves abreast of best practices in corporate governance, all ABC Group Directors are required to undergo training and continuous development annually and attend corporate governance training every three years.

In November, all ABC Group Directors underwent a corporate governance training conducted by the Institute of Certified Public Secretaries of Kenya. Among the areas covered during the training were: Corporate Governance: The Companies Bill 2014, role of the Board of Directors in strategic leadership, financial management, risk management and fraud prevention and tools for an effective Board.

I am confident that all our Board Directors are well equipped with the requisite knowledge necessary for providing effective strategic leadership in ABC group of companies.

Corporate Social Responsibility

Besides developing innovative financial products and services to help our customers achieve the extraordinary, ABC Bank endeavours to conduct its business in accordance with established best practices. As a socially responsible corporate citizen, the Bank aims to contribute to the communities in which it operates.

Worth noting is our flagship CSR initiative, the ABC Bank Baringo Half Marathon, an annual sporting event that we stage in Kabarnet, Baringo County, in partnership with the Paul Tergat Foundation which is run by Kenya's renowned world athletics champion Mr. Paul Tergat, who is also the marathon patron and organizer, and a member of the International
Olympic Committee.

Additionally, all our branches and employees have constantly conducted charitable activities in support of various causes such as education, environment, and emergency relief among others.

2015 economic outlook

Kenya's economic growth is projected to rise to 6.4 percent in 2015 from a forecast 5.8 percent in 2014 while inflation is expected to remain in the upper limit target of 7.5 percent in 2014.
Investors are likely to be willing to overlook political risks associated with East Africa's largest economy if the yield on the Euro bond is appealing, but growth could be more robust this year, thanks to momentum picking up in a range of sectors like farming, real estate and financial services.

Appreciation

I take this opportunity to thank our customers for their continued support in business throughout the year.

The Board also recognizes the management and staff for successfully and consistently implementing the Bank's strategic vision, which led to improved business performance.

Lastly, I thank my fellow Board members for their visionary leadership and commitment in providing oversight and strategic direction to the Bank.

I am confident that we- the Board, Management and staff- will together take the business to greater heights of performance in 2015.

Thank you.

Richard

GROUP MANAGING DIRECTOR'S STATEMENT

2014 was a remarkable year in ABC Bank's continuous pursuit of our strategic objectives to provide revolutionary financial services to our customers, to facilitate them achieve the extraordinary.

We identified emerging opportunities in the market to grow our value and market share. With our leadership position in supporting the SME and retail segments, we were able to deliver our customer promise, enabling them to contribute to the national economy and to grow their businesses further.

Our diverse mix of revenue streams enabled us to weather the challenges of the operating environment this year, and to invest for the future. Investments in mobile and internet banking platforms are now helping ABC Bank define what it means to be innovative in the digital age.
In 2014 we validated the competitive advantages we derive with our vision and strategy:

• Building our reputation around our customers' wants and needs, deliver better experiences, and making banking convenient.
• Staying true to the great traditions of banking, thereby creating real value in the real economy.
• Embracing values that foster a unique, inclusive performance culture that attracts the best, and makes our people their best.
• Competing by managing risks better, and reinvesting in our business, with a focus on enhancing value for our investors.
We also strengthened our market position through various partnerships which have enabled us to increase our touch points for customers to access our services more conveniently.

Operating environment

2014 was characterized by several dynamic factors that have shaped the overall business environment. These factors include a weakening shilling, falling oil prices, security concerns, and the Sh. 175 billion (USD 2 billion) Euro bond floated in May.

The Kenya government issued the bond to raise funds for infrastructure, energy, transport, and agriculture projects. This transaction diversified the country's funding sources and established an important benchmark for both private and public sectors.

On another positive note, the annual inflation rate declined to 6.02 percent from 7.15 percent in 2013, due to falling fuel and energy costs.

The country's Gross Domestic Product (GDP) expanded by 5.7% to Kes 3.639 trillion as our economic growth was revised upwards by the rebasing exercise and supported mainly by growth in the key sectors, namely construction, finance and insurance, wholesale and retail trade, information and communication, and agriculture and forestry.
Following the rebasing of national accounts, including Gross Domestic Product and Gross National Income, Kenya got a middle income country status. According to the Kenya National Bureau of Statistics (KNBS), the major reason for the upward revision of the GDP include use of better data, improved coverage and revised input-output production structures which were lower in a number of sectors compared to the revised estimates.

Banking Sector developments

According to Central Bank of Kenya, the Kenya banking sector collectively recorded a growth in balance sheet by 19.36% from Kshs. 2.73 trillion in December 2013 to Kshs. 3.26 trillion in December 2014 while Gross loans expanded by 22.85% from Kshs. 1.60 trillion in December 2013 to Kshs. 1.97 trillion in December 2014. In its Credit Survey 2014, CBK quoted the reasons for the credit demand as being internal financing, loans from other banks, drop in cost of borrowing, increased available investment opportunities as a result of a stable macroeconomic environment, KBRR and the retention of CBR at 8.5%. Deposits grew by 17.68% from Kshs. 1.98 trillion in December 2013 to Kshs. 2.33 trillion in December 2014.

Interest income on loans increased by 16.29% in December 2014 to Kshs. 245.7 billion up from Kshs. 211.19 billion in December 2013. Interest expenses on deposits increased by 24.03% to Kshs. 89.58 billion in December 2014 up from Kshs. 72.22 billion in December 2013 underscoring the impact of high cost deposits.

Total income increased by 15.86% from Kshs. 358.26 billion in December 2013 to Kshs. 415.07 billion in December 2014 while total expenses increased by 17.12% from Kshs. 233.93 billion in December 2013 to Kshs 273.97 billion in December 2014.

In an effort to enhance transparency in loan pricing and to lower the cost of borrowing, the sector introduced a credit pricing framework- Kenya Banks' Reference Rate (KBRR)- to guide lenders in disclosing the total cost of credit to borrowers.

ABC Bank's financial performance

The Bank has continued to deliver sustainable financial performance thereby consistently building shareholder value through the years. Our Profit Before Tax was reasonable at KShs. 337 million given the challenging operating environment in 2014 and our commitment to ensure we remain competitive in the market. Even though this performance was lower than 2013, the Board of Directors has recommended the payment of a final dividend of KShs. 0.80 per share.

We are happy to note that during the year, there was a marked improvement in the performance of our various Strategic Business Units in Kenya, not to mention positive growth in our investment in Uganda.

The performance is a result of our continued investment in human capital through recruitment and training as well as consistently leveraging on our robust information and communication technology (ICT) infrastructure to come up with innovative products and services to meet and exceed our customers' needs.

We are greatly indebted to our customers and partners for standing and walking with us through a challenging year, which enabled us achieve these results.

Operating Environment Overview

According to the industry regulator, CBK, the Kenya banking sector recorded a growth in balance sheet by 19.36% from Kshs. 2.73 trillion in December 2013 to Kshs. 3.26 trillion in December 2014 while Gross loans expanded by 22.85% from Kshs. 1.60 trillion in December 2013 to Kshs. 1.97 trillion in December 2014. In its Credit Survey 2014, CBK cited the reasons for the credit demand as being:

- Internal financing,
- Loans from other banks,
- Drop in cost of borrowing,
- Increased available investment opportunities as a result of a stable macroeconomic environment,
- Kenya Bankers Reference Rate (KBRR) and
- Retention of CBR at 8.5%. Deposits grew by 17.68% from Kshs. 1.98 trillion in December 2013 to Kshs. 2.33 trillion in December 2014.

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Outlook for 2015

Kenya's stabilizing economy is favourable for our 2015 strategy and I am confident that the various micro and macroeconomic initiatives we undertook in 2014 will support further growth.
In 2015, ABC Bank will seek to raise more capital through various vehicles to support its expansion strategy.

We plan to open two new branches in Nairobi to cater for our increasing number of customers, and to attract new ones. We will also continue to reinforce our Diaspora Banking strategy to reach new frontiers. To take advantage of this increasingly active segment, we have launched new money transfer services with MoneyGram, and Trans-Fast Remittance LLT, a New York based international money transfer company with presence in 108 countries.

The bank will continue to invest in innovation, brand building, human capital development and pursuing more Public Private Partnerships (PPPs).

Conclusion
I take this opportunity to thank my fellow Board Members for their visionary direction, our customers for their support and loyalty, our regulators for their co-operation and guidance, and finally our employees for their commitment in ensuring that they exceed the expectations of all stakeholders.

Thank you.

Shamaz

BOARD OF DIRECTORS

Mr. Richard Omwela - Chairman

Mr. Richard Omwela holds a law degree from the University of Nairobi & a Diploma from Kenya School of Law. He is an Advocate of the High Court of Kenya and a partner in the leading Nairobi law firm of Hamilton Harrison & Mathews Advocates, where he is in charge of the Commercial & Conveyance Department. He is also a member of the Chartered Institute of Secretaries of Kenya. He has been a Director of the Bank since 2000. Mr. Omwela sits on the boards of several other companies. He is currently the Chairman of Kenya Rugby Union (KRU), having been elected in March 2015. He previously held the same position in KRU, and Westlands Rotary Club of Nairobi.

Mr. Ashraf Savani - Non-Executive Director

Mr. Ashraf Savani is the immediate former chairman of African Banking Corporation Ltd. He has 50 years of experience in the banking industry and is the founding Managing Director of ABC Bank having started it in 1984 first as a financial institution before converting it to a fully-fledged bank in 1994. He started his banking career in 1964 with Habib Bank Ltd rising to the position of Vice President at Habib Bank A.G. Zurich in 1984, when he left to form Consolidated Finance Company now known as African Banking Corporation Ltd. He holds a Bachelor of Commerce Degree and a Diploma in Banking. In 2012, he was awarded the Life Time Achievement Award in Banking during the Think Business Banking Awards.

Mr. Anil Ishani - Independent Non-Executive Director

Mr. Anil Ishani was until 2007 the Resident Representative of the Aga Khan Development Network in Kenya. Prior to that, until 1997, Anil was a Consultant in the London office of UK Solicitors Dibb Lupton Alsop. Early in his career (having qualified as a Barrister at the Middle Temple in London, in 1959), he returned to Kenya and joined the family practice of Ishani and Ishani Advocates. In 1972, he settled in the UK, joined the well known City firm of Adlers Solicitors, and qualified as a Solicitor in 1975 and becoming a senior partner in 1989.In his professional career, Anil has played a key role in commercial property matters specializing in acquisition of hotels, nursing homes and retail business, serving global clients with substantial holdings in the UK. He is a Fellow of the Chartered Institute of Arbitrators since 1978.

Mr.Ishani has served His Highness the Aga Khan for the past 48 years and has many notable achievements including; the first Governor of the Institute of Ismaili Studies, the first Chairman of the Aga Khan Foundation UK and the first Grants Council Chairman for the UK. He was Convener of the Constitution Review Committee which drafted the Ismaili Muslim Constitution. He now resides in Kenya and acts as a consultant. He is also a Council Member of the Superbrands

Mr. Joseph K Muiruri - Independent Non-Executive Director

Mr. Joseph Muiruri is an accountant by profession, having qualified as a fellow of Chartered Association of Certified Accountants (UK) in 1976 and is also a Practitioner of Institute of Certified Public Accountants of Kenya. He retired in December 2002 after 35 years working with Ernst & Young East Africa, including 25 years as a partner and was Chairman of the firm from 1996 to 2002. As partner in charge of a large portfolio of major clients he gained wide auditing and accounting experience. He is now a Financial Consultant and also acts as a non-executive director in a number of companies. He joined our board as a non-executive director in March 2008 and presently chairs the Audit, Risk and Compliance Committee.

Mr. Alban Mwendar - Independent Non-Executive Director

Mr. Alban Mwendar is an alumnus of the Alliance High School, and holds a Bachelor of Education (B.Ed.) degree and a Masters in Business Administration (MBA) degree, both attained at the University of Nairobi. He is also a Fellow Member of the Institute of Human Resources Management of Kenya. Mr. Mwendar has extensive experience within multinational businesses in the corporate sector having joined Unilever (K) Ltd in 1987 as a Management Trainee, and rising up the ranks within the HR function and in Logistics. He left Unilever in 1995 to take up the role of Head of Human Resources at British American Tobacco (K) Ltd, a role he held until the year 2000 when he was appointed Group HR Director at Kenya Commercial Bank. At KCB he spearheaded cultural reform programmes and internal branding initiatives that turned the bank from a parastatal organization to the present day commercial organization that prides itself with the largest branch network in East & Central Africa. In 2004, Mr. Mwendar was appointed Group HR Director of East African Breweries Ltd, a Diageo plc subsidiary, and again led internal rebranding initiatives that launched Diageo into the Eastern African markets. During the course of his career, Mr. Mwendar has played a consultancy and advisory role on HR matters to numerous individuals and organizations and has made several presentations to HR practitioners in the region. He has also attended numerous professional courses abroad including in institutions such as Harvard Law School. He has been a past Vice Chairman of the Kenya Institute of Bankers, member – Board of Governors of Alliance High School, and former Assistant Chairman – Institute of HR Management of Kenya. He currently sits on the Council of the Agricultural Society of Kenya. He is currently the Group Human Resources Director of Kenya Airways.

Mr. Shamaz Savani - Group Managing Director

Mr. Shamaz Savani has a B.A. in Economics and a B.Com in Finance, both from McMaster University, Canada and an MBA from the University of Surrey in UK. He joined ABC Bank in 1997 and was appointed in 2006 as the Chief Executive Officer before rising to the rank of Group Managing Director of ABC Group. He is responsible for strategy formulation, policy-making including expansion, innovation and growth for ABC Group which comprises ABC Bank, ABC Capital Limited, ABC Insurance Brokers Limited and ABC Capital Bank Limited (Uganda). In the latter role, he has spearheaded and acted as chief sponsor of the Centralized Banking System implementation with ABC Bank being among the first banks to adopt the one-bank-one-branch concept. Under his leadership, ABC Bank was awarded the ISO Certification. The Bank has also received several awards in different categories under his leadership

Mr. Sridhar Natarajan - Group Chief Executive Officer

Mr. Sridhar Natarajan joined ABC Bank Group in 2014 to carry on the execution of the bank's Strategic Plan, and to lead the bank to the next level in terms of products, profits, profile, processes and people efficiency.

Mr. Sridhar Natarajan has extensive banking experience gained working with leading banks in India, Hong Kong and Indonesia. For over 30 years he has worked for the State Bank of India both in Hong Kong and India, in various capacities including as Branch Manager, Divisional Manager of Market Segment; Assistant General Manager (Currency Operations) & Chief Manager (Funds); Vice President (Credit & Operations) & Vice President (Operations)/ Alternative CEO, among other key positions which have equipped him with extensive experience. He was also the President Director (CEO) of Bank ICB Bumiputera, a retail bank in Indonesia, and has worked as an independent strategy consultant.Mr Natarajan holds a BSC and a MSC, Chemistry from the University of Delhi, India.

Account to Mpesa & Mpesa to Account transfers

MasterCard International debit card

Internet Banking

Agency Banking through Postbank

CASH WITHDRAWAL & DEPOSIT
BALANCE ENQUIRY

ABC Connect

Skip the queue - there are more ways to bank

For more information:
Call 0701 700 700 or
talk2us@abcthebank.com

Terms and Conditions apply

BANK

www.abcthebank.com

AFRICAN BANKING CORPORATION LIMITED

STATEMENT ON CORPORATE GOVERNANCE

African Banking Corporation Limited (the "bank") is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 2.

The Board is responsible for formulating the bank policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the bank and implements corporate governance policies of the bank.

The Board comprises five independent non-executive Directors and twp Executive Directors; the Group Managing Director and Group Chief executive Officer. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and Chairmen of Board committees are non-executive Directors.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the board convened and held six ordinary meetings. In accordance with the bank's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The bank's Secretary is always available to the Board of Directors.

a) **Directors' Emoluments and Loans**

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 36(e) to the financial statements for the year ended 31 December 2014. The bank advanced loans to Directors and their associated companies as disclosed in Note 36(a).

b) **Related Party Transactions**

There have been no materially significant related party transactions, pecuniary transactions or relationships between the bank and its Directors or Management except those disclosed in Note 36 to the financial statements for the year ended 31 December 2014.

c) **Board and Director Evaluation**

Both peer and self evaluations of the Board members including the Chairman have been done.

2. BOARD COMMITTEES

The Board has in place three main committees, namely the Board Audit Committee, the Board Credit Committee and the Board Risk and Compliance Committee. In addition, the Board has set up in 2014 a Board Human Resources Committee to handle Board appointments as well as the Bank's Human Resources matters. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the bank's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the bank is delegated to the Group Managing Director.

a) **Board Audit Committee**

The Audit Committee is chaired by a non-executive director (Mr. J. Muiruri) and meets on a quarterly basis. Other members are two non-executive directors (Mr. A Savani and Mr.A Ishani). The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of Central Bank.

2. BOARD COMMITTEES (Continued)

b) **Risk and Compliance Committee**

The Risk and Compliance Committee is chaired by a non-executive Director (Mr. J. Muiruri).The other members are two non-executive appointees of the Board (Mr. R Omwela and Mr.A. Ishani). The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the bank are properly established, monitored and reported on. The committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank.

c) **Board Credit Committee**

The Credit Committee is chaired by a non-executive director (Mr. A. Mwendar) and meets on a quarterly basis or as need arises to review credit policies, facilities granted and other credit related issues that require Board deliberation. Other members are Mr. A. Savani, Group Managing Director (Mr. S. Savani).

d) **Board Human Resources Committee**

The Human Resources Committee is chaired by a non-executive director (Mr. A. Mwendar) and meets on a semi-annual basis or as need arises to review human resources related issues that require Board deliberation. Other members are Mr. Sridhar Natarajan The Group Chief Executive Officer, and the Group Managing Director Mr. S. Savani.

e) **Executive Committee (Exco)**

The executive committee chaired by the Group MD, is comprised of Unit Heads. This committee has overall responsibility for risk management, monitoring and evaluation of performance and strategy formulation and implementation. The committee advises and assists the Group MD in making decisions that define the direction the bank takes.

f) **Assets and Liabilities Management Committee (ALCO)**

The Group Chief Executive Officer chairs this committee and its membership comprises business heads. The committee meets monthly and is responsible for the monitoring and management of the statement of financial position, including liquidity risk, maturity risk, interest rate risk, and exchange rate risk, compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, investment policies and the setting of interest rates.

g) **Other Committees**

Other management support structures revolve around committees set up to support the Group Managing Director in the day-to-day management of the bank and the group and include the Credit Committee (CC), the Non-Performing Loans Committee (NPL), Management Committee (MANCO), Purchase and Tendering Committee (PTC), Health and Safety Committee (HSC) and the Human Resources Committee (HRC). The CC meets at least weekly to review credit applications, pending disbursements and credit risk. The other committees meet at least monthly.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the bank's system of internal control and for reviewing its effectiveness. The bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the Internal Auditor. The bank has in place controls and a Balanced Scorecard Tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. BUSINESS ETHICS

The bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the bank recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The bank assists its staff to undertake continuous professional and development training programmes to fulfill their potential. This process is appropriately managed to align staff development with the bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

6. SHAREHOLDERS

The composition of shareholders and their individual holdings at the year ended 2014 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines. There was no change in the shareholding structure in 2014.

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board meets quarterly for scheduled meetings to review the Groups performance against business plans as well as to formulate and implement strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. During the year, the Board held 5 ordinary meetings. Details of attendance for each member of board are as below.

	Director	**No of meetings attended**
1	Ashraf Savani	5
2	Richard Omwela	4
3	Joseph Muiruri	5
4	Anil Ishani	5
5	Alban Mwendar	5
6	Shamaz Savani	5
7	Sridhar Natarajan	5

The Executive Committee and ALCO convened during each month and held twelve meetings each whereas the Board Audit Committee, the Board Credit Committee and the Board Risk and Compliance Committee convened and held four meetings each. All the meetings convened had sufficient quorum with all the board members attending more than 75% of the meetings held as required by CBK prudential Guidelines. As part of corporate governance, board assessments are performed annually per the regulator's requirements.

8. COMPLIANCE

The Bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

Director | Director

31st March 2015

AFRICAN BANKING CORPORATION LIMITED

REPORT OF THE DIRECTORS

The directors have the pleasure of submitting their report together with the audited financial statements of African Banking Corporation Limited (the "bank") for the year ended 31 December 2014, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and of the bank.

ACTIVITIES

The principal activities of the Group are the provision of banking, insurance brokerage, stock brokerage and other financial related services.

RESULTS

	Sh'000
Profit before taxation	336,879
Taxation expense	(67,532)
Retained profit for the year	269,347
Attributable to:	
Equity holders of the parent company	264,367
Non-controlling interests	4,980
	269,347

DIVIDENDS

During the year the Directors declared dividend of Sh 0.80 per share (2013 – 0.80) amounting to Sh 84,000,000 (2013 – 84,000,000).

DIRECTORS

The present members of the Board of Directors are shown on page 2.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office in accordance with section 159 (2) of the Kenyan Companies Act and subject to approval by the Central Bank of Kenya in accordance with section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

VICTORIA NTHENYA MUYA
R 2355
P. O. Box 28896-00100
Nairobi KENYA
CERTIFIED PUBLIC SECRETARY

Secretary

Nairobi

31st March 2015

AFRICAN BANKING CORPORATION LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

Nothing has come to the attention of the directors to indicate that the bank and its subsidiaries will not remain going concerns for at least the next twelve months from the date of this statement.

Director | Director

31st March 2015

Deloitte & Touche
Certified Public Accountants (Kenya)
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED

Report on financial statements

We have audited the financial statements of African Banking Corporation Limited and its subsidiaries, set out on pages 11 to 71, which comprise the consolidated and bank statements of financial position as at 31 December 2014, and the consolidated statement of profit and loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiaries as at 31 December 2014 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act and the Banking Act.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED (Continued)

Report on Other Legal Requirements

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

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

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

iii) the bank's statement of financial position (balance sheet) is in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA ***Anne Muraya – P/No 1697****.*

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya

31 March **2015**

AFRICAN BANKING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
INTEREST INCOME	6	2,731,491	2,535,840
INTEREST EXPENSE	7	(1,351,627)	(1,286,866)
NET INTEREST INCOME		1,379,864	1,248,974
Fees and commission income		347,373	310,995
Foreign exchange trading income		138,395	134,941
Other operating income	8	47,234	70,827
OPERATING INCOME		1,912,866	1,765,737
Operating expenses	9	(1,414,039)	(1,124,685)
Impairment charge on loans and receivables	19(d)	(161,948)	(48,942)
PROFIT BEFORE TAXATION		336,879	592,110
TAXATION EXPENSE	11(a)	(67,532)	(149,947)
PROFIT FOR THE YEAR	12	269,347	442,163
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Net fair value loss on available for sale investments		(105,110)	(33,860)
Reclassfication adjustments relating to available for-sale financial assets disposed during the year	8	(33)	19,566
Exchange differences on translating foreign operations		(18,711)	78,227
Other comprehensive (loss)/income		(123,854)	63,933
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		145,493	506,096
PROFITATTRIBUTABLE TO:			
Equity holders of the parent company		264,367	434,341
Non-controlling interests		4,980	7,822
		269,347	442,163
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent company		(110,789)	40,329
Non-controlling interests		(13,065)	23,604
		(123,854)	63,933
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent company		153,578	474,670
Non-controlling interests		(8,085)	31,426
		145,493	506,096
Earnings per share – Basic & Diluted	14	2.52	4.14

AFRICAN BANKING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
ASSETS			
Cash and balances with Central Banks	15	1,209,272	1,298,752
Deposits and balances due from banking institutions	16	223,303	1,313,538
Government securities	17	5,200,769	4,967,666
Corporate bonds	18	234,677	281,613
Loans and advances to customers	19(a)	13,679,881	11,491,145
Tax recoverable	11(c)	96,130	27,131
Other assets	20(a)	561,161	346,368
Property and equipment	21(a)	582,548	645,362
Intangible assets	22(a)	140,237	51,034
Investment in Nairobi Securities Exchange	22(c)	107,625	211,200
Goodwill	24	660	660
Operating lease prepayment	25	-	1,940
Deferred tax asset	29(c)	36,860	7,324
TOTAL ASSETS		22,073,123	20,643,733
LIABILITIES			
Balances due to banking institutions	26	796,388	361,113
Customer deposits	27	16,390,568	16,478,690
Other liabilities	28	489,035	338,725
Long term loan	30	529,670	678,967
Corporate bond issued	31	1,019,731	-
TOTAL LIABILITIES		19,225,392	17,857,495
SHAREHOLDERS' FUNDS			
Share capital	32(a)	1,050,000	1,050,000
Retained earnings		1,474,971	1,296,122
Investment revaluation reserve		(104,666)	(6,713)
Statutory reserve	32(b)	108,557	107,039
Translation reserve		22,351	35,187
Attributable to equity holders of the parent company		2,551,213	2,481,635
Non-controlling interests	33	296,518	304,603
TOTAL SHAREHOLDERS' FUNDS		2,847,731	2,786,238
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		22,073,123	20,643,733

The financial statements on pages 11 to 71 were approved and authorised for issue by the board of directors on 31 March 2015 and were signed on its behalf by:

) Director

) Director

) Chief Executive Officer

) Company Secretary

VICTORIA NTHENYA MUYA
R 2355
P. O. Box 28896-00100
Nairobi, KENYA
CERTIFIED PUBLIC SECRETARY

AFRICAN BANKING CORPORATION LIMITED

BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	1,110,044	1,243,396
Deposits and balances due from banking institutions	16	90,671	834,686
Government securities	17	4,705,478	4,598,386
Corporate bonds	18	234,677	281,613
Loans and receivables to customers	19(a)	13,127,628	10,851,417
Tax recoverable	11(c)	80,302	12,295
Other assets	20(a)	474,099	313,171
Due from related parties	20(b)	19,252	12,113
Property and equipment	21(b)	539,937	615,614
Intangible assets	22(b)	139,735	49,380
Investment in subsidiaries	23	885,405	821,358
Deferred tax	29 (b)	31,501	5,941
TOTAL ASSETS		21,438,729	19,639,370
LIABILITIES			
Balances due to banking institutions	26	796,382	342,366
Customer deposits	27	15,976,010	15,868,485
Due to related parties	20(c)	74,343	36,778
Other liabilities	28	420,043	262,834
Long term loan	30	529,670	678,967
Corporate bond issued	31	1,019,731	-
TOTAL LIABILITIES		18,816,179	17,189,430
SHAREHOLDERS' FUNDS			
Share capital	32(a)	1,050,000	1,050,000
Retained earnings		1,480,589	1,307,319
Investment revaluation reserve		(8,248)	(6,713)
Statutory reserve	32(b)	100,209	99,334
SHAREHOLDERS' FUNDS		2,622,550	2,449,940
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		21,438,729	19,639,370

The financial statements on pages 11 to 71 were approved and authorised for issue by the board of directors on 31 March 2015 and were signed on its behalf by:

________________) Director

________________) Director

________________) Chief Executive Officer

________________) Company Secretary

VICTORIA NTHENYA MUYA
R 2355
P. O. Box 28896 00100
Nairobi, KENYA
CERTIFIED PUBLIC SECRETARY

AFRICAN BANKING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share capital Sh'000	Retained earnings Sh'000	Investment revaluation reserve Sh'000	Statutory reserve Sh'000	Translation reserve Sh'000	Attributable to equity holders of the parent Sh'000	Non controlling interests Sh'000	Total Sh'000
At 1 January 2013		1,050,000	961,531	(4,919)	102,736	(18,383)	2,090,965	273,177	2,364,142
Total comprehensive income for the year		-	422,894	(1,794)	-	53,570	474,670	31,426	506,096
Transfer to statutory reserve	32	-	(4,303)	-	4,303	-	-	-	-
Dividend paid 2013		-	(84,000)	-	-	-	(84,000)	-	(84,000)
At 31 December 2013		1,050,000	1,296,122	(6,713)	107,039	35,187	2,481,635	304,603	2,786,238
At 1 January 2014		1,050,000	1,296,122	(6,713)	107,039	35,187	2,481,635	304,603	2,786,238
Total comprehensive income for the year		-	264,367	(97,953)	-	(12,836)	153,578	(8,085)	145,493
Transfer to statutory reserve	32	-	(1,518)	-	1,518	-	-	-	-
Dividend paid 2014		-	(84,000)	-	-	-	(84,000)	-	(84,000)
At 31 December 2014		1,050,000	1,474,971	(104,666)	108,557	22,351	2,551,213	296,518	2,847,731

The statutory reserve relates to the excess provisions for impairments for loans and receivables as computed per the Central Bank Prudential guidelines over that computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.

The Investment revaluation reserve represents the net cumulative surplus/(deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

AFRICAN BANKING CORPORATION LIMITED

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Share capital Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1 January 2013	1,050,000	972,506	(4,919)	94,022	2,111,609
Total comprehensive income for the year	-	424,125	(1,794)	-	422,331
Transfer to statutory reserve	-	(5,312)	-	5,312	-
Dividends paid	-	(84,000)	-	-	(84,000)
At 31 December 2013	1,050,000	1,307,319	(6,713)	99,334	2,449,940
At 1 January 2014	1,050,000	1,307,319	(6,713)	99,334	2,449,940
Total comprehensive income for the year	-	258,145	(1,535)	-	256,610
Transfer to statutory reserve	-	(875)	-	875	-
Dividends paid	-	(84,000)	-	-	(84,000)
At 31 December 2014	1,050,000	1,480,589	(8,248)	100,209	2,622,550

The statutory reserve relates to the excess provisions for impairments for loans and receivables as computed per the Central Bank of Kenya Prudential guidelines over the loans and receivables impairment provision as computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.

The investment revaluation reserve represents the net cumulative surplus/(deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

AFRICAN BANKING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	2014 Sh'000	2013 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34(a)	(1,758,945)	193,103
Taxation paid	11(c)	(155,657)	(157,788)
Cash (used in)/generated from operating activities		(1,914,602)	35,315
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	21(a)	(86,226)	(215,975)
Purchase of intangible assets	22(a)	(8,363)	(3,699)
Acquisition of operating lease	25	-	(1,969)
Cash outflow from acquisition of subsidiaries	23	(20,000)	-
Additional investment in existing subsidiaries	23	(44,047)	-
Proceeds from disposal of proprerty		1,663	-
Cash used in investing activities		(156,973)	(221,643)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	13	(84,000)	(84,000)
Issue of corporate bond	31	1,000,000	-
		916,000	(84,000)
Decrease in cash and cash equivalents		(1,155,575)	(270,328)
Cash and cash equivalents at 1 January		2,323,390	2,555,176
Exchange differences		65,747	38,542
Cash and cash equivalents at 31 December	34(b)	1,233,562	2,323,390

1 GENERAL INFORMATION

African Banking Corporation Limited ('the company') and its subsidiaries (together, 'the group'), comprising ABC Financial Services Limited which is an investment and holding company of ABC Capital Limited, a stock-broking and investment company licensed by the Capital Markets Authority (CMA), ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited, a commercial bank incorporated and operating in Uganda. The main principal activity for the group is banking and stock brokerage. The address of its registered office and principal place of business are disclosed in the introduction to the annual report.

2 ACCOUNTING POLICIES

Statement of compliance

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

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

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

i) New standards and amendments to published standards effective for the year ended 31 December 2014

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

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. To qualify as an investment entity, a reporting entity is required to: • obtain funds from one or more investors for the purpose of providing them with investment management services; • commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and • measure and evaluate performance of substantially all of its investments on a fair value basis. Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the group is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014).
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.The amendments have been applied retrospectively. The application of the amendments has had no impact on the disclosures or on the amounts recognised in the group's financial statements as the group does not have any financial assets and financial liabilities that qualify for offset.

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

i) New standards and amendments to published standards effective for the year ended 31 December 2014 (Continued).

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*. The application of the amendments has had no impact on the disclosures or on the amounts recognised in the group's financial statements. as the group does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated.
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. The application of these amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements as the group does not have any derivatives that are subject to novation.
IFRIC 21 Levies	IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the group's financial statements.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014.

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IAS 16 and IAS 41	1 January 2016
Amendments to IAS 39	1 January 2015
Amendments to IAS 19	1 July 2014
Amendments to IFRS's Annual improvements 2010- 2012 cycle	1 July 2014
Amendments to IFRS's Annual improvements 2011- 2013cycle	1 July 2014

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

- **IFRS 9 Financial Instruments**

  The replacement project on financial instruments consists of the following three phases:

  - Phase 1: Classification and measurement of financial assets and financial liabilities;
  - Phase 2: Impairment methodology; and
  - Phase 3: Hedge accounting.

  In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 Financial Instruments: Recognition and Measurement in its entirety upon the former's effective date.

  Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

  The completed IFRS 9 (as revised in 2014) contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

The directors of the group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the group.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the group anticipate that the application of these amendments may not have a significant impact on the group.

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The directors of the group do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the group's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below.

IFRS 13 *Fair Value Measurement*	Short-term receivables and payables	The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial.
IAS 16 Property, Plant and Equipment; IAS 38 Intangible Assets	Revaluation method—proportionate restatement of accumulated depreciation (amortisation)	The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

Annual Improvements to IFRSs 2010-2012 Cycle (Continued)

These IFRS improvements are effective for accounting periods beginning on or after 1 July 2014. The directors of the group do not anticipate that the application of these improvements to IFRSs will have a significant impact on the groups's financial statements.

Annual Improvements to IFRSs 2011 - 2013 Cycle

The Annual Improvements include amendments to a number of IFRSs, which have been summarised below.

Standard	**Subject of amendment**	**Details**
IFRS 13 *Fair Value Measurement*	Scope of paragraph 52 (portfolio exception)	The amendments clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.
IAS 40 Investment Property	Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	The amendments clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether: (a) the property meets the definition of investment property in terms of IAS 40; and (b) the transaction meets the definition of a business combination under IFRS 3.

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

iii) Early adoption of standards

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

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain assets and financial instruments which are accounted for at fair value.

Basis of consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiaries is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.
Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.
Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

The consolidated financial statements incorporate the financial statements of the bank and its subsidiaries, ABC Capital Limited, ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited both having financial year end 31 December 2014.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiaries is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

2 ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

(c) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the group’s share of the net assets of the acquired subsidiaries as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent periods.

Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as at fair value through profit and loss, are recognized within interest income and interest expense in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

2 ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Interest income and expense (Continued)

Interest income includes interest on loans and receivables, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

Fees and commissions

In the normal course of business, the Group earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

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

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

Statutory reserve

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

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset (costs of bringing the assets to its location and working condition).

Depreciation is calculated on a pro-rata basis at the following annual rates estimated to write off the cost of property and equipment over their expected useful lives, on the following bases:

	Rate	Basis
Buildings	2%	Straight line basis
Office renovations	Over the lease period of the building	Straight line basis
Motor vehicles	20%	Straight line basis
Furniture and equipment	12.5%	Reducing balance basis
Computers, copiers and faxes	30%	Reducing balance basis

Intangible assets

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 10 years.

2 ACCOUNTING POLICIES (Continued)

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to an entity within the Group as a lessee. All other leases are classified as operating leases.

Assets held under finance leases are capitalised at their fair value on the inception of the lease and depreciated over their estimated useful lives. The finance charges are allocated over the period of the lease so as to achieve a constant rate of interest on the outstanding liability over the remaining term of the lease.

Payments to acquire leasehold interests in land are accounted for as operating lease prepayments and are amortised over the period of the lease.

Prepaid operating leases represent payments made towards acquisition of lease rentals of business premises. The expenditure is amortized over the term of the related lease.

Other investments

The investment in the Nairobi Securities Exchange is classified as available for sale and initially recognised at cost. After initial recognition, the investment is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The fair value is determined using the closing market price as per Nairobi Securities Exchange.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Offsetting

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

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.

Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the end of the reporting period. Transactions in foreign currency during the period are translated at the rates of exchange ruling at the dates of the transactions. The resulting gains or losses are dealt with in profit or loss.

2 ACCOUNTING POLICIES (Continued)

Employee entitlements

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

Retirement benefits

The Group's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

In Kenya the Group operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

In Uganda, the Group contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The institution's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The institution's contributions are charged to profit or loss in the year in which they relate.

Financial instruments

Financial assets

Classification

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument. As at the reporting date, the classification of the Group's financial assets was as follows:

- Fair value through profit or loss:
  - Quoted equity investments
- Loans and receivables:
  - Cash and balances with Central Banks, deposits and balances due from banking institutions, loans and receivables to customers, due from related parties and trade and other receivables.
- Held to maturity:
  - Treasury bonds, treasury bills and corporate bonds.
- Available for sale:
  - Treasury bonds designated as available for sale and investment in Nairobi Securties Exchange.

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

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

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

(iv) Available-for-sale financial assets
Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

Recognition and derecognition of financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings through profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group’s right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

If it is probable that the Group will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

2 ACCOUNTING POLICIES (Continued)

Impairment and uncollectability of financial assets (Continued)

Identified provisions are recognised for loans and receivables that are individually significant. Unidentified provision is measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. This is estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the profit or loss for the year.

Financial liabilities

After initial recognition, the Group measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the Group to support performance by a customer to third parties. The Group will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as transactions off the statement of financial position and disclosed as contingent liabilities.

Fiduciary activities

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

2 ACCOUNTING POLICIES (Continued)

Comparatives

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

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction and overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk
- market risk

Risk management framework

The Board Risk and Compliance and the Board Audit Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. These Committees are assisted in these functions by the Risk and Compliance and Internal Audit units. The units undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk and Compliance and the Board Audit Committees.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head of Credit, Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk.* Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Management of credit risk (Continued)

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and receivables), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group credit committee.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the bank in the management of credit risk.

Credit risk on financial assets other than loans

The Group is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Group's management reviews information on significant amounts.

The Group's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions, corporate bonds, government securities and balances with Central Bank of Kenya and Bank of Uganda is limited because the counterparties are banks, the governments and corporations with high credit ratings.

The amount that best represents the Group's such exposure to credit risk, at the end of the reporting period is made up as follows:

	2014 Sh'000	2013 Sh'000
Cash and balances with Central Banks	1,209,272	1,298,752
Deposits due from banking institutions	223,303	1,313,538
Government securities	5,200,769	4,967,666
Corporate bonds	234,677	281,613
Loans and receivables	13,679,881	11,491,145
	20,547,902	19,352,714

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Credit risk (Continued)

Credit risk on financial assets other than loans (Continued)

Classification of loans and receivables

Loans and receivables to customers	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
31 December 2014				
Neither past due nor impaired	10,499,474	-	10,499,474	77
Past due but not impaired	2,635,844	-	2,635,844	19
Impaired	829,726	285,163	544,563	4
Total	13,963,769	281,602	13,678,606	100
31 December 2013				
Neither past due nor impaired	9,828,746	-	9,828,746	85
Past due but not impaired	1,345,126	-	1,345,126	12
Impaired	500,156	182,883	317,273	3
Total	11,674,028	182,883	11,491,145	100

Neither past due nor impaired

The Group classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to be repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank of Kenya Prudential Guidelines and per Bank of Uganda guidelines. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory reserves.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and/or the stage of collection of amounts owed to the Group. These loans are categorised as watch (category 2) in accordance with the Central Bank of Kenya Prudential Guidelines and Bank of Uganda guidelines and per the Bank of Uganda guidelines.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in accordance with the Central Bank of Kenya Prudential Guidelines and non - perfoming loans per Bank of Uganda guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed. However the amounts involved are insignificant.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Credit risk (Continued)

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to exposures classified as nonperforming, and a collective loan loss allowance established for Groups of homogeneous assets in respect of losses inherent in the performing portfolio.

Write-off policy

The Group writes off a loan / balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance loans, write off decisions are generally based on specific past due status.

Collateral held

The Group holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at 31 December 2014 (2013: Nil).

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

Loans and receivables to customers:

	2014 Shs'000	2013 Shs'000
Against individually impaired		
Property	470,735	292,153
Other	968,642	17,879
Against collectively impaired		
Property	701,050	1,739,212
Other	154,109	1,175,288
Against past due but not impaired		
Property	1,664,425	1,840,801
Other	61,501	27,832
Against neither past due nor impaired		
Property	8,977,120	5,506,572
Other	2,280,382	3,443,392
Total	15,277,964	14,043,129

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

a) Credit risk (Continued)

Concentrations of risk

The Group monitors concentrations of credit risk by sector. Details of significant concentrations of the bank's assets, liabilities and items off the statement of financial position by industry Groups are as detailed below:

(i) Advances to customers

	2014 Sh'000	2014 %	2013 Sh'000	2013 %
Manufacturing	353,497	3%	525,315	5
Wholesale, retail trade and hotels	4,353,663	32%	3,580,752	31
Transport and communications	778,994	6%	1,075,289	9
Agriculture	359,026	3%	115,104	1
Business service	1,943,059	14%	1,586,524	14
Building, constructions and real estate	1,885,128	13%	3,365,294	30
Social, community and personal service	331,586	2%	245,942	2
Foreign trade	198,504	1%	25,056	0
organisations and others	3,475,149	26%	971,869	8
	13,678,606	100%	11,491,145	100

(ii) Customer deposits

	2014 Sh'000	2014 %	2013 Sh'000	2013 %
Non-profit institutions and individuals	9,475,233	58%	8,728,925	53
Private enterprises	4,554,649	28%	5,649,742	34
Insurance companies	1,246,831	8%	1,413,631	9
Others	1,113,855	7%	686,392	4
	16,390,568	100%	16,478,690	100

(iii) Off balance sheet items

	2014 Sh'000	2014 %	2013 Sh'000	2013 %
Manufacturing	84,618	2%	143,398	3
Wholesale, retail trade and hotels	830,635	18%	1,026,309	22
Transport and communications	5,050	-	510,269	11
Agriculture	26,407	1%	14,000	1
Business service	81,539	2%	2,092	0
Building, constructions and real estate	466,243	10%	482,804	10
Financial service	2,688,593	60%	1,764,240	38
Foreign trade	253,249	6%	525,685	11
organisations and others	64,544	1%	197,457	4
	4,500,878	100%	4,666,254	100

b) Liquidity risk

The Group is exposed to the risk that the Group will encounter difficulty in raising funds to meet commitments associated with customer requirements as and when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

b) Liquidity risk (Continued)

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2014	2013
At 31 December	30.6%	38.0%
Average for the period	38.6%	42.0%
Maximum for the period	46.1%	47.9%
Minimum for the period	30.6%	36.8%
	=======	=======

Residual contractual maturities of financial liabilities

The table below analyses the Group's financial assets and financial liabilities into the relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
At 31 December 2014						
FINANCIAL ASSETS						
Cash and balances with Central Banks	1,209,272	-	-	-	-	1,209,272
Deposits and balance due from banking institutions	223,303	-	-	-	-	223,303
Government securities	28,234	146,210	640,079	1,544,127	2,842,119	5,200,769
Corporate bonds	-	-	50,777	183,900	-	234,677
Loans and receivables to Customers	3,357,634	1,521,081	3,683,303	1,051,611	4,066,252	13,679,881
Total financial assets	4,817,536	1,668,198	4,374,159	2,779,638	6,908,371	20,547,902
FINANCIAL LIABILITIES						
Deposits and balance due to banking institutions	796,388	-	-	-	-	796,388
Customer deposits	4,940,044	1,844,934	4,841,337	4,658,472	105,781	16,390,568
Long term debt	-	-	-	529,670	-	529,670
Corporate bond issued	-	-	-	1,019,731	-	1,019,731
Total financial liabilities	5,736,432	1,844,934	4,841,337	6,207,873	105,781	18,736,357
Net liquidity gap	(918,896)	(176,736)	(467,178)	(3,428,235)	8,011,789	1,811,472
	========	========	=======	========	=======	========
At 31 December 2013						
Total financial assets	4,920,136	5,341,170	7,241,434	11,269,661	1,812,885	30,585,286
Total financial liabilities	6,428,698	2,046,456	4,853,937	7,303,942	3,664,601	24,297,635
Net liquidity gap	(1,508,562)	3,294,714	2,387,497	3,965,719	(1,851,716)	6,287,651
	========	========	=======	========	=======	========

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

b) Liquidity risk (Continued)

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

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

c) Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with ALCO. The Group's Risk Compliance Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

i. Interest rate risk

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Group's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the Group's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the end of the reporting period. Included in the table are the Group's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
At 31 December 2014							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	1,209,272	1,209,272
Deposits and balance due from banking institutions	223,303	-	-	-	-	-	223,303
Government securities	28,234	146,210	640,079	1,544,127	2,842,119	-	5,200,769
Corporate bonds	-	-	50,777	183,900	-	-	234,677
Loans and receivables to customers	3,357,634	1,521,081	3,683,303	1,051,611	4,066,252	-	13,679,881
Total financial assets	3,609,171	1,667,291	4,374,159	2,779,638	6,908,371	1,209,272	20,547,902

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

c) Market risk (Continued)

i. Interest rate risk (Continued)

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Non interest bearing Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Deposits and balance due to banking institutions	-	796,388	-				
	796,388						
Customer deposits	3,730,771	1,844,934	4,841,337	4,658,472	105,781	1,209,272	16,390,567
Longterm debt	-	-	-	529,670	-	-	529,670
Corporate bond issued	-	-	-	1,019,731	-	-	1,019,731
Total financial liabilities	3,730,771	2,641,322	4,841,337	6,207,873	105,781	1,209,272	18,736,356
Interest sensitivity gap	(121,601)	(974,031)	(467,178)	(3,428,235)	6,802,590	-	1,811,545
At 31 December 2013							
Total financial assets	12,801,302	1,606,307	-	1,188,553	2,457,800	1,298,752	19,352,714
Total financial liabilities	9,958,037	3,316,941	3,929,202	267,006	47,584	-	17,518,770
Interest sensitivity gap	2,843,265	(1,710,634)	(3,929,202)	921,547	2,410,216	1,298,752	1,833,944

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group.

Interest rate risks – Increase/Decrease of 10% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments.
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modelling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2014.

	Amount Sh'000 31 December 2014	Scenario 1 10% Increase in net interest margin	Scenario 2 10% Decrease in net interest margin
Profit before tax	336,879	456,847	216,911
Adjusted Core Capital	1,928,212	2,012,190	1,844,234
Adjusted Total Capital	2,945,088	3,029,066	2,861,110
Risk Weighted Assets (RWA)	17,095,614	17,095,614	17,095,614
Adjusted Core Capital to RWA	11.28%	11.77%	10.79%
Adjusted total Capital to RWA	17.23%	17.72%	16.74%

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2014 by Sh 138 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 11.50% and 17.41% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 10.52% and 16.43% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

ii. Foreign exchange risk

The Group operates in Kenya and Uganda and its assets and liabilities are carried in Kenya shilling and Uganda shilling. The Group maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The Group'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 table below summarises the Group's exposure to foreign exchange rate risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts categorised by currency.

Concentrations of currency risk on financial instruments on and off the statement of financial position:

	KES Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
At 31 December 2014						
FINANCIAL ASSETS						
Cash and balance with Central Banks	1,027,484	84,430	8,134	13,189	76,035	1,209,272
Government securities	4,705,475	-	-	-	495,294	5,200,769
Deposit and balances due from banking institutions	100,966	42,877	7,528	4,439	67,493	223,303
Loans and receivables to customers	10,553,904	2,573,231	-	1,768	550,978	13,679,881
Corporate bonds	234,677	-	-	-	-	234,677
Total financial assets	16,622,506	2,700,538	15,662	19,396	1,189,800	20,547,902
FINANCIAL LIABILITIES						
Customer deposits	14,668,470	1,040,994	248,643	62,961	369,500	16,390,568
Deposit due to banking institutions	469,772	324,611	-	-	-	794,383
Long term debt financing	434,176	95,494	-	-	-	529,670
Corporate bond issued	1,019,731	-	-	-	-	1,019,731
Total financial liabilities	16,592,149	1,461,099	248,643	62,961	369,500	18,734,352
Net on statement of financial position	(21,142)	1,217,376	(232,981)	(43,565)	(820,294)	1,740,308
Off balance sheet position	2,688,800	1,449,835	239,644	121,229	1,370	4,500,878
At 31 December 2013						
Total financial assets	15,194,840	3,077,702	83,035	100,191	846,851	19,302,619
Total financial liabilities	14,809,526	1,703,140	289,794	89,442	626,868	17,518,770
Net on statement of financial Position	385,314	1,374,562	(206,759)	10,749	219,983	1,783,849
Off balance sheet position	2,493,215	1,967,690	1,818	40,334	163,197	4,666,254

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

ii. Foreign exchange risk (Continued)

Foreign exchange risk – Appreciation/Depreciation of KSh against other currencies by 10%

The Foreign Exchange risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- The Currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The Base currency in which the Group's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2014.

Assuming no management actions, a series of such rises and falls would impact the future earnings and capital as illustrated in the table below;

	31 December 2014 Amount Sh' 000	Scenario 1 10% appreciation Sh' 000	Scenario 2 10% depreciation Sh' 000
Profit before tax	336,879	346,048	327,710
Adjusted Core Capital	1,928,212	1,934,630	1,921,794
Adjusted Total Capital	2,945,088	2,951,506	2,938,670
Risk Weighted Assets (RWA)	17,095,614	17,095,614	17,095,614
Adjusted Core Capital to RWA	11.28%	11.32%	11.24%
Adjusted total Capital to RWA	17.23%	17.26%	17.19%
	=========	=========	=========

Assuming no management actions, a series of such appreciation would increase earnings for 2014 by Sh 9.1 million, while a series of such falls would decrease earning for 2014 by Sh 9.1 million. Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 11.05% and 16.96% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 10.98% and 16.88% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

iii. Price risk

The Group is exposed to equity securities price risk as a result of its holdings. Equity investments held are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Group has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

If equity market indices had increased/decreased by 10%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit before tax for the year would increase/decrease by Sh Nil (2013: Sh Nil). The net assets for the year would increase/decrease by Sh Nil (2013: Sh Nil).

3 FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

iv. Fair value of financial assets and liabilities

Financial instruments measured at fair value
Determination of fair value and fair values hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

Investment in NSE was listed during the period and therefore moved from Level 3 to Level 1. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required).

	2014		2013	
	Carrying amount Sh'000	Fair value Sh'000	Carrying amount Sh'000	Fair value Sh'000
Financial assets				
Investment in NSE	107,625	107,625	211,200	211,200
	=======	======	=======	=======

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2014	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Treasury bonds	560,000	-	-	560,000
Investment in NSE	107,625	-	-	107,625
Total	667,625	-	-	667,625
	=======	======	=======	=======
At 31 December 2013				
Treasury bonds	630,276	-	-	630,276
Investment in NSE	-	-	211,200	211,200
Total	630,276	-	-	841,476
	=======	======	=======	=======

4 CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

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

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

Banking

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

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

- Tier 1 Capital (Core Capital), means permanent shareholders equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets. It includes ordinary share capital, share premium and retained earnings.

- Tier 2 Capital (Supplementary Capital) includes among others, property revaluation reserves (up to a certain level subject to regulatory approval) and collective impairment allowances.

Kenya

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

The bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each bank to maintain;

- A minimum level of regulatory capital of Shs 1 billion.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-statement of financial position items.

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The bank has complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the bank's management of capital during the period.

The bank's regulatory capital position at 31 December was as follows:

As per Central Bank of Kenya:

	2014 Shs'000	2013 Shs'000
Tier 1 capital		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	1,480,589	1,307,319
Investment in subsidiaries	(602,377)	(583,330)
Total	1,928,212	1,773,989
Tier 2 capital		
Collective allowances for impairment	100,209	99,334
Amortised corporate bond	916,667	-
Total	1,016,876	99,334
Total regulatory capital	2,945,088	1,873,323
Risk-weighted assets (page 41)		
On balance sheet items	13,324,285	11,440,318
Off balance sheet items	746,381	988,677
Market risk	429,329	-
Operational risk	2,595,618	-
Total Risk-weighted assets	17,095,613	12,428,995
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 14.50%)	17.23%	15.07%
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 10.5 %)	11.28%	14.27%

Uganda

The bank monitors the adequacy of its capital using ratios established by the Bank of Uganda, which are in line with those established by the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the bank's eligible capital with its balance sheet assets, off-balance sheet commitments, market and other risk positions at a weighted amount to reflect their relative risk.
The market risk approach covers the general market risk and the risk of open positions in currencies, debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them.

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example cash and money instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to at least 12% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet related commitments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital (core capital) consists of shareholders' equity. Tier 2 capital includes the bank's general provisions.

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

The Bank of Uganda requires each bank to: (a) hold the minimum level of regulatory capital of Ushs 10 billion (Kshs 319,898,000) as at 31 December 2014; (b) maintain core capital of not less than 8% of risk weighted assets and off balance sheet items; and (c) maintain total capital of not less than 12% of risk weighted assets plus risk-weighted off balance sheet items.

As per Bank of Uganda:

Tier 1 capital	2014	2013 Shs'000
Share capital fully paid up	817,667	859,585
Prior year retained earnings/(accumulated losses)	57,159	16,242
Shareholders capital deposit	17,566	-
Net after tax profits (50%)	-	28,119
Movement in general reserves	-	1,473
Deferred income tax asset	(1,716)	-
Unrealised foreign exchange gains	-	(1,088)
Intangible assets	(500)	(919)
	890,176	903,412
Supplementary Capital Tier 2		
Regulatory reserve	10,780	10,657
Total Supplementary Capital Tier 2	10,780	10,657
On balance sheet items	1,337,387	1,568,378
Off balance sheet items	294	151,884
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	134.23%	97.71%
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	135.23%	98.86%

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued

The risk weighted assets are as follows:

	2014			2013		
ON - BALANCE SHEET ASSETS	Amount (Shs`000)	Weight	Risk Weighted (Shs'000)	Amount (Shs'000)	Weight	Risk Weighted (Shs'000)
Cash (including foreign notes and coins)	168,556	0	-	170,580	0	-
Balances with Central Bank of Kenya	941,488	0	-	1,072,815	0	-
Treasury bills	359,964	0	-	684,701	0	-
Kenya treasury bonds	4,345,514	0	-	3,913,685	0	-
Deposits and balances due from local institutions	46,564	0.2	9,313	299,385	0.2	59,877
Deposits and balances due from foreign institutions	44,107	0.2	8,821	535,302	0.2	107,060
Lending fully secured by cash	1,140,960	0.2	-	631,477	0	-
Loans and receivables Secured by residential property	966,095	0.5	483,048	949,428	0.5	474,714
Other loans and receivables (net of provisions)	11,255,250	1	11,255,250	9,552,125	1.0	9,552,125
Investment in subsidiaries	-	1	-	583,330	0	-
Investment in associate	-	1	-	-	1.0	-
Fixed Assets (net of depreciation)	679,672	1	679,671	664,994	1.0	664,994
Amounts due from Group companies	19,252	1	19,252	12,113	1.0	12,113
Other assets	1,471,307	1	1,471,307	569,435	1.0	569,435
TOTAL	21,438,729		13,926,662	19,639,370		11,440,318
OFF BALANCE SHEET ASSETS						
Local banks	93,334	0.2	18,667	61,740	0.2	12,348
Foreign banks and foreign government	19,203	0.2	3,841	16,089	0.2	3,218
Others	723,873	1	723,873	973,111	1.0	973,111
Total	836,411		746,381	1,050,940		988,677

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Compliance and Credit, and is subject to review by the Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Brokerage

Stock brokerage entities in Kenya are governed by the Capital Markets Act and as such are subject to solvency regulations which specify the minimum amount and type of capital that must be held. The company manages capital in accordance with these rules. The Capital Markets (Licensing Requirements) (General) Regulations, 2002 contains the following regulations relevant to ABC Capital Limited:

- The level of paid-up share capital for a stockbroker shall not be below Shs 50,000,000 at any time during the license period. The company maintained capital well above the minimum requirement.
- The minimum paid up share capital shall always be unimpaired and shall not be advanced to the directors or associates of the stockbroker. No such advances were issued and neither did the share capital suffer any impairment.
- The working capital shall not be below twenty percent of the prescribed minimum shareholders' funds or three times the average monthly operating costs whichever is higher. This was fully complied with in the period.
- Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed ten percent of the prescribed minimum shareholders funds at any time provided that such loans are with respect to any amount in excess of the minimum paid up capital. No such advances were issued.
- The ratio of the stockbroker's bank overdraft to the paid-up capital shall not exceed twenty percent at any time. The company does not have any bank overdrafts.

	2014 Sh'000	2013 Sh'000
Minimum prescribed capital	50,000	50,000
	======	======
Shareholders' funds		
Share capital	135,000	106,978
Shares awaiting allotment	-	3,200
Share premium	100	100
Revaluation reserve	57,625	173,700
Capital reserve	15,000	15,000
Accumulated deficit	(52,632)	(59,609)
	155,093	239,369
	======	=======

4 CAPITAL MANAGEMENT (Continued)

	2014	2013
	Sh'000	Sh'000
Brokerage (Continued)		
Working capital		
Current assets	83,455	60,327
Current liabilities	43,834	43,729
	39,621	16,598
Total expenses	28,736	29,100
Average monthly expenses	2,395	2,425
20% of minimum shareholders' funds	10,000	10,000

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical accounting judgements in applying the Group's accounting policies

Impairment losses on loans and receivables

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

Held -to-maturity investments

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

Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made

(ii) Key sources of estimation uncertainty

Property, plant and equipment

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

		2014 Shs'000	2013 Shs'000
6	INTEREST INCOME		
	Loans and advances to customers	2,108,120	1,885,740
	Government securities – held to maturity	397,804	382,429
	Government securities – available for sale	152,369	159,200
	Corporate bonds – held to maturity	32,203	37,760
	Deposits and placements with banking institutions	40,995	70,711
		2,731,491	2,535,840
7	INTEREST EXPENSE		
	Customer deposits	1,177,227	1,201,081
	Deposits and placements from banking institutions	39,853	19,668
	Interest on long term loan	51,816	66,117
	Interest on bond financing	82,731	-
		1,351,627	1,286,866
8	OTHER OPERATING INCOME		
	Loss on disposal of government securities	(7,932)	(48,253)
	Realised gain on sale of available for sale investments (note 17)	27,858	128,640
	Cumulative gain reclassified from equity on disposal of available for sale investments (note 17)	33	(19,566)
	Rental income	1,571	3,078
	Dividend income	1,900	1,900
	Miscellaneous income	19,145	5,028
	Gain on disposal of property	654	-
	Bad debts recovered	4,005	-
		47,234	70,827
9	OPERATING EXPENSES		
	Staff costs (note 10)	715,581	607,660
	Depreciation of property and equipment (note 21)	55,754	55,186
	Amortisation of intangible assets (note 22)	11,625	12,089
	Amortisation of operating lease (note 25)	-	86
	Auditors' remuneration - parent	3,651	3,076
	- subsidiaries	2,892	2,402
	Contribution to deposit protection fund	22,765	19,183
	Directors' emoluments - fees	5,935	3,960
	- other	55,158	22,567
	Operating lease rentals	102,060	67,039
	Advertising costs	64,851	42,497
	Communication	42,652	45,441
	Printing and stationery	20,719	16,369
	Computer and software maintenance	2,998	31,360
	Travelling and vehicle running expenses	42,970	30,968
	Legal and professional fees	16,326	12,040
	Security	24,478	29,130
	Insurance	20,422	12,436
	Bank charges	7,547	13,328
	Office expenses	79,958	38,281
	Agency intergration charges	3,704	2,307
	Other expenses	111,993	57,280
		1,414,039	1,124,685

	2014 Shs'000	2013 Shs'000
10 STAFF COSTS		
Salaries and allowances	559,019	503,315
Staff training	9,759	23,306
NSSF contribution	775	737
Pension contribution – defined contribution	18,337	15,257
Leave pay provision	13,741	2,817
Medical expense	26,807	19,272
Other	87,143	42,956
	715,581	607,660

11 TAXATION

	2014 Shs'000	2013 Shs'000
(a) Taxation expense:		
Income tax based on taxable profit for the year at 30%	92,882	151,097
Taxation assessed on separate income	427	366
Prior year under provision of current tax	-	1,046
	93,309	152,509
Deferred tax charge (note 29)	(23,322)	366
Prior year underprovision – deferred tax	(116)	-
Deferred tax not recognised (note 29)	(2,339)	(2,928)
	67,532	149,947
(b) Reconciliation of tax expense to the expected tax based on accounting profit:		
Accounting profit before taxation	336,881	592,110
Tax at 30%	101,065	177,633
Tax effect of expenses not deductible for tax	19,481	5,838
Tax effect of income not subject to tax	(55,674)	(37,864)
Prior year under provision current tax	321	1,046
Income assessed separately for tax	-	366
Deferred tax asset not recognised	2,339	2,928
	67,532	149,947

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
(c) Taxation recoverable				
At 1 January	(27,131)	(21,852)	(12,295)	(26,805)
Current tax charge for the year	86,658	152,509	85,944	151,232
Paid in the year	(155,657)	(157,788)	(153,951)	(136,722)
At 31 December	(96,130)	(27,131)	(80,302)	(12,295)

11 TAXATION (Continued)

	GROUP		BANK	
(c) Taxation recoverable (Continued)	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Comprising:				
Income tax recoverable	(96,130)	(27,131)	(80,302)	(12,295)
Income tax payable	-	-	-	-
At 31 December	(96,130)	(27,131)	(80,302)	(12,295)

The balances receivable and payable have not been offset in the statement of financial position as the Group does not have a legal right of offset.

12 PROFIT FOR THE YEAR

A profit after taxation of Sh 258,145,000 (2013: Sh 424,125,000) has been dealt with in the separate financial statements of the parent company, African Banking Corporation Limited.

13 DIVIDENDS

An final dividend of Sh 0.80 per share (2013 – Sh 0.80) on 105,000,000 shares, (2013 – 105,000,000 shares) was paid during the year amounting to Sh 84,000,000 (2013 – Sh 84,000,000).

14 EARNINGS PER SHARE

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

	2014	2013
Earnings		
Earnings for purposes of basic and diluted earnings per share (Sh'000)	264,367	434,341
Number of shares		
Weighted average number of ordinary shares (thousands)	105,000	105,000
Earnings per share		
Basic and diluted (Sh)	2.52	4.14

The diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive shares as at 31 December 2014 or 31 December 2013.

15 CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Cash in hand	203,006	186,527	168,557	170,580
Balances with Central Bank of Kenya				
- Cash reserve ratio requirement	968,508	963,723	903,736	924,314
- Other – available for use by the bank	37,758	148,502	37,751	148,502
	1,209,272	1,298,752	1,110,044	1,243,396

15 CASH AND BALANCES WITH CENTRAL BANK OF KENYA (Continued)

The cash reserve ratio requirement is non interest bearing and is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya and Bank of Uganda requirements. As at 31 December 2014 the cash reserve ratio requirement for Kenya was 5.25% (2013: 5.25%) while that of Uganda was 8% (2013: 8%)of all customer deposits. These funds are not available for the day to day operations of the Group.

16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Deposits with banking institutions	122,140	658,260	46,565	299,384
Balances with banking institutions	101,163	655,278	44,106	535,302
	223,303	1,313,538	90,671	834,686

The weighted average effective interest rate at 31 December 2014 for deposits due from banking institutions in Kenya was 8.54% (2013 – 7.04 %) and 2.27 % for deposits due from banking institutions outside Kenya (2013 – 2.17%).

17 GOVERNMENT SECURITIES

(i) HELD TO MATURITY

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
(a) Treasure bills at amortised cost -				
Maturing within 90 days of the end of the reporting period				
Face value	607,406	808,632	370,000	710,000
Less: unearned discount	(10,036)	(25,299)	(10,036)	(25,299)
	597,370	783,333	359,964	684,701

(b) Treasury bonds at amortised cost

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Maturing within 1 year	139,655	202,845	139,655	202,845
Maturing after 1 year but within 5 years	1,144,322	1,067,914	886,437	797,266
Maturing after 5 years	2,392,495	2,283,298	2,392,495	2,283,298
	3,676,472	3,554,057	3,418,587	3,283,409

17 GOVERNMENT SECURITIES (Continued)

(ii) AVAILABLE FOR SALE – GROUP AND BANK

Treasury bonds available for sale

	2014 Sh'000	2013 Sh'000
At 1 January	819,593	1,609,883
Purchases	1,219,000	2,587,261
Disposals	(1,110,131)	(3,563,074)
Fair value loss	(1,535)	(1,794)
At 31 December	926,927	630,276

The movement of the disposal during the year was as follows:

	2014	2013
Cost	1,350,000	3,454,000
Proceeds	1,377,891	3,563,074
Gain on disposal of available for sale treasury bonds	27,891	109,074
Cumulative gain reclassified from fair value reserve on disposal (now realised)	33	(19,566)
Profit during the year (note 8)	27,858	128,640

The total investment in government securities at the end of the reporting period was as follows:

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Treasury bills at amortised cost	597,370	783,333	359,964	684,701
Treasury bonds at amortised cost	3,676,472	3,554,057	3,418,587	3,283409
Treasury bonds available for sale	926,927	630,276	926,927	630,276
	5,200,769	4,967,666	4,705,478	4,598,386

Treasury bills and bonds are debt securities issued by the Governments of Kenya and Uganda and are classified as held to maturity and available for sale. The weighted average effective interest rate on treasury bills at 31 December 2014 was 8.57% (2013 – 10.41%) and the rate for the treasury bonds was 11.17% (2013 – 10.47%).

18 CORPORATE BONDS – HELD TO MATURITY

GROUP AND BANK

	2014 Sh'000	2013 Sh'000
Maturing after 1 year but within 5 years	-	-
Maturing after 5 years – At amortised cost	234,677	281,613
	234,677	281,613

The weighted average effective interest rate on the corporate bond as at 31 December 2014 was 16.20% (2013 – 16.20%).

19 LOANS AND RECEIVABLES

		GROUP		BANK	
		2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
(a)	Loans and receivables	10,016,195	7,949,827	9,578,068	7,407,524
	Bills discounted	549,328	362,785	549,328	362,785
	Overdrafts	3,399,521	3,361,416	3,281,834	3,244,706
		13,965,044	11,674,028	13,409,230	11,015,015
	Provision for impaired loans and receivables (note 19(d))	(285,163)	(182,883)	(281,602)	(163,598)
		13,679,881	11,491,145	13,127,628	10,851,417

(b) The weighted average effective interest rate on loans and receivables to customers as at 31 December 2014 was 15.99% (2013 – 23.12 %). The weighted average effective interest rate on overdrafts as at 31 December 2014 was 15.86 % (2013 – 24.06 %). The weighted average effective interest rate on bills discounted at 31 December 2014 was 9.48% (2013 – 22.67 %).

The interest rate on loans and receivables to customers are either pegged to the bank's base lending rate or the treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. Included in net advances of Sh 13,407,955,567 (2013 – Sh 11,491,145,000) are loans and receivables amounting to Sh 724,269,761(2013 – Sh 317,273,000) net of specific provisions, which have been classified as non-performing.

(c) Analysis of gross advances by maturity:

	2014 Shs'000	2013 Shs'000
Maturing within one month	3,840,678	1,959,405
Maturing within 90 days	2,230,771	1,565,328
Maturing after 90 days and within one year	439,777	2,381,984
Maturing after one to five years	4,507,904	3,977,592
Over five years	2,660,751	1,606,836
	13,679,881	11,491,145

The related party transactions and balances are covered under note 36 and concentrations of advances to customers are covered under Financial Risk Management Objectives and Policies in note 3.

19 LOANS AND RECEIVABLES TO CUSTOMERS –GROUP AND BANK (Continued)

(c) Provisions for impaired loans and receivables:

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	182,883	194,455	163,598	189,238
Provisions in the year	161,948	48,942	131,635	11,979
Written off	(59,668)	(60,514)	(13,631)	(37,619)
At 31 December	285,163	182,883	281,602	163,598

20 (a) OTHER ASSETS

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Prepayments	100,886	77,555	93,490	75,574
ATM deposits	3,279	3,279	3,279	3,279
Trade receivables	34,199	18,789	-	-
Other	422,797	246,745	377,330	234,318
	561,161	346,368	474,099	313,171

(b) DUE FROM RELATED PARTIES

ABC Capital Kenya Limited	-	-	8,936	8,158
ABC Capital Bank Uganda Limited	-	-	10,316	3,955
	-	-	19,252	12,113

(c) DUE TO RELATED PARTIES

ABC Capital Kenya Limited	-	-	51,487	33,561
ABC Insurance Brokers Limited	-	-	20,627	
ABC Capital Bank Uganda Limited	-	-	2,229	3,217
	-	-	74,343	36,778

21 (a) PROPERTY AND EQUIPMENT - GROUP

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST							
At 1 January 2013	231,114	20,732	217,276	15,667	209,949	72,541	767,279
Additions	28,360	-	11,105	-	17,414	159,096	215,975
Translation adjustment	412	-	1,617	152	2,006	467	4,654
At 31 December 2013	259,886	20,732	229,998	15,819	229,369	232,104	987,908
At 1 January 2014	259,886	20,732	229,998	15,819	229,369	232,104	987,908
Additions	1,819	3,804	13,008	269	26,584	40,742	86,226
Disposals	-	-	-	(1,954)	(139)	-	(2,093)
Translation adjustment	(2,896)	-	(456)	(1,145)	4,173	(250)	(574)
Transfer from WIP	15,515	102,129	3,503	-	38,195	(159,342)	-
Transfer to intangible assets	-	-	-	-	-	(91,648)	(91,648)
At 31 December 2014	276,350	126,665	246,602	15,016	293,580	21,606	979,819
DEPRECIATION							
At 1 January 2013	18,480	16,816	117,725	5,943	127,114	-	286,078
Charge for the year	5,331	470	29,178	2,520	17,687	-	55,186
Translation adjustment	299	-	1,423	7	(447)	-	1,282
At 31 December 2013	24,110	17,286	148,326	8,470	144,354	-	342,546
At 1 January 2014	24,110	17,286	148,326	8,470	144,354	-	342,546
Charge for the year	6,379	4,550	24,163	2,234	18,428	-	55,754
Translation adjustment	(260)	-	(4)	(526)	(239)	-	(1,029)
At 31 December 2014	30,229	21,836	172,485	10,178	162,543	-	397,271
NET BOOK VALUE							
At 31 December 2014	244,095	104,829	73,568	2,811	135,639	21,606	582,548
At 31 December 2013	235,776	3,446	81,672	7,349	85,015	232,104	645,362

The work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of new branches. Transfer from work in progress related to renovation of head office in Westlands.

21 (b) PROPERTY AND EQUIPMENT – BANK

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST							
At 1 January 2013	223,601	20,732	200,116	11,605	192,221	72,541	720,816
Additions	28,360	-	10,257	-	14,081	143,798	196,496
At 31 December 2013	251,961	20,732	210,373	11,605	206,302	216,339	917,312
At 1 January 2014	251,961	20,732	210,373	11,605	206,302	216,339	917,312
Additions	-	1,854	9,426	99	6,976	47,170	65,525
Disposals	-	-	-	(1,700)	-	-	(1,700)
Transfer from WIP	-	104,079	3,503	-	42,673	(150,255)	-
Transfer to intangible assets	-	-	-	-	-	(91,648)	(91,648)
At 31 December 2014	251,961	126,665	223,302	10,004	255,951	21,606	889,491
DEPRECIATION							
At 1 January 2013	14,792	16,816	101,825	4,806	112,202	-	250,441
Charge for the year	4,897	470	28,454	2,160	15,276		51,257
At 31 December 2013	19,689	17,286	130,279	6,966	127,478	-	301,698
At 1 January 2014	19,689	17,286	130,279	6,966	127,478	-	301,698
Charge for the year	5,039	4,550	22,816	1,843	14,373	-	48,621
Disposals	-	-	-	(935)	-		(935)
At 31 December 2014	24,728	21,836	153,095	7,874	141,851	-	349,554
NET BOOK VALUE							
At 31 December 2014	227,233	104,829	70,039	2,130	114,100	21,606	539,937
At 31 December 2013	232,272	3,446	80,094	4,639	78,824	216,339	615,614

The work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of branches. Transfer from work on progress comprises cost of renovation of the head office building in Westlands.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 (a) INTANGIBLE ASSETS – GROUP

	Software development costs Sh'000 2014	Software development costs Sh'000 2013
COST		
At 1 January	120,500	115,600
Additions	8,363	3,699
Translation adjustment	(456)	1,201
Transfers from WIP– Note 21	91,648	-
At 31 December	220,055	120,500
AMORTISATION/IMPAIRMENT		
At 1 January	69,467	56,179
Charge for the year	11,625	12,089
Translation adjustment	(425)	1,198
Assets write off	(849)	-
At 31 December	79,818	69,466
NET BOOK VALUE		
At 31 December	140,237	51,034

22 (b) INTANGIBLE ASSETS - BANK

	2014 Sh'000	2013 Sh'000
COST		
At 1 January	106,824	104,272
Additions	8,363	2,552
Transfers from capital work in progress (note 21(b))	91,648	-
At 31 December	206,835	106,824
AMORTISATION		
At 1 January	57,444	46,661
Charge for the year	10,505	10,783
Assets write off	(849)	-
At 31 December	67,100	57,444
NET BOOK VALUE		
At 31 December	139,735	49,380

22 (c) INVESTMENT IN NAIROBI SECURITIES EXCHANGE LIMITED - GROUP

	2014 Sh'000	2013 Sh'000
COST		
At 1 January	251,000	251,000
Transfers from intangible assets	-	-
	251,000	251,000
	======	======
VALUATION – AVALIABLE FOR SALE		
At 31 December	107,625	211,200
	======	======

In 2014, the NSE became a listed company at the Nairobi Securities Exchange. Consequently, shares at the NSE are shown at fair value using the market price basis which has resulted in a fair value loss of Ksh 103,575,000 (2013: Ksh 12,500,000) from previous valuation of the investment in the NSE. The fair value loss during the year has been accounted for through other comprehensive income.

23 INVESTMENT IN SUBSIDIARIES

Unquoted investment at cost:

	2014 Sh'000	2013 Sh'000
ABC Capital Uganda Limited	602,377	583,330
ABC Financial Services Limited	263,028	238,028
ABC Insurance Brokers Limited	20,000	-
	885,405	821,358
	=======	=======

ABC Financial Services Limited is a wholly owned subsidiaries of African Banking Corporation Limited and has a 93.09% (2013: 91.58%) holding in its subsidiaries, ABC Capital Limited, a stock brokerage company incorporated in Kenya. Below are the details of the subsidiaries

Name of subsidiaries	Place of incorporation and place of business	Nature of business	Proportion of ordinary shares held by group (%) As at 31 December		Proportion of ordinary shares held by non-controlling interests (%) As at 31 December	
			2014	2013	2014	2013
ABC Capital Limited	Nairobi, Kenya	Provision of stock brokerage	93.09	91.58	6.91	8.42
ABC Capital Bank Uganda Limited	Kampala, Uganda	Provision of banking and related services	68.48	68.48	31.52	31.52
ABC Insurance Brokers Limited	Nairobi, Kenya	Provision of insurance brokerage	51	-	49	-

23 INVESTMENT IN SUBSIDIARIES (Continued)

All subsidiaries undertakings are included in the consolidation. The proportion of the voting rights in the subsidiaries undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiaries undertakings included in the group. Therefore, the directors of the Group concluded that the Group has control over ABC Capital Uganda Limited and ABC Capital Limited both of which have been consolidated in these financial statements.

The movement in investment during the year were as follows:

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2014	2013	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	-	-	583,330	377,691	238,028	234,828
Additional investment	20,000		19,047	205,639	25,000	3,200
At 31 December	20,000	-	602,377	583,330	263,028	238,028

Summarised financial information on subsidiaries with material non- controlling interests

The total non-controlling interest for the period is Shs 296,518,000.

Set out below are the summarised financial information for the subsidiaries.

Summarised statement of financial position

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2014	2013	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Current						
Assets	30,166	40,064	1,411,194	1,195,648	83,455	60,336
Liabilities	(22,541)	(33,244)	(502,875)	(607,175)	(43,834)	(40,529)
Total current net assets	7,624	6,821	908,319	588,473	39,621	19,807
Non-current						
Assets	1,150	1,206	162,808	392,729	115,472	219,571
Liabilities	(302)	(57)	-	(66,652)	-	-
Total non-current assets	848	1,149	162,808	326,077	115,472	219,571
Net assets	8,472	7,970	1,071,127	914,550	155,093	239,378

23 INVESTMENT IN SUBSIDIARIES (Continued)

Summarised statement of profit or loss and other comprehensive income

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2014	2013	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Revenue	14,556	11,526	207,713	211,868	13,541	16,685
Profit before income tax	1,133	1,606	18,350	21,680	(5,048)	(7,837)
Income tax credit/(expense)	(632)	(558)	7,148	5,608	(485)	(1,403)
Total comprehensive income	502	1,048	(92,373)	27,288	(109,108)	(21,741)
Total comprehensive income allocated to non- controlling interests	245	-	(2,081)	8,601	(7,539)	(1,832)

Summarised cash flows

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2014	2013	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Net cash from operating activities	(13,880)	5,828	(154,024)	(153,924)	(12,450)	(835)
Net cash from investing activities	1,054	1,027	(141,550)	(141,551)	1,436	1,865
Net cash from financing activities	-	-	24,661	25,084	24,823	3,200
Net decrease in cash and cash equivalents	(12,826)	6,855	(270,913)	270,391	13,809	4,230
Cash and cash equivalents at 1 January	33,459	26,604	576,675	576,806	44,057	39,827
Cash and cash equivalents at 31 December	20,633	33,459	305,762	847,197	57,866	44,057

24 GOODWILL

	2014 Sh'000	2013 Sh'000
At cost	660	660

The directors assessed the recoverable amount of goodwill and have determined that the goodwill is not impaired.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

25 OPERATING LEASE PREPAYMENT - GROUP

	2014 Sh'000	2013 Sh'000
COST		
At 1 January	2,029	-
(Write off)/ additions	(1,846)	1,969
Translation adjustment	183	60
At 31 December	-	2,029
AMORTISATION		
At 1 January	89	-
Charge for the year	(89)	86
Translation adjustment	-	3
At 31 December	-	89
NET BOOK VALUE		
At 31 December	-	1,940

26 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

The weighted average effective interest rate at 31 December 2014 for balances due to banking institutions locally was 7.83% (2013: 10.5%) while that due to banking institutions abroad was 3.14% (2013: 2.2%).

	GROUP		BANK	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Amounts due to banks:				
In Kshs	796,552	342,366	796,382	342,366
In foreign currency	6	18,747	-	-
	796,558	361,113	796,382	342,366

27 CUSTOMER DEPOSITS

	GROUP 2014 Shs'000	GROUP 2013 Shs'000	BANK 2014 Shs'000	BANK 2013 Shs'000
Current accounts	3,045,208	2,564,673	3,045,208	2,501,727
Savings accounts	1,222,177	997,867	1,161,992	956,006
Call deposits	301,043	578,456	250,311	566,422
Fixed deposits	11,052,776	11,976,738	10,955,503	11,513,819
Other	520,414	120,941	314,046	90,496
	16,141,618	16,238,675	15,727,060	15,628,470
Accrued interest	248,950	240,015	248,950	240,015
	16,390,568	16,478,690	15,976,010	15,868,485

Analysis of customer deposits by maturity:

	GROUP 2014 Shs'000	GROUP 2013 Shs'000	BANK 2014 Shs'000	BANK 2013 Shs'000
Payable up to one month	4,720,268	4,012,205	4,623,069	3,546,436
Payable within 90 days	7,340,441	8,595,126	7,228,376	8,571,296
Payable after 90 days but within one year	4,290,021	3,646,086	4,085,729	3,592,132
Payable after one year but within five years	39,838	225,273	38,836	158,621
	16,390,568	16,478,690	15,976,010	15,868,485

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2014 denominated in local and foreign currencies was 6.81% and 1.85% (2013 – 8.58% and 1.57%) respectively.

The related party transactions and balances are covered under note 36 and concentrations of customer deposits are covered under Financial Risk Management Objectives and Policies in note 3.

28 OTHER LIABILITIES

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
Bills payable	16,880	13,524	16,880	13,524
Provision for leave pay	23,291	16,091	23,292	16,091
Trade payables	58,177	15,211	20,699	15,211
Other payables and accruals	390,687	293,899	359,172	218,008
	489,035	338,725	420,043	262,834

29 DEFERRED TAX LIABILITY

The deferred tax (asset)/liability is attributable to the following items:

		GROUP		BANK	
		2014	2013	2014	2013
		Sh'000	Sh'000	Sh'000	Sh'000
(a)	Deferred tax asset:				
	Leave pay provision	6,987	4,827	6,987	4,827
	Other provision	4,248	15,565	4,248	13,687
		11,235	20,392	11,235	18,514
(b)	Deferred tax liability:				
	Excess capital allowances over depreciation	(48,095)	(13,068)	(42,736)	(12,573)
	Net deferred asset	(36,860)	7,324	(31,501)	5,941
(c)	Net deferred tax asset is made up as follows				
	Deferred tax asset	37,162	7,324	31,501	5,941
	Deferred tax liability	(302)	-	-	-
	Net deferred asset	36,860	7,324	31,501	5,941
(d)	Movement in deferred tax liability is as follows:				
	At 1 January	7,324	4,762	5,941	8,852
	(Charge)/credit to profit or loss (note 11)	27,566	(366)	25,444	(2,911)
	Prior year underprovision	116	-	116	-
	Deferred tax asset not recognised	1,854	2,928	-	-
	At 31 December	36,860	7,324	31,501	5,941

30 LONG TERM LOAN - GROUP AND COMPANY

	2014	2013
	Sh'000	Sh'000
At 1 January	678,967	759,919
Received during the year	-	-
Repaid in the year	(149,297)	(80,952)
At 31 December	529,670	678,967

The bank entered into a loan agreement with European Investment Bank (EIB) where the bank lends to specific sectors of the economy as specified in the agreement with EIB. The bank on periodic intervals sends a claim to EIB to be reimbursed and this forms part of the loan due to EIB. The loan disbursement is received in foreign currency but the agreement provides for repayment in both foreign currency and local currency. As at the year end, the balance outstanding for both Kenya Shillings and US Dollar were Sh 540,938,997 and US$ 1,238,823 respectively.

30 LONG TERM LOAN - GROUP AND COMPANY (Continued)

The interest rates for the Kenya Shilling and foreign currency are predetermined based on certain economic indicators. The average interest rates for the Kenya shilling was 10.61% while for the US$ was 4.6%. The loan is repayable in semi annual instalments for both principal and interest with the first instalment due in January 2014.

31 CORPORATE BOND ISSUED

	2014	2013
	Sh'000	Sh'000
1 January	-	-
Issued in the year	1,000,000	-
Interest paid	(63,000)	-
Accrued interest	82,731	-
At 31 December	1,019,731	-
Maturity analysis:		
On demand or within one year	19,731	-
Over 1year	1,000,000	-
	1,019,731	

A bond of sh 1,000,000,000 was issued on May 7th 2014 to 31st July 2019 to increase ABC's capital for capital adequacy purposes per the new CBK prudential guidelines. The bond was issued on a fully paid basis as par at a fixed interest rate of 12.6% per annum. Interest is to be paid semi annually in arrears commencing 6 months after the issue date, with the first payment made on 6 Novemeber 2014.

32 (a) SHARE CAPITAL - GROUP AND BANK

	2014	2013
	Sh'000	Sh'000
Authorised:		
210,000,000 ordinary shares of Sh 10 each (2013:110,000,000)	2,100,000	1,100,000
Issued and fully paid		
105,000,000 ordinary shares of Sh 10 each	1,050,000	1,050,000

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
32 (b) STATUTORY RESERVE				
At 1 January	107,039	102,736	99,334	94,022
Transfer from retained earnings	1,518	4,303	875	5,312
	108,557	107,039	100,209	99,334

Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines requires the bank to make an appropriation to a statutory reserve for unforeseeable risks and future losses. The amount transferred is the excess of loan impairment provision computed in accordance with the Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines over the provision for impairment of loan and advances arrived at in accordance with IAS 39 on financial instruments.

33 NON-CONTROLLING INTERESTS – GROUP

	2014 Ownership %	2014 Amount Shs'000	2013 Ownership %	2013 Amount Shs'000
ABC Capital Uganda Limited	31.52	278,937	31.52	279,728
ABC Capital Limited	6.91	17,336	8.42	24,875
ABC Insurance Brokers Limited	49.00%	245	-	-
At 31 December		296,518		304,603

Movement in non-controlling interests

	2014 Sh'000	2013 Sh'000
a) ABC Capital Uganda Limited		
At 1 January	279,728	246,470
Share of profit for the year	5,117	-
Share of total comprehensive (loss)/profit for the year	(5,908)	33,258
At December	278,937	279,728
b) ABC Capital Limited		
Movement in non-controlling interests		
At 1 January	24,875	26,707
Share of loss	(382)	(1,832)
Share of other comprehensive loss	(7,157)	-
At December	17,336	24,875

		2014 Sh'000	2013 Sh'000
33	NON-CONTROLLING INTERESTS – GROUP (Continued)		
c)	ABC Insurance Brokers Limited		
	Movement in non-controlling interests		
	At 1 January	-	-
	Share of profit	245	-
	Share of other comprehensive loss	-	-
	At December	245	-

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

		2014 Sh'000	2013 Sh'000
(a)	Reconciliation of profit before taxation to cash generated from operations		
	Profit before tax	336,879	592,110
	Adjustments for:		
	Depreciation on property and equipment	55,754	55,186
	Amortisation of intangible assets	11,625	12,834
	(Gain)/loss on valuation of investments held for trading	(1,535)	(1,794)
	Profit before working capital changes	402,723	658,336
	Movements in:		
	Balances with Central Bank of Kenya (cash reserve ratio)	89,480	88,070
	Treasury bonds	(106,040)	(52,373)
	Corporate bonds	46,936	46,994
	Loans and advances to customers	(2,188,736)	(1,357,353)
	Other assets	(214,793)	(12,906)
	Customer deposits	(88,122)	949,455
	Other liabilities	150,310	(46,706)
	Related party balances	-	-
	Long term loan	149,297	(80,952)
	Cash (used in)/ generated from operations	(1,758,945)	192,565
(b)	Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes		
	Cash on hand	203,007	186,527
	Balance with Central Bank of Kenya - other	941,488	148,502
	Balances with Bank of Uganda – other	64,782	252,603
	Treasury bills	597,370	783,333
	Deposits and balances due from banking institutions	223,303	1,313,538
	Deposits and balances due to banking institutions	(796,388)	(361,113)
		1,233,562	2,323,390

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

35 CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK

(a) Contingent liabilities

	2014 Sh'000	2013 Sh'000
Letters of credit	360,864	269,881
Letters of guarantee	1,623,468	1,673,486
Acceptances	203,759	594,881
Bills in course of collection	50,038	407,542
Others	12,000	12,000
	2,250,129	2,957,790

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

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

(b) Capital commitments

	2014 Sh'000	2013 Sh'000
Authorised but not contracted for	209,260	375,322
Authorised and contracted for	40,030	151,395
	249,290	526,717

(c) Commitments to extend credit

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Group may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

(d) Operating lease arrangements

The Group as a lessor

Rental income earned during the year was Sh 1,571,000 (2013 – Sh 3,010,000). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

	2014 Sh'000	2013 Sh'000
Within one year	468	468
In the second to fifth year inclusive	937	937
	1,405	1,405

35 CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK (Continued)

(d) Operating lease arrangements (Continued)

Leases are negotiated for an average term of 5 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

The Group as a lessee

The future minimum lease payments under operating leases are as follows:

	2014 Sh'000	2013 Sh'000
Within 1 year	65,107	63,773
In the second to fifth year inclusive	252,183	277,880
After 5 years	72,582	134,789
	389,872	476,442

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

36 RELATED PARTY TRANSACTIONS -GROUP AND BANK

Included in loans and receivables are amounts advanced to certain directors and to companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to associated companies. The following transactions were carried out with related parties:

		Directors		Related companies	
		2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
a)	**Outstanding loans and receivables**				
	At 1 January	23,518	24,632	200,679	12,037
	Advanced during the year	-	-	-	196,000
	Interest charged	1,853	1,982	35,023	25,289
	Repayments during the year	(3,096)	(3,096)	(51,783)	(32,647)
	At 31 December	22,275	23,518	183,919	200,679
	Interest earned	1,853	1,982	35,023	25,289
b)	**Deposits**				
	At 1 January	54,029	73,880	97,760	127,279
	At 31 December	37,172	54,029	97,298	97,760
	Interest paid	1,719	3,109	2,981	2,337
c)	**Contingent liabilities**	-	-	3,000	2,000

36 RELATED PARTY TRANSACTIONS -GROUP AND BANK (Continued)

d) Loans and receivables to management staff

As at 31 December 2014 loans and receivables to management staff amounted to Sh 76,035,000 (2013 – Sh 73,443,000) and the interest earned thereon was Sh 6,386,000 (2013 – Sh 4,836,000).

The loans and receivables to related parties are performing and are fully secured. No provisions have been recognized in respect of the loans and receivables to directors, related parties or staff.

(e) Key management compensation

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

	2014 Sh'000	2013 Sh'000
(i) Key management		
Salaries and other short-term employment benefits	124,263	141,839
	=======	=======
(ii) Directors' remuneration		
Fees for services as directors	5,775	3,800
Other emoluments	52,947	19,200
	58,722	23,000
	=======	======

37 ASSETS PLEDGED AS SECURITY - GROUP AND BANK

At 31 December 2014, treasury bonds worth Sh 80,000,000 (2013 – Sh 80,000,000) were pledged to secure a letter of credit opening facility with a correspondent bank as there were no liabilities outstanding in respect of those assets.

38 COUNTRY OF INCORPORATION

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

39 CURRENCY

The financial statements are presented to the nearest Kenya Shillings thousands (Sh'000).

40 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:

a) Strategic risk

Strategic risk is the potential for loss arising from ineffective business strategies, improper implementation of strategies, sudden unexpected changes in the Group's environment, or from lack of adequate responsiveness to changes in the business environment.

The Group faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

Who manages strategic risk

The Board of Directors is responsible for the overall generation and implementation of the Group's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Group Managing Director, the Group Chief Executive Officer and the Senior Management team who execute strategy.

The Board of Directors, with support from the Group Managing Director, the Group Chief Executive Officer and Senior Management, has developed a five year strategy that is implemented and reviewed in annual strategic cycles to take advantage of emerging opportunities and cater for the changes in the environment that pose risk..

How we manage strategic risk

The Group Managing Director supported by the Group Chief Executive Officer and Senior Management executes the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Board of Directors for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Group and how they are being managed.

The Group Managing Director co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks. The frequency of strategic business reviews depends on the risk profile and size of the business / function.

Each business unit head is responsible for directing strategies in their respective units and ensure such strategies are aligned to the overall strategy of the Group. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and that mitigating actions are taken where appropriate.

The Group's financial and non-financial performance, including its key risks, are reported to the Board of Directors on a quarterly basis for review and action, where necessary.

40 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:

b) Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the Group include:

- People and related issues such as staff retention, frauds, amongst others.
- Systems and processes changes related to the drive to meet our clients' needs.
- Infrastructure related issues such as premises availability, location and structure

Who manages operational risk

The Operations Committee is tasked with the responsibility designing and maintaining a formal Group-wide operational risk framework that emphasises a strong risk management and internal control culture throughout the Group. The committee meets monthly with a key deliverable of assessing the continued applicability of policies and programs in place to identify, assess, report, monitor, control or mitigate operational risks. This committee reports to the Executive Committee and is assisted by the Management committee [Manco] executing its functions.

The Group structure is designed with operational risk in mind. As an example, the group maintains specialised functions that manage business continuity, human resources, compliance, administration and procurement, security services and organisational change management. Senior Management in turn reports to the risk Management Committee on all the key risks detailing corrective action initiatives to address the risks.

How we manage operational risk

Our operational risk management framework is designed to ensure key risk exposures are proactively managed within acceptable levels. It incorporates best practice and meets regulatory guidelines through:

i) Governance and Policy: Management as well as Committee reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk and Compliance Committee and Senior Management's expectations are set out via enterprise-wide policies.

ii) Risk and Control Self Assessment: Through quarterly comprehensive assessments of our key operational risk exposures and internal control environments, Senior Management is able to evaluate its effectiveness and implement appropriate additional corrective actions where needed, to offset or reduce unacceptable risks.

iii) Operational Risk Event Monitoring: Our policies require that internal and industry-wide operational risk events are identified, tracked, and reported to the right levels to ensure they are analysed appropriately and corrective action taken in a timely manner.

iv) Risk Reporting: Significant operational risk issues together with measures to address them are tracked, assessed and reported to Senior Management and the Board of Directors to ensure accountability is maintained over current and emerging risks.

v) Insurance: A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met. This includes identifying opportunities for transferring our risks to third parties where appropriate.

40 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:

b) Operational risk (Continued)

How we manage operational risk (Continued)

vi) Technology and Information: The key risks here revolve around our reliance on technology and information and their impact on operational availability, integrity and security of our information data and systems / infrastructure. Our risk framework and programs use best practice and include robust threat and vulnerability assessments, as well as security and change management practices.

vii) Business Continuity Management: Business Continuity Management supports the ability of Senior Management to continue to operate their businesses, and provide customer access to products and services in times of disruptions. This program includes formal crisis management protocols and continuity strategies. All key functions of the Group are regularly tested to confirm their contingency plan designs are able to respond to a broad range of potentially disruptive scenarios.

viii) Outsourcing Management: While the benefits of outsourcing arrangements are immense (ie. access to leading technology, specialised expertise, economies of scale, operational efficiencies, etc.), we note the need to manage the associated risks. This is done through programs that guide outsourcing activities and ensure the level of risk management and Senior Management oversight is appropriate to the size and complexity of the outsourcing arrangements and that the arrangements meet the minimum standards set by the regulator.

ix) Project Management: We have a disciplined project management program to ensure projects are implemented successfully in a planned and systematic manner and are monitored by Senior Management. The Projects Management Office runs this program and the Human Resources Department maintains standards that meet best practice to identify and guide change.

x) Financial Crime: Safeguarding our customers, employees, assets, information, and preventing plus detecting fraud as well as other forms of financial crime is done through extensive security systems, protocols and practices. This is led by our Security department that carries out regular employee training to ensure compliance with crime prevention policies and practices.

a) Compliance (policy/legal/regulatory) risk:

Compliance risk refers to the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices / standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a return but occurs in the normal course of our business operations.

The Group meets high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions. As a result of high financial business regulation we are exposed to regulatory and legal risks in virtually all our activities including those from our three main regulators (Central Bank of Kenya/Bank of Uganda and Capital Markets Authority). Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks. Financial penalties and costs related to litigation may also substantially erode the Group's earnings.

c) Compliance (policy/legal/regulatory) risk:

Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance / advice and oversight from Risk and Compliance Departments. The Risk and Compliance Department, assisted by the Legal Unit, identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Group's exposures.

Senior Management and the Board Risk and Compliance Committee receive the Risk and Compliance Department's reports on the strength of the Group's Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

41 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES:

How we manage operational risk (Continued)

c) Compliance (policy/legal/regulatory) risk (Continued)

The Board of Directors and Senior Management through the Group's Code of Conduct sets the "tone at the top" for a culture of integrity beginning with concern for what is right (including compliance to policy and the law) in all our business considerations, decisions and actions. All employees are required to attest to this Code when they join the Group and thereafter periodically, indicating that they have understood it and that they have complied with its provisions.

Business unit heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal & Compliance departments assist them by:

i) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.
ii) Implementing or assisting with reviews of policies, procedures and training. They do this by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.
iii) Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.
iv) Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

We have developed robust policies, programs and systems designed to manage the Know Your Customer (KYC) and Anti-Money Laundering (AML) risks as envisaged in the Proceeds of Crime & Anti-Money Laundering Act and Regulation (CBK/BOU/CMA). We have upgraded account opening requirements and customer transaction screening procedures to meet the stringent requirements stipulated therein. Reporting of suspicious and other transactions is done as required by the law and policy standards. We carry out appropriate periodic due diligence on correspondent banking counterparties, and meet KYC / AML obligations to them continuously. All staff are trained when they join the Group and periodically certified as such in line with the law.

d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Group's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.

The Group's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Group's good reputation is always maintained or enhanced.

e) Who manages reputational risk

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Group's reputational risk as part of their regular mandate. They are assisted in this aspect by the Marketing and Corporate Communications Department. Their purpose is to ensure that all products, services, and activities meet the Group's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Group has a responsibility to contribute positively to our reputation.

Senior Management and the Board of Directors receive periodic reports on the assessment of the Group's reputational risk exposures that arise from its business (including sales and service) activities so as to form a view on associated risks and implement corrective actions.

f) How we manage reputational risk

Every employee and representative of the Group has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance our reputation.

APPENDIX I

AFRICAN BANKING CORPORATION LIMITED

BANK DETAILED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 Sh'000	2013 Sh'000
INCOME		
Interest on loans and receivables	1,970,644	1,763,882
Interest on Government securities	505,225	506,330
Interest on placements	18,610	16,762
Other interest income	32,072	37,760
	2,526,551	2,324,734
INTEREST EXPENSE		
Interest on deposits	1,152,671	1,149,362
Interest on money markets	39,652	19,260
Interest on long term loan	51,816	66,117
Interest on bond financing	82,731	-
	1,326,870	1,234,739
NET INTEREST INCOME	1,199,681	1,089,995
Fees and commissions	306,703	275,499
Foreign exchange trading income	133,086	130,297
Other operating income (appendix ii)	27,138	64,196
Operating expenses (appendix ii)	(1,216,444)	(969,740)
Impairment loss on loans and receivables	(131,635)	(11,979)
PROFIT BEFORE TAXATION	318,529	578,268
TAXATION CHARGE	(60,384)	(154,143)
PROFIT FOR THE YEAR	258,145	424,125

AFRICAN BANKING CORPORATION LIMITED

BANK DETAILED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2014

	2014 Sh'000	2013 Sh'000
OTHER OPERATING INCOME		
Rental income	1,424	3,010
Miscellaneous income	1,096	363
Gain on disposal of government bonds	19,959	60,823
Gain on disposal of property and equipment	654	-
Bad debts recovered	4,005	-
	27,138	64,196
OPERATING EXPENSES		
Staff costs – see below	616,927	528,771
Depreciation of property and equipment	48,621	51,257
Amortisation of intangible assets	10,505	10,783
Auditors' remuneration	3,600	3,076
Contribution to deposit protection fund	22,765	19,183
Directors' emoluments - fees	5,775	3,800
- other	52,947	19,200
Operating lease rentals	62,829	52,488
Advertising costs	61,752	40,284
Communication	60,953	43,126
Printing and stationery	15,513	14,451
Computer and software maintenance	38,428	30,169
Travelling and vehicle running expenses	33,968	28,646
Legal and professional fees	17,219	10,637
Security	26,385	28,129
Insurance	9,594	10,427
Bank charges	10,001	12,371
Office expenses	55,140	35,742
Agency intergration fees	3,704	2,307
Other expenses	59,818	24,893
	1,216,444	969,740
STAFF COSTS		
Salaries and allowances	474,193	435,199
Staff training	9,581	23,239
NSSF contribution	730	710
Pension contribution	18,337	15,257
Leave pay provision	14,009	2,624
Medical expense	26,090	18,582
Other	73,987	33,160
	616,927	528,771

FOR MORE INFORMATION:

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30 YEARS OF BANKING EXCELLENCE