

AFRICAN BANKING CORPORATION LTD.

**ANNUAL REPORT & FINANCIAL
STATEMENTS 2013**



www.abcthebank.com

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Our Vision

Empowering you to achieve the extraordinary.

Our Mission

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

Our Core Values

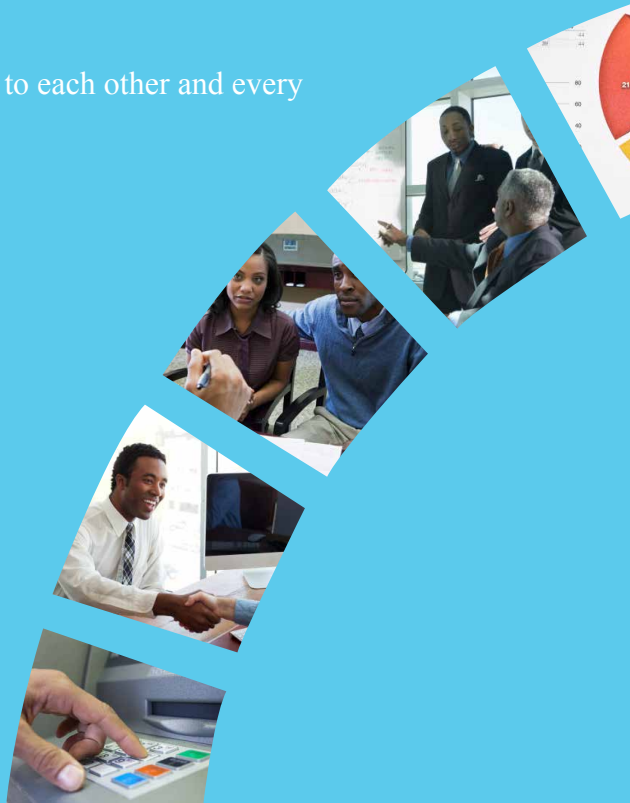
Customer Centricity: We strive to be an understanding, friendly, flexible and reliable bank in meeting our customer needs.

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

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



OUR GROUP COMPANIES

ABC Capital Bank - Uganda

ABC Capital Bank started its journey in 1993, as a deposit taking financial institution then trading by the name Capital Finance Corporation Ltd (CFC). Licensed and supervised by Bank of Uganda under the Financial Institutions Act 2004, CFC offered a wide range of products such as savings accounts, business accounts, fixed deposits, business loans services and remittances through Western Union money transfer agency, among others. ABC Capital Bank came into being and was licensed into a commercial bank in 2010, becoming a full subsidiary of ABC Group in 2012.



ABC Insurance Brokers Ltd

ABC Insurance Brokers Ltd is focused solely on satisfying its client's insurance cover needs. Located at the ABC Bank House in Westlands, the company has grown rapidly through its commitment to customer service, competitive pricing and focused market orientation. ABC Insurance offers a wide range of comprehensive products such as motor vehicle, fire, computer, marine, burglary, and life insurance. In addition, it offers work Injury benefits (WIBA), mortgage protection, bonds and domestic package insurances.



ABC Capital Ltd

ABC Capital has been a member of the Nairobi Securities Exchange (NSE) since its inception in 1954. It therefore shares a rich heritage in the fortunes of the leading securities exchange in the Eastern Africa region. The stock brokerage firm was acquired by African Banking Corporation Limited (ABC Bank Group) in 2008, benefiting from the Groups's professionalism and key competencies of relationship management and expert approach in terms of its operations embodied in the ISO 9001:2008. ABC Capital offers services ranging from shares and fixed income trading, portfolio management, corporate finance, advisory and research, to a dynamic and discerning clientele in retail, institutional, corporate and high net worth riches.





**Account to Mpesa &
Mpesa to
Account transfers**



**MasterCard
International debit card**



Internet Banking



**Agency Banking
through Postbank**
CASH WITHDRAWAL & DEPOSIT
BALANCE ENQUIRY

ABC CONNECT

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CORPORATE INFORMATION

DIRECTORS

Ashraf Savani - Chairman

Joseph Muiruri

Shamaz Savani - Group Managing Director

Anil Ishani

Richard Omwela

Alban Mwendar

BOARD AUDIT COMMITTEE

Joseph Muiruri - Chairman

Shamaz Savani

Richard Omwela

Anil Ishani

BOARD CREDIT COMMITTEE

Richard Omwela - Chairman

Ashraf Savani

Shamaz Savani - Group Managing Director

BOARD HUMAN RESOURCES COMMITTEE

Alban Mwendar- Chairman

Anil Ishani

Shamaz Savani

BOARD RISK AND COMPLIANCE COMMITTEE

Joseph Muiruri - Chairman

Anil Ishani

Richard Omwela

Shamaz Savani

EXECUTIVE COMMITTEE

Shamaz Savani	- Chairman
Deviinder Gupta*	- Group Chief Executive Officer
Raj Pal Arora	- Chief Operating Officer
Peter Kinyanjui	- General Manager – Group Business Development
Mary Mulili	- Head of Corporate Banking
Geoffrey Nyambane	- Head of Finance, Strategy and Change Management
Joel Mbuvi	- Head of Treasury
Jesse Timbwa	- Head of Credit and Legal
Corline Amanda	- Head of Retail Banking
Lee Gachomba	- Head of SME Banking
Martin Mutiga	- Head of I.T and Projects
Wambui Kaguongo	- Head of Product Development & Marketing

ASSETS&LIABILITIESCOMMITTEE

Deviinder Gupta*	- Chairman
Shamaz Savani	
Geoffrey Nyambane	
Joel Mbuvi	
Mary Mulili	
Corline Amanda	
Lee Gachomba	
Jesse Timbwa	
Peter Kinyanjui	

*Deviinder Gupta served until 28 December 2013.

AUDITORS

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

COMPANY SECRETARY

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

REGISTERED OFFICE

ABC Bank House
 LR No. 1870/IX/107
 6th Floor, Woodvale Grove
 P O Box 13889, 00800
 Nairobi

HEAD OFFICE

Mezzanine Floor, ABC Bank
 Koinange Street
 P O Box 46452, 00100
 Nairobi

ABC BANK KEY EVENTS 2013



1



2

1. ABC Bank scoops awards in Fastest Growing Bank (2nd Runner Up), Best Bank in Technology Use (1st Runner Up) and Best Bank in Product Innovation (2nd Runner Up) categories during the Annual Banking Awards 2013.

2. ABC Bank enters into partnership with Unaitas Sacco Ltd to offer more services to sacco customers.

3. ABC Bank partners with Al Dahab Exchange to launch Al Dahab Money Transfer Service July to December 2013.

4. ABC Bank upgraded Internet Banking goes live.

5. ABC Bank partners with KRA to launch the iTax Online Revenue Remittance Service.

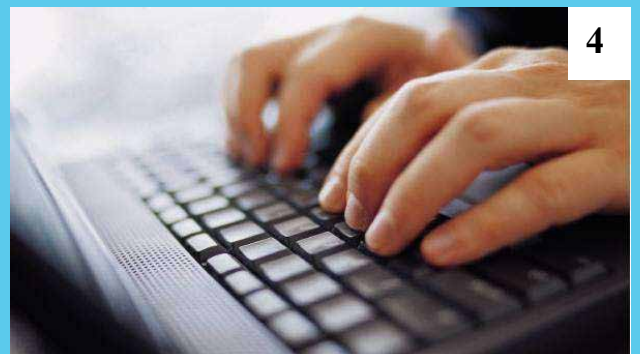
6. The inaugural ABC Bank Baringo Half Marathon takes place in Kabarnet, Baringo County in November 2013.

7. ABC Bank launches ABC Collect, a robust multi-channel collection solution.

8. ABC Bank shakes up its internal culture with launch of Nyota Mpya - a culture change initiative



3



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8



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ABC BANK CSR



ABC Bank sponsors Madiany Special School for the Mentally Handicapped

ABC Bank Kisumu Branch Manager Erick Kisaka (in suit) presents a donation to Sister Helen Pius the Principal of Madiany Special School for Mentally Handicapped in Siaya. The funds went into assisting the school alleviate a water problem, by constructing water tanks to store water.

ABC Bank sponsors Nairobi's Kayole Street Children's Rehabilitation

ABC Bank Staff Zahra Mohamed (In a red checked veil) and Bennington Owino (in glasses) join children of Nairobi's Kayole Street Children's Rehabilitation Home and the Home's Manager David Arika (in a black checked shirt) as they admire books the staff donated to the Home. ABC Bank staff visited the centre which is home to over 95 former street children and donated food stuffs, clothing, toys and books.



Dagoretti Constituency free medical camp

ABC Bank, in August 2013, conducted a free medical camp in Dagoretti Constituency in partnership with the University of Nairobi. The initiative, which reached about 300 people, was part of the Bank's continuous community support initiatives.

ABC Bank sponsors free ENT medical camp

ABC Bank Meru Branch Relationship Officer Paul Muigai (Left in a dark suit) presents a donation to Sister in Charge Sr. Mary Agnes Nkatha of St. Theresa Mission Hospital towards a free Ear, Nose and Throat medical camp which was held on 14th September 2013 at Timau Catholic Dispensary.





CHAIRMAN'S STATEMENT

I am delighted to present the Bank's Annual Report and Financial Statements for the year ended 31st December 2013. It has been another year of good performance in the face of challenging, albeit slightly improving global and domestic macro-economic conditions. Backed by a deliberate, carefully thought out and well executed efficiency and sound cost management strategy launched in 2012, the Bank managed to overcome the challenges and post impressive results during the year.

Operating Environment

The world economy is estimated to have grown by 3.0 per cent in 2013, a slowdown from the revised growth of 3.1 per cent it recorded in 2012, according to the International Monetary Fund (IMF).

The lower performance observed across most regions and major economic groups triggered a drop in real Gross Domestic Product (GDP) growth in emerging markets and developing economies, while it broadly remained in line with projections in advanced economies.

The reasons for the weaker growth differed from region to region and included less than impressive production and consumption trends, stabilising or falling commodity prices, less policy support and slowing credit after a period of rapid financial deepening.

Growth in Sub-Saharan Africa and the East African Community (EAC), however, remained relatively robust with real GDP estimated to have expanded by 5.0 per cent and 6.1 per cent, respectively in 2013.

This was due to an increase in trade and investment with emerging market economies, especially China and India.

Closer home, 2013 was a historical year as Kenyans voted peacefully in the March 4 General Election, the first poll conducted under the New Constitution, which they passed overwhelmingly in 2010 to usher in the new system of devolved governance.

The country's GDP, however, registered a marginal improvement after it grew by 4.7 per cent in 2013, up from 4.6 per cent in 2012, thereby missing the country's 5.5 per cent economic growth target for the year.

The sluggish economic growth was caused largely by a combination of internal and external challenges that hit the economy during the year, according to the recently published Kenya's Economic Survey 2014.

The March 4 General Election jitters, insecurity in the form of terrorist attacks such as the Westgate Shopping Mall attack in September 2013, erratic rains in some regions of the country and a sluggish spending that characterised the year impacted negatively on the economy. These challenges hit particularly hard two of the key sectors of the economy-tourism and agriculture.

Agriculture, the biggest contributor of national wealth, expanded by 2.9 per cent in 2013 compared to a revised growth of 4.2 per cent in 2012 due to erratic rains in various parts of the country.

This slow expansion in agriculture impacted negatively on the wider economy because it coincided with a year when the sector's contribution to the overall growth increased to 25.3 per cent in 2013 from 24.6 in 2012.

On its part, terrorist attacks triggered an instant reaction from the country's critical tourist source markets- America and Europe- which issued travel advisories to their citizens, dealing a blow to the tourism industry, the country's second source of foreign exchange.

The import of this was that, according to the Economic Survey, the arrivals dropped to 1.5 million from 1.7 million the previous year while earnings from the tourism sector declined by 2.1 per cent to KShs 94 billion during the year from KShs 96 billion in 2013.

This was exacerbated by the geopolitical developments in the world, which affected the international prices in the commodity market, especially oil, which accounts for a large portion of Kenya's import bill, a key contributor to the country's widening current account deficit.

Compounded by food supply issues occasioned by erratic rains, the overall 12- month inflation nearly doubled by rising to 7.1 per cent in December 2013 from 3.7 per cent in January 2013, a reflection on the rise in food and fuel prices.

There was, however, macroeconomic stability during the year as the Central Bank (CBK), through its top decision-making organ, the Monetary Policy Committee (MPC), lowered the Central Bank Rate (CBR) from 9.50 per cent in January 2013 to Kshs8.50 per cent in December 2013 to support the economy.

Banking sector

According to CBK, the banking sector comprised of CBK, as the regulatory authority, 43 commercial banks, a mortgage finance company, nine Deposit-Taking Microfinance Institutions (DTMs), seven representative offices of foreign banks, 108 foreign exchange bureaus and 2 Credit Reference Bureaus (CRBs). Out of the 44 institutions, 31 are locally owned and 13 are foreign owned. The locally owned financial institutions comprise 3 banks with significant shareholding by the Government and State Corporations, 27 commercial banks and 1 mortgage finance institution.

ABC Bank Financial Performance

The Bank's performance improved during the year under review in spite of the challenging operating environment as I earlier on explained.

This is a clear indication that the transformation agenda, which we embarked on in 2012, is driving the Bank towards achieving our strategic objective of facilitating our customers to realise their financial and investment dreams.

We are happy to note that during the year, there was a marked improvement in the performance of our Kenyan and international business operations.

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.

During the year under review, the bank's profit after tax increased by 16 per cent to KShs.442.2 million up from KShs. 380.6 million in 2012.

Our balance sheet grew to KShs. 20.6 billion in 2013 up from KShs. 19.7 billion in the previous year.

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.

Corporate Governance

We, as a Board, emphasize sound management practices, which have enabled the Bank to grow through the years since we started our operations in 1984.

The structure and composition of the Board ensures that, we, the members, have an opportunity to oversee the Bank's operations in order to fully discharge our mandates.

Through our various board committees, which meet regularly, we are able to ensure that the full Board is properly informed on all risk-related issues.

In this way we are, therefore, in a position to effectively contribute in identifying, evaluating, monitoring and managing risk and providing the necessary oversight and support needed for the growth of the business.

We are happy to note that the business is managed prudently and in compliance with all regulatory obligations, in line with international best practices and according to the Board's strategic vision.

As a Board, we will continue to ensure that the safety of depositors' funds is guaranteed while providing guidance towards the growth of the bank and shareholder value by contributing to the bank's overall strategic development.

But perhaps more importantly, we have continued to support the management with necessary support -be it capital, systems or new skills at both staff and management level.

This is aimed at keeping the Bank and our staff abreast of new developments in this fast-changing and fiercely competitive sector.

Corporate Social Responsibility

We as a Board have continued to support the bank's programme of giving back to society through various Corporate Social Responsibility (CSR) projects.

This is because the Bank's management and staff have selected projects that have the greatest impact on society, are effectively implemented and are sustainable.

A case in point is the ABC Bank Baringo Half Marathon, which is an annual sporting event held in Kabarnet Town in Baringo County, that has not only put ABC Bank on the national, but also international athletics map.

The Bank stages the event in partnership with the Paul Tergat Foundation which is run by Kenya's legendary athlete and former world marathon record holder Mr Paul Tergat, who is also the marathon patron and organizer and a member of the International Olympic Committee.

Launched 10 years ago as the Baringo Half Marathon before ABC Bank took over the title sponsorship last year for an initial period of five years, the event's objective is to identify and develop young athletic talent as well as boost sports tourism in the area.

The 2013 marathon was a resounding success in terms of registration and performances, as well as the residual impact on the communities in and around Baringo County.

Several of the young participants who excelled in the 2013 edition have since been enrolled in training camps under the programme and we are optimistic they will soon join the hall of fame in local and international athletics circles. Many more have been discovered since the inaugural race and have gone on to become national and international champions.

It is the commitment of ABC Bank, in partnership with the Paul Tergat Foundation, to see the marathon discover and nurture new

athletic talent to produce world champions who will bring great fortune and fame to the country.

The foundation, which among other things, aims to identify, tap and nurture athletic talent among Kenya's youth, provides the platform for this initiative sustainably.

It is also our plan to ensure that the ABC Bank Baringo Half Marathon consistently moves to new levels in terms of participation, theme and impact every year.

Outlook for 2014

The IMF says activity is expected to improve further in 2014–15, largely on account of recovery in advanced economies and it is projecting the world economy to grow faster in 2014, at around 3.7 per cent, up from 3.0 per cent in 2013.

Locally, the government is projecting that the 2013 macroeconomic stability could be maintained for the rest of 2014 and that the utilisation of the development budget in the counties will spur further economic growth.

The Economic Survey also projects that private consumption is likely to improve given the stable interest rates and low inflation regime in the country while recent discoveries of petroleum oil and natural gas are likely to trigger more foreign direct investment inflows.

With the recently launched single electronic system for processing imports and exports expected to improve trade across the region, the Bank is focussed on tapping into the business opportunities that would arise both locally among the country's 47 counties and across the borders.

Our focus is to continue investing in our human capital, infrastructure and business development initiatives highlighted by the Group Managing Director to increase our efficiency and competitiveness both in the local and international markets.

Appreciation

I wish to sincerely thank our customers for their loyalty and support in 2013.

We appreciate our management team and staff for effectively implementing the Board's business strategic vision, which enabled the Bank to register good performance during the year.

The Board recognises the management team and staff as our most valuable asset. In this regard, the Board will continue to support them, morally and financially, to grow their careers as they diligently offer quality service to our clients and grow our shareholder value.

Finally, I remain greatly indebted to my fellow board members for their invaluable time, effort and ideas they expended during the year in our quest to provide reliable oversight and strategic direction to the Bank.

I am sure that we - the staff, management and the Board - will perform even better going forward.

I look forward to a fruitful year 2014.

Thank you.



Ashraf Savani - Chairman

GROUP MANAGING DIRECTOR'S STATEMENT



It gives me great pleasure to present to you the ABC Bank Consolidated Audited Accounts and Annual Report for the period ended 31st December, 2013.

It was a critical year for us in part because we had come to the end of our previous 3- year strategic plan in December 2012 and, therefore, rolled out our current 5-year strategy in January 2013 as part of a review of our strategic focus for the bank.

During the year we aggressively worked towards growing our market share as we shifted our strategic focus to the top-line, by leveraging on the investments we made in the previous year.

The investments included a successful process of recruiting new staff, re-engineering our processes to make them more efficient and re-designing our products to increase their market appeal.

We implemented various projects, improved our efficiency, expanded

our reach as well as identified and entered into partnerships with selected strategic partners to grow the business. I am happy to note that these initiatives are now bearing fruits as seen from our results in 2013 despite the hurdles we have encountered along the way.

Financial Performance

We recorded a positive performance across all our business segments, underlining the fact that our business strategy of attracting and retaining customers through innovative products and quality service, is bearing fruits.

The Bank's profit before tax grew by 12.6 per cent to KShs. 592.1 million during the year under review up from KShs 525.5 million in 2012, a feat we attribute to our customers' support and encouragement.

Profit after tax increased by 16 per cent to KShs.442.2 million in 2013 up from KShs. 380.6 million in the previous year.

The Bank's customer deposits went up to KShs16.4 billion during the year from KShs 15.5 billion in 2012 while our total assets grew to KShs 20.6 billion in 2013 from KShs 19.7 billion in the previous year.

The Bank's total interest income rose by 13.6 per cent to KShs 2.5 billion from KShs 2.2 billion driven by a growth in income from loans and advances.

Key appointments

During the year, among the staff changes, the Board appointed Mr. Sridhar Natarajan, as our new Group Chief Executive Officer (GCEO), succeeding Mr Deviinder Gupta who left to pursue other interests.

We wish to thank Mr. Gupta for the invaluable contribution he has made over the years to the Bank and wish him every success in his future endeavors.

Mr. Natarajan, is a seasoned Banker with over 30 years experience in leading Banks in South, East & South East Asia. In line with the new Prudential Guidelines, he will also be an Executive Director of the Group.

Key projects:

• Unaitas Sacco partnership

The Bank appreciates the key role Saccos continue to play in bridging the gap in access to formal banking services especially in rural areas and small towns where there are fewer Bank branches.

We, as a bank, do not view Saccos and microfinance institutions (MFIs) as competitors, but as partners towards meeting their customers' needs and optimizing their input in the economy.

As part of the bank's strategic focus of providing more relevant financial services to micro, small and medium enterprises (MSMEs), who are key drivers of the economy, we are committed to boosting their competitive advantage to achieve their business goals, and to offer seamless, convenient and comprehensive financial services experience to their customers.

This was demonstrated when we signed a partnership agreement with Unaitas Sacco in April 2013 in a bid to empower the Sacco to offer a wider range of services to its customers. Through this partnership, Unaitas Sacco members can operate current accounts and clear cheques through the bank and access trade finance facilities such as bid bonds and performance guarantees.

• Upgraded Internet Banking

During the year, we launched our upgraded Internet Banking service with a view of offering our customers a convenient, easy to use platform that allows them to securely do their banking anywhere, anytime.

The service, which is an upgrade to our previous internet banking, comes with enormous benefits to our customers – whether individual or business. It offers revolutionary new features geared towards making banking even more enjoyable.

For this service, ABC Bank was awarded 1st Runners Up in the Best Bank in Internet Banking category in this years Think Business Banking Awards.

• ABC Collect and Kenya Revenue Authority (KRA) I-Tax Partnership

This year we launched a robust, multi-channel Collection Solution, adding great value to our customers, especially by increasing their revenue collection and significantly reducing the cost of doing business.

This is a highly customizable in-branch collection solution that helps the bank to effectively render tailor-made collection services on behalf of organizations to their cherished customers.

The first customer on the platform was the Kenya Revenue Authority (KRA), with whom we entered into a partnership to act as their collection agent.

This means that tax payers are now able to file their taxes in any of the bank's branches countrywide – under KRA's newly launched online tax payment system dubbed 'iTax'.

• First free money transfer

The ABC M-Transfer, is an award winning service allowing our customers, from anywhere in the world, to send money FREE of charge, from the convenience of their offices, homes or while on the go.

The online service allows customers to directly credit their bank accounts held with the bank at competitive foreign exchange rates from over 80 countries, or collect cash from over 250,000 payout locations.

CSR: ABC Bank Baringo Half Marathon

As our Chairman highlighted in his statement, during the year we took over the title sponsorship of the Baringo Half Marathon, an annual sporting event held in Kabarnet Town in Baringo County, for an initial period of five years.

We will stage the event in partnership with the Paul Tergat Foundation. It is part of our corporate social responsibility (CSR) initiatives through which we continue to foster our community relations.

Outlook for 2014

We intend to focus on growing the business in various sectors through our five strategic business units (SBUs); Corporate, SME, Retail, Treasury and Alternative Delivery Channels. We will achieve this by primarily growing the local and regional footprint both in terms of branch network and other customer touch points. This will enable us to reach more clients and provide top notch services to both existing and new clients.

To achieve this, we have already invested in and rolled out an e-banking platform that is fully integrated with the core banking system and other systems. We have put in place a plan to increase our presence across the East African Community (EAC) region through an increased branch network.

We have already commissioned four new branches (two each in Kenya and Uganda) and we expect them to be up and running within the second quarter of 2014. We will open more branches as suitable locations are identified within the next five years.

We will also continue to consolidate the Bank's leading position in the SME segment through product differentiation as well as servicing businesses that require longer tenure facilities.

Further, we will also seek additional strategic partnerships with the European Investment Bank (EIB) and similar financiers to continue supporting SMEs in the region, cementing our leader position further.

The Bank has been a very strong player in the Diaspora segment. We will seek to improve this business segment over the next five years, mainly by offering a variety of money transfer services. The bank will seek to have a firm foothold in the larger Americas and Western Europe, which currently remain untapped.

We have also partnered with the Postal Corporation of Kenya (Posta) and Postbank to service clients who are in areas not well served with banking facilities, through the agency banking model.

We will continue to focus on our key asset - our staff - by investing in them during the year by continuing with our training and mentorship programmes as part of nurturing and growing their careers.

Conclusion

I extend my appreciation to our customers, business partners, Board of Directors, the management team and staff for their continued commitment to the bank.

Thank you.

Shamaz

Shamaz Savani
Group Managing Director

BOARD OF DIRECTORS

Mr. Ashraf Savani - Chairman

Mr. Ashraf Savani is the 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. Richard Omwela - Non-Executive Director

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 & Conveyancing 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 and is the former Chairman of Kenya Rugby Football Union and a past Chairman of Westlands Rotary Club of Nairobi.



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, 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 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 as having 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 the 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 and is currently the Group Human Resources Director of Kenya Airways.

Mr. Shamaz Savani - Group Managing Director

Mr. Shamaz Savani has a B.Com in Finance and a B.A. in Economics; 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 Bank Group. He is responsible for strategy formulation, policy-making including expansion, innovation and growth for ABC Bank Group. 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 and has also received several awards in different categories.



LET'S FILL YOUR TILL!

GET CASH AGAINST ACCEPTED INVOICES
AND KEEP YOUR BUSINESS GOING.



INTRODUCING CASHREADY

Waiting to get paid is stressful. Your business depends on reliable cash flow. To help you out, ABC Bank will finance up to 80% of your accepted invoices with no security requirements. In addition, we offer you Bid Bonds, Performance Bonds, Advance Payment Guarantees, Asset Finance and SME loans. Learn more about CashReady at www.abcthebank.com/CashReady, talk2us@abcthebank.com or call our CashReady hotline - 0701 700 700.

Branches: Nairobi, Nakuru, Meru, Eldoret, Kisumu, Mombasa and Lamu.



facebook.com/abcthebank



[@abcbankkenya](https://twitter.com/abcbankkenya)

Terms & Conditions apply.

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 20,21.

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 non-executive Directors and the Group Managing Director. 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 2013. 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 2013.

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 2013 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. R. Omwela 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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. R. Omwela) 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 the Group Chairman (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. A. Ishani, 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, Head of Finance Strategy & CMAC and Head of Credit & Legal. 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.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

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 2013 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 2013.

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 6 ordinary meetings. Details of attendance for each member of board are as below.

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

* Mr. Alban Mwendar joined the Board in May 2013

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

19th March 2014



Director

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 2013, 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, stock brokerage, financial and related services.

RESULTS

	Sh'000
Profit before taxation	592,110
Taxation expense	(149,947)
	<hr/>
Retained profit for the year	442,163
	<hr/>
Attributable to:	
Equity holders of the parent company	434,341
Non-controlling interests	7,822
	<hr/>
	442,163
	<hr/>

DIVIDENDS

An interim dividend of Sh 0.80 per share (2012 – 0.80) amounting to Sh 84,000,000 (2012 – 84,000,000) was paid during the year. The directors do not recommend the payment of a final dividend.

DIRECTORS

The present members of the Board of Directors are shown on page 2. Mr Alban Mwendar was appointed as a director on 13 May 2013.

COMPANY SECRETARY

Livingstone Associates resigned as company secretaries on 1st of April 2013 and Victorial Nthenya Muya was appointed on the same day.

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

Secretary

Nairobi

19th March 2014

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BY ORDER OF THE BOARD

Secretary

Nairobi

19th March 2014

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.

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 bank 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

19th March 2014



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

Tel: +254 (20) 423 0000
 Cell: +254 (0) 719 039 000
 Fax: +254 (20) 444 8966
 Dropping Zone No.92
 Email: admin@deloitte.co.ke
 www.deloitte.com

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 28 to 85, which comprise the consolidated and bank statements of financial position as at 31 December 2013, and the consolidated statement of comprehensive income, consolidated and bank statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory 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 2013 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 **Anne Muraya – P/No 1697**.*



Certified Public Accountants (Kenya)
Nairobi, Kenya

19 March 2014

AFRICAN BANKING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	Note	2013 Sh'000	2012 Sh'000
INTEREST INCOME	6	2,535,840	2,265,054
INTEREST EXPENSE	7	(1,286,866)	(1,354,464)
NET INTEREST INCOME		1,248,974	910,590
Fees and commission income		310,995	279,198
Foreign exchange trading income		134,941	161,864
Other operating income	8	70,827	49,017
OPERATING INCOME		1,765,737	1,400,669
Operating expenses	9	(1,124,685)	(844,017)
Impairment charge on loans and receivables	19(d)	(48,942)	(31,113)
PROFIT BEFORE TAXATION		592,110	525,539
TAXATION EXPENSE	11(a)	(149,947)	(144,896)
PROFIT FOR THE YEAR	12	442,163	380,643
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss			
Fair value (loss)/gain on available for sale investments		(33,860)	60,403
Realised on disposal of available for sale investments	8	19,566	9,236
Exchange differences on translating foreign operations		78,227	(30,808)
Total other comprehensive income		63,933	38,831
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		506,096	419,474
PROFIT ATTRIBUTABLE TO:			
Equity holders of the parent company		434,341	382,281
Non-controlling interests		7,822	(1,638)
		442,163	380,643
OTHER COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent company		40,329	51,256
Non-controlling interests		23,604	(12,425)
		63,933	38,831
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent company		474,670	433,537
Non-controlling interests		31,426	(14,063)
		506,096	419,474
Earnings per share – Basic & Diluted	14	4.14	3.64

AFRICAN BANKING CORPORATION LIMITED
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 Sh'000	2012 Sh'000
ASSETS			
Cash and balances with Central Banks	15	1,298,752	1,787,780
Deposits and balances due from banking institutions	16	1,313,538	1,081,520
Government securities	17	4,967,666	5,233,728
Corporate bonds	18	281,613	328,607
Loans and advances to customers	19(a)	11,491,145	10,133,792
Tax recoverable	11(c)	27,131	28,665
Other assets	20(a)	346,368	334,000
Property and equipment	21(a)	645,362	481,200
Intangible assets	22(a)	51,034	59,421
Investment in Nairobi Securities Exchange	22(c)	211,200	223,700
Goodwill	24(b)	660	660
Operating lease prepayment	25	1,940	-
Deferred tax asset	29(c)	7,324	8,852
TOTAL ASSETS		20,643,733	19,701,925
LIABILITIES			
Balances due to banking institutions	26	361,113	652,025
Customer deposits	27	16,478,690	15,529,235
Other liabilities	28	338,725	385,431
Tax payable	11(c)	-	7,083
Long term loan	30	678,967	759,919
Deferred tax liability	29(c)	-	4,090
TOTAL LIABILITIES		17,857,495	17,337,783
SHAREHOLDERS' FUNDS			
Share capital	31	1,050,000	1,050,000
Retained earnings		1,296,122	961,531
Investment revaluation reserve		(6,713)	(4,919)
Statutory reserve	32	107,039	102,736
Translation reserve		35,187	(18,383)
Attributable to equity holders of the parent company		2,481,635	2,090,965
Non-controlling interests	33	304,603	273,177
TOTAL SHAREHOLDERS' FUNDS		2,786,238	2,364,142
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		20,643,733	19,701,925

The financial statements on pages 28 to 85, were approved and authorised for issue by the board of directors on 19 March 2014 and were signed on its behalf by:

_____) Director
_____) Director
_____) Chief Executive Officer
_____) Company Secretary



AFRICAN BANKING CORPORATION LIMITED

BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Note	2013 Sh'000	2012 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	1,243,396	1,743,949
Deposits and balances due from banking institutions	16	834,686	544,230
Government securities	17	4,598,386	5,182,313
Corporate bonds	18	281,613	328,607
Loans and receivables to customers	19(a)	10,851,417	9,789,658
Tax recoverable	11(c)	12,295	26,805
Other assets	20(a)	313,171	294,880
Due from related parties	20(b)	12,113	10,979
Property and equipment	21(b)	615,614	470,376
Intangible assets	22(b)	49,380	57,611
Investment in subsidiaries	23	821,358	612,519
Deferred tax	29 (b)	5,941	8,852
TOTAL ASSETS		19,639,370	19,070,779
LIABILITIES			
Balances due to banking institutions	26	342,366	609,039
Customer deposits	27	15,868,485	15,223,216
Due to related parties	20(c)	36,778	32,190
Other liabilities	28	262,834	334,806
Long term loan	30	678,967	759,919
TOTAL LIABILITIES		17,189,430	16,959,170
SHAREHOLDERS' FUNDS			
Share capital	31	1,050,000	1,050,000
Retained earnings		1,307,319	972,506
Investment revaluation reserve		(6,713)	(4,919)
Statutory reserve	32	99,334	94,022
SHAREHOLDERS' FUNDS		2,449,940	2,111,609
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		19,639,370	19,070,779

The financial statements on pages 28 to 85, were approved and authorised for issue by the board of directors on 19 March 2014 and were signed on its behalf by:

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AFRICAN BANKING CORPORATION LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

	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 2012		1,050,000	698,206	(74,558)	67,780	-	1,741,428	31,227	1,772,655
Profit for the year		-	382,281	69,639	-	(18,383)	382,281	(1,638)	380,643
Other comprehensive income		-	-	-	-	-	51,256	(12,425)	38,831
Total comprehensive income for the year		-	382,281	69,639	-	(18,383)	433,537	(14,063)	419,474
Non-controlling interests arising on the acquisition of control in associate	24 (a)	-	-	-	-	-	-	256,013	256,013
Transfer to statutory reserve	32	-	(34,956)	-	34,956	-	-	-	-
Interim dividend paid 2012		-	(84,000)	-	-	-	(84,000)	-	(84,000)
At 31 December 2012		1,050,000	961,531	(4,919)	102,736	(18,383)	2,090,965	273,177	2,364,142
At 1 January 2013		1,050,000	961,531	(4,919)	102,736	(18,383)	2,090,965	273,177	2,364,142
Profit for the year		-	434,341	-	-	53,570	434,341	7,822	442,163
Other comprehensive income		-	(11,447)	(1,794)	-	-	40,329	23,604	63,933
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	-	-	-	-
Interim 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

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 2013

	Share capital Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1 January 2012	1,050,000	658,865	(74,558)	67,780	1,702,087
Profit for the year	-	423,883	-	-	423,883
Other comprehensive income	-	-	69,639	-	69,639
Total comprehensive income	-	423,883	69,639	-	493,522
Transfer to statutory reserve	-	(26,242)	-	26,242	-
Interim dividends paid	-	(84,000)	-	-	(84,000)
At 31 December 2012	1,050,000	972,506	(4,919)	94,022	2,111,609
At 1 January 2013	1,050,000	972,506	(4,919)	94,022	2,111,609
Profit for the year	-	424,125	-	-	424,125
Other comprehensive income	-	-	(1,794)	-	(1,794)
Total comprehensive income	-	424,125	(1,794)	-	422,331
Transfer to statutory reserve	-	(5,312)	-	5,312	-
Interim dividends paid	-	(84,000)	-	-	(84,000)
At 31 December 2013	1,050,000	1,307,319	(6,713)	99,334	2,449,940

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 2013

	Note	2013 Sh'000	2012 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34(a)	193,103	1,667,187
Taxation paid	11(c)	(157,788)	(150,653)
		<hr/>	<hr/>
Cash generated from operating activities		35,315	1,516,534
		<hr/>	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	21(a)	(215,975)	(108,379)
Purchase of intangible assets	22(a)	(3,699)	(7,533)
Acquisition of operating lease	25	(1,969)	-
Cash inflow from acquisition of subsidiaries	24(a)	-	419,425
		<hr/>	<hr/>
Cash (used in)/generated from investing activities		(221,643)	303,513
		<hr/>	<hr/>
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	13	(84,000)	(84,000)
		<hr/>	<hr/>
(Decrease)/increase in cash and cash equivalents		(270,328)	1,736,047
Cash and cash equivalents at 1 January		2,555,176	804,917
Exchange differences		38,542	14,212
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	34(b)	2,323,390	2,555,176
		<hr/> <hr/>	<hr/> <hr/>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013

1 GENERAL INFORMATION

African Banking Corporation Limited ('the company') and its subsidiaries (together, 'the group'), which comprise 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) 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.

Adoption of new and revised International Financial Reporting Standards (IFRS)**i) New standards and amendments to published standards effective for the year ended 31 December 2013**

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 7 Disclosures - Offsetting Financial Assets and Financial Liabilities	<p>The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.</p> <p>The application of the amendment had no effect on the group's financial statements as the group did not have any offsetting arrangements in place.</p>
New and revised standards on consolidation joint arrangements, associates and disclosures	<p>In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendment to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.</p>
Impact of the application of IFRS 10	<p>IFRS 10 replaces the parts of IAS 27 <i>Consolidated and Separate Financial Statements</i> that deal with consolidated financial statements and SIC 12 <i>Consolidation – Special Purpose Entities</i>. IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.</p> <p>Specifically, the Group has a 91.58% and 68.48% ownership interest in ABC Capital Bank Uganda Limited and ABC Capital Limited respectively with a similar percentage in voting rights. The directors concluded that it has control over both subsidiaries on the basis of the Group's absolute size of holding in both entities.</p>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)***

Impact of the application of IFRS 12	IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and /or unconsolidated structured entities. In general the application of IFRS 12 has resulted in more extensive disclosure in the consolidated financial statements (please see note 23 for detail).
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IFRS 13 Fair Value Measurement	The Group has applied IFRS 13 for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.
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The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period

The application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	The Group has applied the amendments to IAS 1, <i>Presentation of Items of Other Comprehensive Income</i> , for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.
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AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)**i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2013 (Continued)**

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (Continued)

However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The new terminology have been adopted in these financial statements in other respects the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to IAS 1 Presentation of Financial Statements (as part of the Annual Improvements to IFRSs 2009 - 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 - 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the company are the amendments to IAS 1 regarding when a statement of financial position as at the beginning of the preceding period (third statement of financial position) and the related notes are required to be presented. The amendments specify that a third statement of financial position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position. The amendments specify that related notes are not required to accompany the third statement of financial position.

This amendment did not have any impact on the group's financial statements as the group did not restate its prior period financial statements.

IAS 19 Employee Benefits (as revised in 2011)

IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset.

The application of the amendment had no effect on the group's financial statements as the group does not have defined benefit obligations and plan assets.

ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2013

Effective for annual periods
beginning on or after

New and Amendments to standards

IFRS 9	1 January 2015
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRS) (Continued)iii) *Impact of new and amended standards and interpretations on the financial statements for the year ended 31 December 2013 and future annual periods***IFRS 9 Financial Instruments**

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The application of this standard is likely to have an impact on amounts reported in these financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed.

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 professional 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.
- 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.

The directors of the group do not anticipate that the investment entities amendments will have any effect on the company's financial statements as the group is not an investment entity.

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 application of this standard is likely to have an impact on amounts reported in these financial statements. However it is not practicable to provide a reasonable estimate on the effects of IAS 32 until a detailed review has been completed.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

iii) Early adoption of standards

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain intangible 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 and ABC Capital Bank Uganda Limited both having financial year end 31 December 2013.

(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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)*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.

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

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 a discounted cashflow basis.

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.

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 and are currently limited to Sh 200 per employee per month.

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

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 Securities 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.
- (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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)*Recognition and derecognition of financial assets (Continued)****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.

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 ACCOUNTING POLICIES (Continued)

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.

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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.
- *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:

	2013 Sh'000	2012 Sh'000
Cash and balances with Central Banks	1,298,752	1,787,780
Deposits due from banking institutions	1,313,538	1,081,520
Government securities	4,967,666	5,233,728
Corporate bonds	281,613	328,607
Loans and receivables	11,491,145	10,133,792
	<u>19,352,714</u>	<u>18,565,427</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 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
	<hr/>	<hr/>	<hr/>	<hr/>
Total	11,674,028	182,883	11,491,145	100
	<hr/>	<hr/>	<hr/>	<hr/>
31 December 2012				
Neither past due nor impaired	9,915,418	-	9,915,418	97.9
Past due but not impaired	202,926	-	202,926	2.0
Impaired	209,903	194,455	15,448	0.1
	<hr/>	<hr/>	<hr/>	<hr/>
Total	10,328,247	194,455	10,133,792	100
	<hr/>	<hr/>	<hr/>	<hr/>

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-performing 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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2013 (2012: 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:

	2013 Shs'000	2012 Shs'000
Against individually impaired		
Property	292,153	303,213
Other	17,879	-
Against collectively impaired		
Property	1,739,212	1,775,548
Other	1,175,288	1,199,842
Against past due but not impaired		
Property	1,840,801	626,422
Other	27,832	40,058
Against neither past due nor impaired		
Property	5,506,572	6,204,766
Other	3,443,392	3,482,569
Total	14,043,129	13,632,418

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	2013	2013	2012	2012
	Sh'000	%	Sh'000	%
Manufacturing	525,315	5	766,588	8
Wholesale, retail trade and hotels	3,580,752	31	4,101,745	40
Transport and communications	1,075,289	9	1,178,663	12
Agriculture	115,104	1	82,529	1
Business service	1,586,524	14	1,031,788	10
Building, constructions and real estate	3,365,294	30	2,101,516	20
Social, community and personal service	245,942	2	162,788	2
Foreign trade	25,056	0	190,482	2
Individuals, non-profit making organisations and others	-	-	-	-
	971,869	8	517,693	5
	<u>11,491,145</u>	<u>100</u>	<u>10,133,792</u>	<u>100</u>
(ii) Customer deposits				
Non-profit institutions and individuals	8,728,925	53	7,697,632	49
Private enterprises	5,649,742	34	5,674,380	37
Insurance companies	1,413,631	9	1,291,294	8
Others	686,392	4	865,929	6
	<u>16,478,690</u>	<u>100</u>	<u>15,529,235</u>	<u>100</u>
(iii) Off balance sheet items				
Manufacturing	143,398	3	139,965	4
Wholesale, retail trade and hotels	1,026,309	22	1,189,780	30
Transport and communications	510,269	11	239,335	6
Agriculture	14,000	1	2,500	0
Business service	2,092	0	333,594	9
Building, constructions and real estate	482,804	10	678,501	17
Financial service	1,764,240	38	1,237,294	31
Foreign trade	525,685	11	60,836	2
Individuals, non-profit making organisations and others	197,457	4	48,834	1
	<u>4,666,254</u>	<u>100</u>	<u>3,930,639</u>	<u>100</u>

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	2013	2012
At 31 December	38.0%	42.50%
Average for the period	42.0%	41.64%
Maximum for the period	47.9%	46.90%
Minimum for the period	36.8%	35.40%

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 2013						
FINANCIAL ASSETS						
Cash and balances with Central Banks	1,297,888	864	-	-	-	1,298,752
Deposits and balance due from banking institutions	834,687	1,135,620	-	-	-	1,970,307
Government securities	972,920	2,379,616	3,721,519	2,159,848	32,564	9,266,467
Corporate bonds	-	-	79,020	258,609	50,285	387,914
Loans and receivables to Customers	1,814,641	1,825,070	3,440,895	8,851,204	1,730,036	17,661,846
Total financial assets	4,920,136	5,341,170	7,241,434	11,269,661	1,812,885	30,585,286
FINANCIAL LIABILITIES						
Deposits and balance due to banking institutions	118,212	242,901	-	-	-	361,113
Customer deposits	6,205,958	1,683,202	4,843,445	6,842,934	3,604,911	23,180,451
Long term debt	104,528	120,353	10,492	461,008	59,690	756,071
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
At 31 December 2012						
Total financial assets	4,641,831	1,990,748	3,102,229	5,622,120	7,950,227	23,307,155
Total financial liabilities	6,896,972	4,724,300	4,455,624	953,402	94,940	17,125,238
Net liquidity gap	(2,255,141)	(2,733,552)	(1,353,395)	4,668,718	7,855,287	6,181,917

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2013							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	1,298,752	1,298,752
Deposits and balance due from banking institutions	834,772	478,766	-	-	-	-	1,313,538
Government securities	819,593	783,333	-	1,188,553	2,176,187	-	4,967,666
Corporate bonds	-	-	-	-	281,613	-	281,613
Loans and receivables to customers	11,146,937	344,208	-	-	-	-	11,491,145
Total financial assets	12,801,302	1,606,307	-	1,188,553	2,457,800	1,298,752	19,352,714

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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	256,527	104,586	-	-	-	-	361,112
Customer deposits	9,482,697	3,062,363	3,880,785	52,845	-	-	16,478,690
Longterm debt	218,813	149,992	48,417	214,161	47,584	-	678,967
Total financial liabilities	9,958,037	3,316,941	3,929,202	267,006	47,584	-	17,518,769
Interest sensitivity gap	2,843,265	(1,710,634)	(3,929,202)	921,547	2,410,216	1,298,752	1,833,945
At 31 December 2012							
Total financial assets	2,984,595	2,261,601	2,420,712	4,080,447	5,007,826	1,810,247	18,565,428
Total financial liabilities	4,292,318	8,440,331	3,342,703	750,023	115,808	-	16,941,183
Interest sensitivity gap	(1,307,723)	(6,178,730)	(921,991)	3,330,424	4,892,018	1,810,247	1,624,245

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 2013.

	Amount Sh'000 31 December 2013	Scenario 1 10% Increase in net interest margin	Scenario 2 10% Decrease in net interest margin
Profit before tax	592,110	717,007	467,213
Adjusted Core Capital	1,773,989	1,850,289	1,697,689
Adjusted Total Capital	1,873,323	1,949,623	1,797,023
Risk Weighted Assets (RWA)	12,428,995	12,428,995	12,428,995
Adjusted Core Capital to RWA	14.27%	14.89%	13.66%
Adjusted total Capital to RWA	15.07%	15.69%	14.46%

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2013 by Sh 125 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 14.89% and 15.69% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 13.66% and 14.46% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2013						
FINANCIAL ASSETS						
Cash and balance with Central Banks	1,033,625	152,524	15,562	14,129	32,817	1,248,657
Government securities	4,598,386	-	-	-	369,280	4,967,666
Deposit and balances due from banking institutions	213,631	510,168	67,461	83,127	439,151	1,313,538
Loans and receivables to customers	9,067,585	2,415,010	12	2,935	5,603	11,491,145
Corporate bonds	281,613	-	-	-	-	281,613
Total financial assets	15,194,840	3,077,702	83,035	100,191	846,851	19,302,619
FINANCIAL LIABILITIES						
Customer deposits	13,941,816	1,574,879	289,794	89,402	582,799	16,478,690
Deposit due to banking institutions	342,458	18,655	-	-	-	361,113
Long term debt financing	525,252	109,606	-	40	44,069	678,967
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
At 31 December 2012						
Total financial assets	14,177,548	3,456,321	289,003	60,893	581,667	18,565,432
Total financial liabilities	13,971,813	2,502,973	174,597	164,069	127,727	16,941,179
Net on statement of financial Position	205,735	953,348	114,406	(103,176)	453,940	1,624,253
Off balance sheet position	1,484,429	1,327,497	2,404	132,567	-	2,946,897

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2013.

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 2013 Amount Sh' 000	Scenario 1 10% appreciation Sh' 000	Scenario 2 10% depreciation Sh' 000
Profit before tax	592,110	600,799	583,421
Adjusted Core Capital	1,773,989	1,780,071	1,767,907
Adjusted Total Capital	1,873,323	1,879,405	1,867,241
Risk Weighted Assets (RWA)	12,428,995	12,428,995	12,428,995
Adjusted Core Capital to RWA	14.27%	14.32%	14.22%
Adjusted total Capital to RWA	15.07%	15.12%	15.02%

Assuming no management actions, a series of such appreciation would increase earnings for 2013 by Sh 8.7 million, while a series of such falls would decrease earning for 2013 by Sh 8.7 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 14.32% and 15.12% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 14.22% and 15.02% 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 (2012: Sh Nil).

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

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).

	Carrying amount Sh'000	2013 Fair value Sh'000	Carrying amount Sh'000	2012 Fair value Sh'000
Financial assets				
Investment in NSE	211,200	211,200	223,700	223,700
Total	<u>211,200</u>	<u>211,200</u>	<u>223,700</u>	<u>223,700</u>

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

At 31 December 2013

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Treasury bonds	630,276	-	-	630,276
Investment in NSE	-	-	211,200	211,200
Total	<u>630,276</u>	<u>-</u>	<u>211,200</u>	<u>841,476</u>

At 31 December 2012

Treasury bonds	1,609,883	-	-	1,609,883
Investment in NSE	-	-	223,700	223,700
Total	<u>1,609,883</u>	<u>-</u>	<u>223,700</u>	<u>1,833,583</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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:

	2013 Shs'000	2012 Shs'000
Tier 1 capital		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	1,307,319	972,506
Investment in subsidiaries	(583,330)	(377,691)
	<hr/>	<hr/>
Total	1,773,989	1,664,815
Tier 2 capital		
Collective allowances for impairment	99,334	94,022
	<hr/>	<hr/>
Total regulatory capital	1,873,323	1,738,837
	<hr/> <hr/>	<hr/> <hr/>
Risk-weighted assets (page 41)		
On balance sheet items	11,440,318	11,080,196
Off balance sheet items	988,677	998,354
	<hr/>	<hr/>
Total Risk-weighted assets	12,428,995	12,078,550
	<hr/> <hr/>	<hr/> <hr/>
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	15.07%	14.40%
	<hr/> <hr/>	<hr/> <hr/>
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 8 %)	14.27%	13.62%
	<hr/> <hr/>	<hr/> <hr/>

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued) Four categories of risk weights (0%, 20%, 50%, 70% 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 2013; (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	2013 Shs'000
Share capital fully paid up	859,585
Prior year retained earnings/(accumulated losses)	16,242
Net after tax profits (50%)	28,119
Movement in general reserves	1,473
Unrealised foreign exchange gains	(1,088)
Intangible assets	(919)
	<hr/>
	903,412
	<hr/>
Supplementary Capital Tier 2	
Regulatory reserve	10,657
	<hr/>
Total Supplementary Capital Tier 2	10,657
	<hr/>
On balance sheet items	1,568,378
Off balance sheet items	151,884
	<hr/>
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	97.71%
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	98.86%

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The risk weighted assets are as follows:

ON - BALANCE SHEET ASSETS	2013			2012		
	Amount (Shs'000)	Weight	Risk Weighted (Shs'000)	Amount (Shs'000)	Weight	Risk Weighted (Shs'000)
Cash (including foreign notes and coins)	170,580	0	-	171,683	0	-
Balances with Central Bank of Kenya	1,072,815	0	-	1,572,266	0	-
Treasury bills	684,701	0	-	1,101,768	0	-
Kenya treasury bonds	3,913,685	0	-	4,080,545	0	-
Deposits and balances due from local institutions	299,385	0.2	59,877	86,167	0.2	17,233
Deposits and balances due from foreign institutions	535,302	0.2	107,060	458,064	0.2	91,613
Lending fully secured by cash	631,477	0	-	299,949	0	-
Loans and receivables Secured by residential property	949,428	0.5	474,714	657,979	0.5	328,990
Other loans and receivables (net of provisions)	9,552,125	1.0	9,552,125	9,160,337	1.0	9,160,337
Investment in subsidiaries	583,330	0	-	612,519	1.0	612,519
Investment in associate	-	1.0	-	-	1.0	-
Fixed Assets (net of depreciation)	664,994	1.0	664,994	527,988	1.0	527,988
Amounts due from Group companies	12,113	1.0	12,113	10,979	1.0	10,979
Other assets	569,435	1.0	569,435	330,535	1.0	330,535
TOTAL	19,639,370		11,440,318	19,070,779		11,080,196
OFF BALANCE SHEET ASSETS						
Local banks	61,740	0.2	12,348	14,196	0.2	2,839
Foreign banks and foreign government	16,089	0.2	3,218	5,047	0.2	1,009
Others	973,111	1.0	973,111	994,505	1.0	994,505
Total	1,050,940		988,677	1,013,748		998,354

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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.

	2013 Sh'000	2012 Sh'000
Minimum prescribed capital	<u>50,000</u>	<u>50,000</u>
Shareholders' funds		
Share capital	106,978	106,978
Shares awaiting allotment	3,200	-
Share premium	100	100
Revaluation reserve	173,700	201,000
Capital reserve	15,000	15,000
Accumulated deficit	(59,609)	(37,859)
	<u>239,369</u>	<u>285,219</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 CAPITAL MANAGEMENT (Continued)

	2013 Sh'000	2012 Sh'000
<i>Brokerage (Continued)</i>		
Working capital		
Current assets	60,327	70,592
Current liabilities	43,729	45,348
	<u>16,598</u>	<u>25,244</u>
Total expenses	<u>29,100</u>	<u>22,041</u>
Average monthly expenses	<u>2,425</u>	<u>1,837</u>
20% of minimum shareholders' funds	<u>10,000</u>	<u>10,000</u>

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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.

AFRICAN BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2013 Shs'000	2012 Shs'000
6 INTEREST INCOME		
Loans and advances to customers	1,885,740	1,739,704
Government securities – held to maturity	382,429	192,252
Government securities – available for sale	159,200	230,014
Corporate bonds – held to maturity	37,760	43,629
Deposits and placements with banking institutions	70,711	59,455
	<u>2,535,840</u>	<u>2,265,054</u>
7 INTEREST EXPENSE		
Customer deposits	1,201,081	1,330,726
Deposits and placements from banking institutions	19,668	7,668
Interest on long term loan	66,117	16,070
	<u>1,286,866</u>	<u>1,354,464</u>
8 OTHER OPERATING INCOME		
(Loss)/gain on disposal of government securities	(48,253)	63,423
Realised gain on sale of available for sale investments (note 17)	128,640	19,502
Cumulative gain reclassified from equity on disposal of available for sale investments (note 17)	(19,566)	(9,236)
Rental income	3,078	973
Dividend income	1,900	315
Miscellaneous income	5,028	1,340
Fair value loss on investment in NSE shares (note 22 (c))	-	(27,300)
	<u>70,827</u>	<u>49,017</u>
9 OPERATING EXPENSES		
Staff costs (note 10)	607,660	466,037
Depreciation of property and equipment (note 21)	55,186	32,576
Amortisation of intangible assets (note 21)	12,089	9,211
Amortisation of operating lease (note 25)	86	-
Auditors' remuneration - parent	3,076	2,756
- subsidiaries	2,402	982
Contribution to deposit protection fund	19,183	14,508
Directors' emoluments - fees	3,960	4,210
- other	22,567	20,262
Operating lease rentals	67,039	63,587
Advertising costs	42,497	14,125
Communication	45,441	40,772
Printing and stationery	16,369	15,054
Computer and software maintenance	31,360	17,812
Travelling and vehicle running expenses	30,968	37,144
Legal and professional fees	12,040	13,848
Security	29,130	19,235
Insurance	12,436	9,550
Bank charges	13,328	12,102
Office expenses	38,281	30,282
Agency intergration charges	2,307	-
Other expenses	57,280	19,964
	<u>1,124,685</u>	<u>844,017</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2013 Shs'000	2012 Shs'000
10	STAFF COSTS		
	Salaries and allowances	503,315	384,892
	Staff training	23,306	3,491
	NSSF contribution	737	568
	Pension contribution – defined contribution	15,257	8,618
	Leave pay provision	2,817	3,809
	Medical expense	19,272	13,873
	Other	42,956	50,786
		<u>607,660</u>	<u>466,037</u>
11	TAXATION		
	(a) Taxation expense:		
	Income tax based on taxable profit for the year at 30%	151,097	147,363
	Taxation assessed on separate income	366	-
	Prior year under provision of current tax	1,046	-
		<u>152,509</u>	<u>147,363</u>
	Deferred tax charge (note 29)	366	3,889
	Prior year overprovision – deferred tax	-	(6,356)
	Deferred tax derognised (note 29)	(2,928)	-
		<u>149,947</u>	<u>144,896</u>
	(b) Reconciliation of tax expense to the expected tax based on accounting profit:		
	Accounting profit before taxation	<u>592,110</u>	<u>525,839</u>
	Tax at 30%	177,633	157,752
	Tax effect of expenses not deductible for tax	5,838	5,122
	Tax effect of income not subject to tax	(37,864)	(17,978)
	Prior year under provision current tax	1,046	-
	Income assessed separately for tax	366	-
	Deferred tax asset not recognised	2,928	-
		<u>149,947</u>	<u>144,896</u>
	(c) Taxation recoverable		
	At 1 January	(21,852)	(18,592)
	Current tax charge for the year	152,509	147,363
	Paid in the year	(157,788)	(150,653)
		<u>(27,131)</u>	<u>(21,582)</u>
	At 31 December	<u>(27,131)</u>	<u>(21,582)</u>
		<u>(26,805)</u>	<u>(16,880)</u>
		<u>151,232</u>	<u>130,402</u>
		<u>(136,722)</u>	<u>(140,327)</u>
		<u>(12,295)</u>	<u>(26,805)</u>

AFRICAN BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 TAXATION (Continued)

(c) Taxation recoverable (Continued)	GROUP		BANK	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Comprising:				
Income tax recoverable	(27,131)	(28,665)	(12,295)	(26,805)
Income tax payable	-	7,083	-	-
At 31 December	(27,131)	(21,582)	(12,295)	(26,805)

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 424,125,000 (2012: Sh 423,883,000) has been dealt with in the separate financial statements of the parent company, African Banking Corporation Limited.

13 DIVIDENDS

An interim and final dividend of Sh 0.8 per share (2012 – Sh 0.80) on 105,000,000 shares, (2012 – 105,000,000 shares) was paid during the year amounting to Sh 84,000,000 (2012 – 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.

	2013	2012
Earnings		
Earnings for purposes of basic and diluted earnings per share (Sh'000)	434,341	382,281
Number of shares		
Weighted average number of ordinary shares (thousands)	105,000	105,000
Earnings per share		
Basic and diluted (Sh)	4.14	3.64

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 2013 or 31 December 2012.

15 CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Cash in hand	186,527	192,060	170,580	171,683
Balances with Central Bank of Kenya				
- Cash reserve ratio requirement	963,723	778,080	924,314	1,028,340
- Other – available for use by the bank	148,502	817,640	148,502	543,926
	1,298,752	1,787,780	1,243,396	1,743,949

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2013 the cash reserve ratio requirement was 5.25% (2012: 5.25%) 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	
	2013	2012	2013	2012
	Sh'000	Sh'000	Sh'000	Sh'000
Deposits with banking institutions	658,260	507,392	299,384	129,059
Balances with banking institutions	655,278	574,128	535,302	415,171
	<u>1,313,538</u>	<u>1,081,520</u>	<u>834,686</u>	<u>544,230</u>

The weighted average effective interest rate at 31 December 2013 for deposits due from banking institutions in Kenya was 7.04 % (2012 – 9.48 %) and 2.27 % for deposits due from banking institutions outside Kenya (2012 – 2.17%).

17 GOVERNMENT SECURITIES

(i) HELD TO MATURITY

	GROUP		BANK	
	2013	2012	2013	2012
	Sh'000	Sh'000	Sh'000	Sh'000
(a) Treasury bills at amortised cost -				
Maturing within 90 days of the end of the reporting period				
Face value	808,632	1,140,000	710,000	1,140,000
Less: unearned discount	(25,299)	(38,232)	(25,299)	(38,232)
	<u>783,333</u>	<u>1,101,768</u>	<u>684,701</u>	<u>1,101,768</u>

(b) Treasury bonds at amortised cost

	GROUP		BANK	
	2013	2012	2013	2012
	Sh'000	Sh'000	Sh'000	Sh'000
Maturing within 1 year	202,845	216,356	202,845	164,936
Maturing after 1 year but within 5 years	1,067,914	740,802	797,266	740,802
Maturing after 5 years	2,283,298	1,564,924	2,283,298	1,564,924
	<u>3,554,057</u>	<u>2,522,082</u>	<u>3,283,409</u>	<u>2,470,662</u>

AFRICAN BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 GOVERNMENT SECURITIES (Continued)

(ii) AVAILABLE FOR SALE – GROUP AND BANK

Treasury bonds available for sale

	2013 Sh'000	2012 Sh'000
At 1 January	1,609,883	900,237
Purchases	2,587,261	1,121,833
Disposals	(3,563,074)	(481,826)
Fair value (loss)/gain	(1,794)	69,639
	<u>630,276</u>	<u>1,609,883</u>
At 31 December	<u>630,276</u>	<u>1,609,883</u>

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

Cost	3,454,000	471,560
Proceeds	3,563,074	481,826
	<u>109,074</u>	<u>10,266</u>
Gain on disposal of available for sale treasury bonds	<u>109,074</u>	<u>10,266</u>
Cumulative gain reclassified from fair value reserve on disposal (now realised)	<u>(19,566)</u>	<u>(9,236)</u>
Profit during the year (note 8)	<u>128,640</u>	<u>19,502</u>

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

	GROUP		BANK	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Treasury bills at amortised cost	783,333	1,101,768	684,701	1,101,768
Treasury bonds at amortised cost	3,554,057	2,522,077	3,283,409	2,470,662
Treasury bonds available for sale	630,276	1,609,883	630,276	1,609,883
	<u>4,967,666</u>	<u>5,233,728</u>	<u>4,598,386</u>	<u>5,182,313</u>

Treasury bonds of an equivalence of Kshs 80,000,000 has been issued as lien for financial guarantee of a similar amount from Citibank. A guarantee has been issued on behalf of the group to Standard chartered bank for Kshs 80,000,000 expiring on 31 July 2014.

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 2013 was 10.41% (2012 – 5.43%) and the rate for the treasury bonds was 10.47% (2012 – 9.3%).

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 CORPORATE BONDS – HELD TO MATURITY

GROUP AND BANK

	2013 Sh'000	2012 Sh'000
Maturing after 1 year but within 5 years	-	-
Maturing after 5 years – At amortised cost	281,613	328,607
	<u>281,613</u>	<u>328,607</u>

The weighted average effective interest rate on the corporate bond as at 31 December 2013 was 16.20% (2012 – 13.6%).

19 LOANS AND RECEIVABLES

	GROUP		BANK	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
(a) Loans and receivables	7,949,827	6,955,837	7,407,524	6,694,880
Bills discounted	362,785	234,194	362,785	235,054
Overdrafts	3,361,416	3,138,216	3,244,706	3,048,962
	<u>11,674,028</u>	<u>10,328,247</u>	<u>11,015,015</u>	<u>9,978,896</u>
Provision for impaired loans and receivables (note 19(d))	(182,883)	(194,455)	(163,598)	(189,238)
	<u>11,491,145</u>	<u>10,133,792</u>	<u>10,851,417</u>	<u>9,789,658</u>

- (b) The weighted average effective interest rate on loans and receivables to customers as at 31 December 2013 was 23.12 % (2012 – 27.74%). The weighted average effective interest rate on overdrafts as at 31 December 2013 was 24.06 % (2012 – 27.31%). The weighted average effective interest rate on bills discounted at 31 December 2013 was 22.67 % (2012 – 28.39%).

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 11,491,145,000 (2012 – Sh 10,133,792,000) are loans and receivables amounting to Sh 317,273,000 (2012 – Sh 15,448,000) net of specific provisions, which have been classified as non-performing.

- (c) Analysis of gross advances by maturity:

	2013 Shs'000	2012 Shs'000
Maturing within one month	1,959,405	2,400,516
Maturing within 90 days	1,565,328	1,750,763
Maturing after 90 days and within one year	2,381,984	1,538,912
Maturing after one to five years	4,160,475	2,678,230
Over five years	1,606,836	1,959,826
	<u>11,674,028</u>	<u>10,328,247</u>

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(d) Provisions for impaired loans and receivables:

	2013 Sh'000	2012 Sh'000
At 1 January	194,455	167,811
Provisions in the year	48,942	31,113
Written off	(60,514)	(4,469)
	<u>182,883</u>	<u>194,455</u>
At 31 December	<u>182,883</u>	<u>194,455</u>

20 (a) OTHER ASSETS

	GROUP		BANK	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Prepayments	77,555	55,784	75,574	46,753
ATM deposits	3,279	3,914	3,279	3,914
Trade receivables	18,789	24,215	-	-
Other	246,745	250,087	234,318	244,213
	<u>346,368</u>	<u>334,000</u>	<u>313,171</u>	<u>294,880</u>

(b) DUE FROM RELATED PARTIES

ABC Capital Kenya Limited	-	-	8,158	7,382
ABC Capital Bank Uganda Limited	-	-	3,955	3,597
	-	-	12,113	10,979
	<u>-</u>	<u>-</u>	<u>12,113</u>	<u>10,979</u>

(c) DUE TO RELATED PARTIES

ABC Capital Kenya Limited	-	-	33,561	32,190
ABC Capital Bank Uganda Limited	-	-	3,217	-
	-	-	36,778	32,190
	<u>-</u>	<u>-</u>	<u>36,778</u>	<u>32,190</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2012	223,600	20,732	122,786	11,605	164,183	110,628	653,534
Additions	-	-	7,610		13,122	87,647	108,379
Transfers	-	-	73,273	-	17,150	(90,423)	-
Transfer to intangible assets (note 22 (a))	-	-	-	-	-	(35,311)	(35,311)
On acquisition of subsidiaries	7,769	-	14,240	4,157	16,404	-	42,570
Translation adjustment	(255)	-	(633)	(95)	(910)	-	(1,893)
At 31 December 2012	231,114	20,732	217,276	15,667	209,949	72,541	767,279
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
DEPRECIATION							
At 1 January 2012	10,320	16,301	91,972	2,646	102,221	-	223,460
On acquisition of subsidiaries	3,580	-	12,300	1,089	13,099	-	30,068
Charge for the year	4,582	515	13,467	2,209	11,803	-	32,576
Translation adjustment	(2)	-	(14)	(1)	(9)	-	(26)
At 31 December 2012	18,480	16,816	117,725	5,943	127,114	-	286,078
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
NET BOOK VALUE							
At 31 December 2013	235,776	3,446	81,672	7,349	85,015	232,104	645,362
At 31 December 2012	210,606	3,916	99,550	7,697	86,890	72,541	481,200

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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 2012	223,601	20,732	119,240	11,605	161,974	110,628	647,780
Additions	-	-	7,603	-	13,097	87,647	108,347
Transfers	-	-	73,273	-	17,150	(90,423)	-
Transfer to intangible assets (note 22 (b))	-	-	-	-	-	(35,311)	(35,311)
At 31 December 2012	223,601	20,732	200,116	11,605	192,221	72,541	720,816
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
DEPRECIATION							
At 1 January 2012	10,320	16,301	89,251	2,646	100,935	-	219,453
Charge for the year	4,472	515	12,574	2,160	11,267	-	30,988
At 31 December 2012	14,792	16,816	101,825	4,806	112,202	-	250,441
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
NET BOOK VALUE							
At 31 December 2013	232,272	3,446	80,094	4,639	78,824	216,339	615,614
At 31 December 2012	208,809	3,916	98,291	6,799	80,019	72,541	470,376

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 (a) INTANGIBLE ASSETS – GROUP

	Software development costs Sh'000 2013	Software development costs Sh'000 2012
COST		
At 1 January	115,600	67,759
Additions	3,699	7,533
Acquisition	-	5,324
Translation adjustment	1,201	(327)
Transfers – Note 21	-	35,311
	<hr/>	<hr/>
At 31 December	120,500	115,600
	<hr/>	<hr/>
AMORTISATION/IMPAIRMENT		
At 1 January	56,179	40,860
Acquisition	-	6,469
Charge for the year	12,089	9,149
Translation adjustment	1,198	(299)
	<hr/>	<hr/>
At 31 December	69,466	56,179
	<hr/>	<hr/>
NET BOOK VALUE		
At 31 December	51,034	59,421
	<hr/> <hr/>	<hr/> <hr/>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 (b) INTANGIBLE ASSETS - BANK

	2013 Sh'000	2012 Sh'000
COST		
At 1 January	104,272	63,661
Additions	2,552	5,300
Transfers from capital work in progress (note 21(b))	-	35,311
	<u>106,824</u>	<u>104,272</u>
AMORTISATION		
At 1 January	46,661	38,750
Charge for the year	10,783	7,911
	<u>57,444</u>	<u>46,661</u>
NET BOOK VALUE		
At 31 December	<u>49,380</u>	<u>57,611</u>

(c) INVESTMENT IN NAIROBI SECURITIES EXCHANGE LIMITED - GROUP

	2013 Sh'000	2012 Sh'000
COST		
At 1 January	251,000	-
Transfers from intangible assets	-	251,000
	<u>251,000</u>	<u>251,000</u>
VALUATION – AVAILABLE FOR SALE		
At 31 December	<u>211,200</u>	<u>223,700</u>

Previously, the Nairobi Securities Exchange (NSE) was a company limited by guarantee and the licensed stock brokers were members of the NSE with a seat on the NSE. In 2012, the NSE became a company limited by shares and issued 1,000,000 shares each to its members. Consequently, there are no seats on the NSE and instead the group has shares in the NSE.

The shares are shown at fair value using the discounted cash flow basis which has resulted in a fair value loss of Ksh 12,500,000 (2012: 23,700,000) from previous valuation of the investment in the NSE. The fair value loss during the year has been accounted for through other comprehensive income.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 INVESTMENT IN SUBSIDIARIES

Unquoted investment at cost:

	2013 Sh'000	2012 Sh'000
ABC Capital Uganda Limited	583,330	377,691
ABC Financial Services Limited	238,028	234,828
	<u>821,358</u>	<u>612,519</u>

ABC Financial Services Limited is a wholly owned subsidiaries of African Banking Corporation Limited and has a 91.58% (2012: 91.03%) 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	
			2013	2012	2013	2012
ABC Capital Limited	Nairobi, Kenya	Provision of stock brokerage	91.58	91.03	8.42	8.97
ABC Capital Bank Uganda Limited	Kampala, Uganda	Provision of banking and related services	68.48	59.67	31.52	40.33

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 shareholding during the year were as follows:

	ABC Capital Uganda Limited		ABC Capital Limited	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
At 1 January	377,691	-	234,828	217,850
Additional investment	205,639	-	3,200	16,978
Investment previously held in associate	-	172,563	-	-
Acquisition of control in associate through business combination (Note 24(a))	-	205,128	-	-
At 31 December	<u>583,330</u>	<u>377,691</u>	<u>238,028</u>	<u>234,828</u>

AFRICAN BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 INVESTMENT IN SUBSIDIARIES (Continued)

Summarised financial information on subsidiaries with material non- controlling interests

The total non-controlling interest for the period is Shs 305,754,000 of which Shs 279,826 is for ABC Capital Uganda Limited and Shs 25,928,000 attributed to ABC Capital Limited which is not material.

Set out below are the summarised financial information for the ABC Capital Uganda Limited which the non-controlling interests is material to the group.

Summarised statement of financial position

	As at 31 December	
	2013	2012
	Sh'000	Sh'000
Current		
Assets	1,195,648	847,188
Liabilities	(607,175)	(255,031)
Total current net assets	588,473	592,157
Non-current		
Assets	392,729	129,205
Liabilities	(66,652)	(110,228)
Total non-current assets	326,077	18,977
Net assets	914,550	611,134

Summarised statement of profit or loss and other comprehensive income

	As at 31 December	
	2013	2012
	Sh'000	Sh'000
Revenue	211,868	40,314
Profit before income tax	21,680	10,223
Income tax credit/(expense)	5,608	(3,078)
Total comprehensive income	27,288	7,145
Total comprehensive income allocated to non- controlling interests	8,601	2,882

Summarised cash flows

	2013
	Sh'000
Net cash from operating activities	82,231
Net cash used in operating activities	(335,236)
Net cash from financing activities	202,913
Net decrease in cash and cash equivalents	(50,092)
Cash and cash equivalents at 1 January	574,897
Cash and cash equivalents at 31 December	524,805

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24(a) BUSINESS COMBINATION

In 2012, the bank acquired a control in its associate ABC Capital Uganda Limited whose principal activity is the provision of banking services within Uganda. The control was acquired through the purchase of additional 19.67 % equity and effectively acquired control of the company. Prior to this acquisition the bank had a 40% shareholding in the associate making total equity interest of 59.67%. This acquisition was accounted for as a step acquisition under IFRS 3 on business combinations.

Goodwill arising on acquisition:

	2013 Sh'000	2012 Sh'000
Total purchase consideration	-	205,128
Fair value of previously held interest in ABC Capital Uganda Limited	-	172,563
Fair value of controlling interest in ABC Capital Uganda Limited at acquisition	-	(377,031)
Goodwill	-	660
Purchase consideration settled in cash	-	205,128
Less: cash and cash equivalents acquired from subsidiaries	-	624,553
Cash inflow on acquisition, net of cash acquired	-	(419,425)

(b) GOODWILL

	2013 Sh'000	2012 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

	2013 Sh'000	2012 Sh'000
COST		
At 1 January	-	-
Additions	1,969	-
Translation adjustment	60	-
At 31 December	2,029	-
AMORTISATION		
At 1 January	-	-
Charge for the year	86	-
Translation adjustment	3	-
At 31 December	89	-
NET BOOK VALUE		
At 31 December	1,940	-

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

26 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

The weighted average effective interest rate at 31 December 2013 for balances due to banking institutions locally was 7.83% (2012: 10.5%) while that due to banking institutions abroad was 3.14% (2012: 2.2%).

	GROUP		BANK	
	2013	2012	2013	2012
	Shs'000	Shs'000	Shs'000	Shs'000
Amounts due to banks:				
In Kshs	342,366	100,674	342,366	100,674
In foreign currency	18,747	551,351	-	508,365
	<u>361,113</u>	<u>652,025</u>	<u>342,366</u>	<u>609,039</u>

27 CUSTOMER DEPOSITS

Current accounts	2,564,673	3,008,556	2,501,727	2,986,481
Savings accounts	997,867	903,726	956,006	875,571
Call deposits	578,456	246,008	566,422	216,410
Fixed deposits	11,976,738	10,859,022	11,513,819	10,711,169
Other	120,941	233,178	90,496	155,599
	<u>16,238,675</u>	<u>15,250,490</u>	<u>15,628,470</u>	<u>14,945,230</u>
Accrued interest	240,015	278,745	240,015	277,986
	<u>16,478,690</u>	<u>15,529,235</u>	<u>15,868,485</u>	<u>15,223,216</u>

Analysis of customer deposits by maturity:

	GROUP		BANK	
	2013	2012	2013	2012
	Shs'000	Shs'000	Shs'000	Shs'000
Payable up to one month	4,012,205	5,360,937	3,546,436	5,255,504
Payable within 90 days	8,595,126	6,161,092	8,571,296	6,039,921
Payable after 90 days and within one year	3,646,086	3,809,831	3,592,132	3,734,904
Payable after one to five years	225,273	197,375	158,621	192,887
	<u>16,478,690</u>	<u>15,529,235</u>	<u>15,868,485</u>	<u>15,223,216</u>

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2013 denominated in local and foreign currencies was 8.58% and 1.57% (2012 – 12.34% and 1.51%) 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.

AFRICAN BANKING CORPORATION LIMITED
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

		GROUP		BANK	
		2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
28	OTHER LIABILITIES				
	Bills payable	13,524	9,302	13,524	9,302
	Provision for leave pay	16,091	15,591	16,091	15,591
	Trade payables	15,211	59,054	15,211	17,167
	Other payables and accruals	293,899	301,484	218,008	292,746
		<u>338,725</u>	<u>385,431</u>	<u>262,834</u>	<u>334,806</u>
29	DEFERRED TAX LIABILITY				
	The deferred tax (asset)/liability is attributable to the following items:				
	(a) Deferred tax asset:				
	Leave pay provision	4,827	4,677	4,827	4,677
	Other provision	15,565	16,084	13,687	20,486
		<u>20,392</u>	<u>20,761</u>	<u>18,514</u>	<u>25,163</u>
	(b) Deferred tax liability:				
	Excess capital allowances over depreciation	(13,068)	(15,999)	(12,573)	(16,311)
	Net deferred asset	<u>7,324</u>	<u>4,762</u>	<u>5,941</u>	<u>8,852</u>
	(c) Net deferred tax asset is made up as follows				
	Deferred tax asset	7,324	8,852	5,941	8,852
	Deferred tax liability	-	(4,090)	-	-
	Net deferred asset	<u>7,324</u>	<u>4,762</u>	<u>5,941</u>	<u>8,852</u>
	(d) Movement in deferred tax liability is as follows:				
	At 1 January	4,762	2,295	8,852	(3,114)
	(Charge)/credit to profit or loss (note 11)	(366)	(3,889)	(2,911)	9,634
	Prior year (overprovision)	-	6,356	-	2,332
	Deferred tax asset not recognised	2,928	-	-	-
	At 31 December	<u>7,324</u>	<u>4,762</u>	<u>5,941</u>	<u>8,852</u>
30	LONG TERM LOAN - GROUP AND COMPANY				
		2013 Sh'000	2012 Sh'000		
	At 1 January	759,919	-		
	Received during the year	-	759,919		
	Repaid in the year	(80,952)	-		
	At 31 December	<u>678,967</u>	<u>759,919</u>		

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 LONG TERM LOAN (Continued)

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.

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 2013.

31 SHARE CAPITAL - GROUP AND BANK

	2013 Sh'000	2012 Sh'000
Authorised:		
110,000,000 ordinary shares of Sh 10 each	1,100,000	1,100,000
Issued and fully paid		
105,000,000 ordinary shares of Sh 10 each	1,050,000	1,050,000

32 STATUTORY RESERVE

	GROUP		BANK	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
At 1 January	102,736	67,780	94,022	67,780
Transfer from retained earnings	4,303	26,242	5,312	26,242
Arising from acquisition of subsidiaries	-	8,714	-	-
	107,039	102,736	99,334	94,022

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

	2013		2012	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
ABC Capital Uganda Limited	31.52	279,728	40.33	246,470
ABC Capital Limited	8.42	24,875	9.07	26,707
At 31 December		304,603		273,177

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

33 NON-CONTROLLING INTERESTS – GROUP (Continued)

	2013 Sh'000	2012 Sh'000
Movement in non-controlling interests		
a) ABC Capital Uganda Limited		
At 1 January	246,470	-
Non controlling interest arising from acquisition of control in associate (note 24)	-	256,013
Share of total comprehensive profit/(loss) for the year	33,258	(9,543)
At December	<u>279,728</u>	<u>246,470</u>
b) ABC Capital Limited		
Movement in non-controlling interests		
At 1 January	26,707	31,227
Share of loss	(1,832)	(4,520)
At December	<u>24,875</u>	<u>26,707</u>

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2013 Sh'000	2012 Sh'000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before tax	592,110	525,539
Adjustments for:		
Depreciation on property and equipment	55,186	32,576
Amortisation of intangible assets	12,834	9,149
(Gain)/loss on valuation of investments held for trading	(1,794)	69,639
Profit before working capital changes	<u>658,336</u>	<u>636,903</u>
Movements in:		
Balances with Central Bank of Kenya (cash reserve ratio)	88,070	(280,511)
Treasury bonds	(52,373)	(1,530,678)
Corporate bonds	46,994	46,876
Loans and advances to customers	(1,357,353)	(3,060,239)
Other assets	(12,906)	(77,983)
Customer deposits	949,455	5,086,789
Other liabilities	(46,706)	84,500
Related party balances	-	1,611
Long term loan	(80,952)	759,919
Cash generated from operations	<u>192,565</u>	<u>1,667,187</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

- (b) Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes

	2013 Sh'000	2012 Sh'000
Cash on hand	186,527	192,060
Balance with Central Bank of Kenya - other	148,502	543,926
Balances with Bank of Uganda – other	252,603	287,927
Treasury bills	783,333	1,101,768
Deposits and balances due from banking institutions	1,313,538	1,081,520
Deposits and balances due to banking institutions	(361,113)	(652,025)
	<u>2,323,390</u>	<u>2,555,176</u>

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

	2013 Sh'000	2012 Sh'000
Letters of credit	269,881	642,909
Letters of guarantee	1,673,486	1,550,553
Acceptances	594,881	684,532
Bills in course of collection	407,542	51,811
Others	12,000	17,091
	<u>2,957,790</u>	<u>2,946,896</u>

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.

	2013 Sh'000	2012 Sh'000
(b) Capital commitments		
Authorised but not contracted for	375,322	298,432
Authorised and contracted for	151,395	103,000
	<u>526,717</u>	<u>401,432</u>
(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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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

(d) Operating lease arrangements

The Group as a lessor

Rental income earned during the year was Sh 3,010,000 (2012 – Sh 973,000). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

The Group as a lessor (Continued)

	2013 Sh'000	2012 Sh'000
Within one year	468	468
In the second to fifth year inclusive	937	1,873
	<u>1,405</u>	<u>2,341</u>

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:

	2013 Sh'000	2012 Sh'000
Within 1 year	63,773	49,246
In the second to fifth year inclusive	277,880	272,134
After 5 years	134,789	53,152
	<u>476,442</u>	<u>374,532</u>

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	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
a) Outstanding loans and receivables				
At 1 January	24,632	25,593	12,037	59,962
Advanced during the year	-	-	196,000	1,267
Interest charged	1,982	2,718	25,289	3,534
Repayments during the year	(3,096)	(3,678)	(32,647)	(52,726)
	<u>23,518</u>	<u>24,632</u>	<u>200,679</u>	<u>12,037</u>
At 31 December	23,518	24,632	200,679	12,037
Interest earned	<u>1,982</u>	<u>2,718</u>	<u>25,289</u>	<u>3,534</u>

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

36 RELATED PARTY TRANSACTIONS -GROUP AND BANK (Continued)

b) Deposits

	Directors		Related companies	
	2013	2012	2013	2012
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	73,880	65,670	127,279	74,407
At 31 December	54,029	73,880	97,760	127,279
Interest paid	3,109	5,383	2,337	5,289
c) Contingent liabilities	-	-	2,000	3,100

d) Loans and receivables to management staff

As at 31 December 2013 loans and receivables to management staff amounted to Sh 73,443,000 (2012 – Sh 44,198,000) and the interest earned thereon was Sh 4,836,000 (2012 – Sh 3,470,000).

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:

	2013	2012
	Sh'000	Sh'000
(i) Key management		
Salaries and other short-term employment benefits	141,839	115,304
(ii) Directors' remuneration		
Fees for services as directors	3,800	4,050
Other emoluments	19,200	19,200
	23,000	23,250

37 ASSETS PLEDGED AS SECURITY - GROUP AND BANK

At 31 December 2013, treasury bonds worth Sh Sh 80,000,000 (2012 – 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).

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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] in 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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 Services unit 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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

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 2013

	2013 Sh'000	2012 Sh'000
INCOME		
Interest on loans and receivables	1,763,882	1,713,947
Interest on Government securities	506,330	420,940
Interest on placements	16,762	46,165
Other interest income	37,760	43,629
	<hr/>	<hr/>
	2,324,734	2,224,681
	<hr/>	<hr/>
INTEREST EXPENSE		
Interest on deposits	1,149,362	1,325,631
Interest on money markets	19,260	7,668
Interest on long term loan	66,117	16,070
	<hr/>	<hr/>
	1,234,739	1,349,369
	<hr/>	<hr/>
NET INTEREST INCOME	1,089,995	875,312
Fees and commissions	275,499	271,091
Foreign exchange trading income	130,297	160,494
Other operating income	64,196	75,014
Operating expenses	(969,740)	(800,447)
Impairment loss on loans and receivables	(11,979)	(24,219)
	<hr/>	<hr/>
PROFIT BEFORE TAXATION	578,268	557,245
TAXATION CHARGE	(154,143)	(133,362)
	<hr/>	<hr/>
PROFIT FOR THE YEAR	<u>424,125</u>	<u>423,883</u>

Appendix I (Continued)

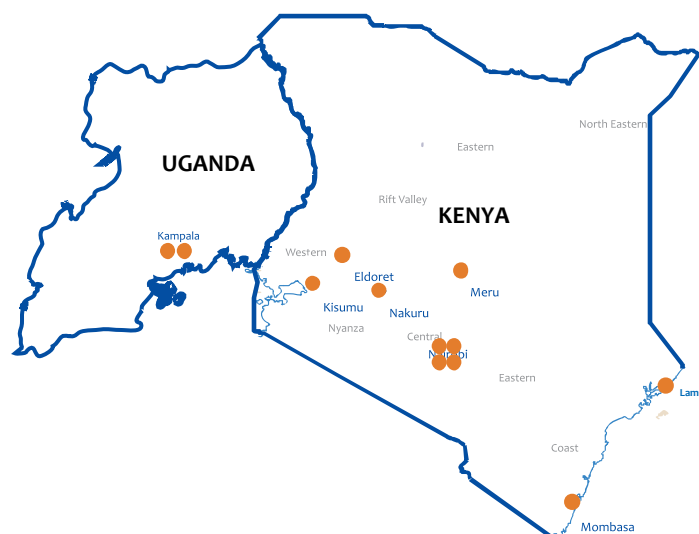
AFRICAN BANKING CORPORATION LIMITED

BANK DETAILED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2013

	2013 Sh'000	2012 Sh'000
OTHER OPERATING INCOME		
Rental income	3,010	1,010
Miscellaneous income	363	315
Gain on disposal of government bonds	60,823	73,689
	<u>64,196</u>	<u>75,014</u>
OPERATING EXPENSES		
Staff costs – see below	528,771	436,162
Depreciation of property and equipment	51,257	30,987
Amortisation of intangible assets	10,783	7,973
Auditors' remuneration	3,076	2,756
Contribution to deposit protection fund	19,183	14,715
Directors' emoluments - fees	3,800	4,050
- other	19,200	19,200
Operating lease rentals	52,488	49,964
Advertising costs	40,284	13,524
Communication	43,126	40,267
Printing and stationery	14,451	14,503
Computer and software maintenance	30,169	16,836
Travelling and vehicle running expenses	28,646	36,265
Legal and professional fees	10,637	12,705
Security	28,129	18,942
Insurance	10,427	9,163
Bank charges	12,371	11,874
Office expenses	35,742	29,617
Agency intergration fees	2,307	-
Other expenses	24,893	26,025
Loss on acquisition of control in Uganda subsidiaries	-	4,919
	<u>969,740</u>	<u>800,447</u>
STAFF COSTS		
Salaries and allowances	435,199	358,823
Staff training	23,239	3,391
NSSF contribution	710	568
Pension contribution	15,257	8,618
Leave pay provision	2,624	3,729
Medical expense	18,582	13,352
Other	33,160	47,681
	<u>528,771</u>	<u>436,162</u>



Our Branch Network



ABC BANK - KENYA

Head Office

ABC Bank House, Westlands
P. O. Box 46452 - 00100, Nairobi.
Tel: +254 (20) 4263000, 2223922,
2226712, 2217856-8
Fax: +254 (20) 2222437
Email: talk2us@abcthebank.com

Westlands Branch, Nairobi

ABC Bank House
P. O. Box 38610 - 00800, Nairobi.
Tel: +254 (20) 4447352, 4447353,
4442401, 4442382
Fax: +254 (20) 4447354
Email: westlands@abcthebank.com

Koinange Street Branch, Nairobi

Koinange Street
P. O. Box 30359 - 00100, Nairobi.
Tel: +254 (20) 2251540, 2251541, 2223922
Fax: +254 (20) 2222437
Email: koinangestreet@abcthebank.com

Industrial Area Branch, Nairobi

ABC Bank Building, Dar es Salaam Rd.
P. O. Box 18053 - 00500, Nairobi.
Tel: +254 (20) 351844, 558744, 652087
Fax: +254 (20) 559288
Email: industrialarea@abcthebank.com

Libra House Branch, Nairobi

Libra House, Mombasa Road
P. O. Box 17760 - 00500 Nairobi.
Tel: +254 (20) 2337900, 3993000
Email: librahouse@abcthebank.com

Mombasa Branch

Shariff Nasser Investment Building,
Moi Avenue
P. O. Box 88827 - 80100, Mombasa.
Tel: +254 (41) 2220428, 2226890, 2222976
Fax: +254 (41) 2226899
Email: mombasa@abcthebank.com

Eldoret Branch

Zul Arcade Road, Oginga Odinga Road,
P. O. Box 2558 - 30100, Eldoret.
Tel: +254 (53) 2031152, 2031154/69
Fax: +254 (53) 2062137
Email: eldoret@abcthebank.com

Kisumu Branch

Jubilee House, Oginga Odinga Road
P. O. Box 2931 - 40100, Kisumu.
Tel: +254 (57) 202 3692, 2022143
Fax: +254 (57) 2023694
Email: kisumu@abcthebank.com

Nakuru Branch

Saiffee House, Kenyatta Avenue
P. O. Box 13845 - 20100, Nakuru.
Tel: +254 (20) 8008834/5
Email: nakuru@abcthebank.com

Meru Branch

Moi Avenue
P. O. Box 3100, 60200, Meru.
Tel: +254 (64) 31108/9
Fax: +254 (64) 31293
Email: meru@abcthebank.com

Lamu Branch

Seafront, Lamu Town
P.O BOX 430-80500 LAMU.
Tel: +254 (20) 8030646 / 0708 515 532
0732 444 952
Email: lamu@abcthebank.com

ABC CAPITAL BANK LTD. - UGANDA

Head Office

Pilkington Road, Kampala
Plot 4, Pilkington Road, Kampala
P. O. Box 21091, Colline House.
Tel: +256 (414) 345200, 345203
Fax: +256 (414) 258310

Pilkington Road Branch

Pilkington Road Branch, Kampala
Plot 4, Pilkington Road, Kampala
P. O. Box 21091, Colline House.
Tel: +256 (414) 345200, 345203
Fax: +256 (414) 258310

Luwum Street Branch, Kampala

1st Flr, Avemar Shopping Centre
Luwum Street
P. O. Box 21091, Kampala.
Tel: +256 (414) 343748

ABC CAPITAL LTD.

IPS Building, 5th Flr. Kimathi Street
P. O. Box 46452 - 00100, Nairobi.
Tel: +254 (20) 2246036, 2242534,
316143, 2241142, 2241046, 2241148
Fax: +254 (20) 2245971
Email: customercare@abccapital.co.ke

ABC INSURANCE BROKERS LTD.

ABC Bank House, Westlands
P. O. Box 46452 - 00100, Nairobi.
Tel: +254 (20) 4450873, 4441162
Fax: +254 (20) 2222437
Email: insurance@abcthebank.com



+254 (20) 4263000



talk2us@abcthebank.com



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