



**AFRICAN BANKING CORPORATION  
LIMITED**

**ANNUAL REPORT AND  
FINANCIAL STATEMENTS**

**31 DECEMBER 2014**

# AFRICAN BANKING CORPORATION LIMITED

## ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

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AFRICAN BANKING CORPORATION LIMITED  
CORPORATE INFORMATION

DIRECTORS	Richard Omwela Shamaz Savani Sridhan Natarajan Ashraf Savani Joseph Muiruri Anil Ishani Alban Mwendar	- - - - - - -	Chairman Group Managing Director Group Chief Executive Officer
BOARD AUDIT COMMITTEE	Joseph Muiruri Ashraf Savani Anil Ishani	-	Chairman
BOARD CREDIT COMMITTEE	Alban Mwendar Ashraf Savani Shamaz Savani	-	Chairman
BOARD RISK AND COMPLIANCE COMMITTEE	Joseph Muiruri Richard Omwela Anil Ishani	-	Chairman
BOARD HUMAN RESOURCE COMMITTEE	Alban Mwendar Shamaz Savani Sridhar Natarajan	-	Chairman
EXECUTIVE COMMITTEE	Shamaz Savani Sridhar Natarajan Raj Pal Arora Mary Mulili Samuel Muchiri Joel Mbuvi Jesse Timbwa Corline Amanda Lee Gachomba Peter Kinyanjui  Wambui Kaguongo	- - - - - - - - - - - -	Chairman Group Chief Executive Officer Chief Operating Officer Head of Corporate Banking Head of Finance, Strategy and CMAC Head of Treasury Head of Credit and Legal Head of Retail Banking Head of SME Banking General Manager –Business Development Head of Product Development & Marketing
ASSETS & LIABILITIES COMMITTEE	Sridhar Natarajan Shamaz Savani Samuel Muchiri Joel Mbuvi Mary Mulili Corline Amanda Lee Gachomba Jesse Timbwa Peter Kinyanjui	-	Chairman

AFRICAN BANKING CORPORATION LIMITED  
CORPORATE INFORMATION (CONTINUED)

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 6 <sup>th</sup> Floor, Woodvale Grove P O Box 13889, 00800 Nairobi
HEAD OFFICE	ABC Bank House 6 <sup>th</sup> Floor, Woodvale Groove P O Box 13889, 00800 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092, 00100 Nairobi

# AFRICAN BANKING CORPORATION LIMITED

## STATEMENT ON CORPORATE GOVERNANCE

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

### 1. BOARD OF DIRECTORS

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

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

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

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

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

#### a) **Directors’ Emoluments and Loans**

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

#### b) **Related Party Transactions**

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

#### c) **Board and Director Evaluation**

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

### 2. BOARD COMMITTEES

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

#### a) **Board Audit Committee**

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

# AFRICAN BANKING CORPORATION LIMITED

## 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. A. Mwendar) and meets on a quarterly basis or as need arises to review credit policies, facilities granted and other credit related issues that require Board deliberation. Other members are Mr. A. Savani, Group Managing Director (Mr. S. Savani).

#### d) **Board Human Resources Committee**

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

#### e) **Executive Committee (Exco)**

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

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

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

#### g) **Other Committees**

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

### 3. RISK MANAGEMENT AND INTERNAL CONTROL

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

# AFRICAN BANKING CORPORATION LIMITED

## STATEMENT ON CORPORATE GOVERNANCE (Continued)

### 4. BUSINESS ETHICS

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

### 5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

### 6. SHAREHOLDERS

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

### 7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

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

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

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

### 8. COMPLIANCE

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

Director



Director



31 March 2015

# AFRICAN BANKING CORPORATION LIMITED

## REPORT OF THE DIRECTORS

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

### ACTIVITIES

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

### RESULTS

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

### DIVIDENDS

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

### DIRECTORS

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

### AUDITORS

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

BY ORDER OF THE BOARD  
VICTORIA NTHENYA MUYA  
R 2355  
P. O. Box 28898-00100  
Nairobi, KENYA  
SECRETARY  
CERTIFIED PUBLIC SECRETARY  
Nairobi

31 March 2015

# AFRICAN BANKING CORPORATION LIMITED

## STATEMENT OF DIRECTORS' RESPONSIBILITIES

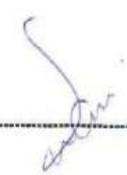
The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the bank and its subsidiaries as at the end of the financial year and of their operating results for that year. It also requires the directors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

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

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

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

Director 

Director 

31 March 2015

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED

### Report on financial statements

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

#### *Directors' Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

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

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

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

#### *Opinion*

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

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

**Report on Other Legal Requirements**

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

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

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

*Deloitte & Touche*

**Certified Public Accountants (Kenya)**

**Nairobi, Kenya**

*31 March* 2015

AFRICAN BANKING CORPORATION LIMITED

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

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

AFRICAN BANKING CORPORATION LIMITED  
CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 31 DECEMBER 2014

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

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

\_\_\_\_\_) Director  
\_\_\_\_\_) Director  
\_\_\_\_\_) Chief Executive Officer  
\_\_\_\_\_) Company Secretary



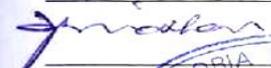
AFRICAN BANKING CORPORATION LIMITED  
 BANK STATEMENT OF FINANCIAL POSITION  
 AS AT 31 DECEMBER 2014

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

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

 \_\_\_\_\_ ) Director

 \_\_\_\_\_ ) Director

 \_\_\_\_\_ ) Chief Executive Officer

 \_\_\_\_\_ ) Company Secretary



AFRICAN BANKING CORPORATION LIMITED  
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 31 DECEMBER 2014

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

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

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

AFRICAN BANKING CORPORATION LIMITED

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

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

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

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

AFRICAN BANKING CORPORATION LIMITED

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

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014

### 1 GENERAL INFORMATION

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

### 2 ACCOUNTING POLICIES

#### **Statement of compliance**

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

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

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

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

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

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.
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To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the group is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014).

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'. The amendments have been applied retrospectively.
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The application of the amendments has had no impact on the disclosures or on the amounts recognised in the group's financial statements as the group does not have any financial assets and financial liabilities that qualify for offset.

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

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

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

**Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets** The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 *Fair Value Measurements*.

The application of the amendments has had no impact on the disclosures or on the amounts recognised in the group's financial statements. as the group does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated.

**Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting** The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The application of these amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements as the group does not have any derivatives that are subject to novation.

**IFRIC 21 Levies** IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the group's financial statements.

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

###### *New and Amendments to standards*

###### *Effective for annual periods beginning on or after*

IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IAS 16 and IAS 41	1 January 2016
Amendments to IAS 39	1 January 2015
Amendments to IAS 19	1 July 2014
Amendments to IFRS's Annual improvements 2010- 2012 cycle	1 July 2014
Amendments to IFRS's Annual improvements 2011- 2013cycle	1 July 2014

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

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

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

###### **• IFRS 9 Financial Instruments**

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

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

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

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

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

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

###### **IFRS 15 Revenue from Contracts with Customers**

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

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

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

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

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

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

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

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

- a) when the intangible asset is expressed as a measure of revenue; or
- b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

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

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

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

###### **Annual Improvements to IFRSs 2010-2012 Cycle**

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

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 2 ACCOUNTING POLICIES (Continued)

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

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

###### Annual Improvements to IFRSs 2010-2012 Cycle (Continued)

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

###### Annual Improvements to IFRSs 2011 - 2013 Cycle

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

Standard	Subject of amendment	Details
IFRS 13 <i>Fair Value Measurement</i>	Scope of paragraph 52 (portfolio exception)	The amendments clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.
IAS 40 Investment Property	Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	The amendments clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether: <ul style="list-style-type: none"><li>(a) the property meets the definition of investment property in terms of IAS 40; and</li><li>(b) the transaction meets the definition of a business combination under IFRS 3.</li></ul>

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

##### iii) *Early adoption of standards*

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### **Basis of preparation**

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

#### **Basis of consolidation**

##### *(a) Subsidiaries*

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

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

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

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

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

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

# 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.

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### **Revenue recognition (Continued)**

##### *Interest income and expense (Continued)*

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

##### *Fees and commissions*

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

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

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

#### **Statutory reserve**

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

#### **Property and equipment**

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

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

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

#### **Intangible assets**

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### **Leases**

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

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

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

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

#### **Other investments**

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

#### **Impairment of tangible and intangible assets**

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

#### **Offsetting**

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

#### **Taxation**

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

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

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

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

#### **Foreign currencies**

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### **Employee entitlements**

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

#### **Retirement benefits**

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

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

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

#### **Financial instruments**

Financial assets

##### *Classification*

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

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### **Financial instruments (Continued)**

##### Financial assets (Continued)

##### (iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity.

Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

##### (iv) Available-for-sale financial assets

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

##### *Recognition and derecognition of financial assets*

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

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

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

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

##### *Impairment and uncollectability of financial assets*

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

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

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### *Impairment and uncollectability of financial assets (Continued)*

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

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

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

#### **Financial liabilities**

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

#### **Leasing**

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

#### *The Group as lessor*

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

#### *The Group as lessee*

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

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

#### **Contingent liabilities**

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

#### **Fiduciary activities**

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 2 ACCOUNTING POLICIES (Continued)

#### **Comparatives**

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

### 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

#### **Introduction and overview**

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

- credit risk
- liquidity risk
- market risk

#### *Risk management framework*

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

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

#### **a) Credit risk**

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

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

#### **Management of credit risk**

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

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

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### 3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

#### Management of credit risk (Continued)

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

#### Credit risk on financial assets other than loans

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

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

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

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

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

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	%
<b>31 December 2014</b>				
Neither past due nor impaired	10,499,474	-	10,499,474	77
Past due but not impaired	2,635,844	-	2,635,844	19
Impaired	829,726	285,163	544,563	4
Total	13,963,769	281,602	13,678,606	100
<b>31 December 2013</b>				
Neither past due nor impaired	9,828,746	-	9,828,746	85
Past due but not impaired	1,345,126	-	1,345,126	12
Impaired	500,156	182,883	317,273	3
Total	11,674,028	182,883	11,491,145	100

**Neither past due nor impaired**

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

**Past due but not impaired loans**

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

**Impaired loans and securities**

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in accordance with the Central Bank of Kenya Prudential Guidelines and non - 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 2014 (2013: Nil).

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

##### Loans and receivables to customers:

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

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

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

(ii) Customer deposits

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

(iii) Off balance sheet items

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

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

**Residual contractual maturities of financial liabilities**

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

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

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

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

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

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

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

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

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

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

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

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

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

# 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 2014.

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

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

Assuming no management actions, a series of such appreciation would increase earnings for 2014 by Sh 9.1 million, while a series of such falls would decrease earning for 2014 by Sh 9.1 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 11.05% and 16.96% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 10.98% and 16.88% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

#### iii. Price risk

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

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

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

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.

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

	2014		2013
Carrying amount	Fair value	Carrying amount	Fair value
Sh'000	Sh'000	Sh'000	Sh'000

**Financial assets**

Investment in NSE	107,625	107,625	211,200	211,200
	=====	=====	=====	=====

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

**At 31 December 2014**

	Level 1	Level 2	Level 3	Total
	Sh'000	Sh'000	Sh'000	Sh'000
Treasury bonds	560,000	-	-	560,000
Investment in NSE	107,625	-	-	107,625
	-----	-----	-----	-----
Total	667,625	-	-	667,625
	=====	=====	=====	=====

**At 31 December 2013**

Treasury bonds	630,276	-	-	630,276
Investment in NSE	-	-	211,200	211,200
	-----	-----	-----	-----
Total	630,276	-	-	841,476
	=====	=====	=====	=====

# 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 14.5% 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:**

	2014 Shs'000	2013 Shs'000
<b>Tier 1 capital</b>		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	1,480,589	1,307,319
Investment in subsidiaries	(602,377)	(583,330)
	<hr/>	<hr/>
Total	1,928,212	1,773,989
<b>Tier 2 capital</b>		
Collective allowances for impairment	100,209	99,334
Amortised corporate bond	916,667	-
	<hr/>	<hr/>
Total	1,016,876	99,334
	<hr/> <hr/>	<hr/> <hr/>
Total regulatory capital	2,945,088	1,873,323
	<hr/> <hr/>	<hr/> <hr/>
<b>Risk-weighted assets (page 41)</b>		
On balance sheet items	13,324,285	11,440,318
Off balance sheet items	746,381	988,677
Market risk	429,329	-
Operational risk	2,595,618	-
	<hr/>	<hr/>
Total Risk-weighted assets	17,095,613	12,428,995
	<hr/> <hr/>	<hr/> <hr/>
<b>Capital ratios</b>		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 14.50%)	17.23%	15.07%
	<hr/> <hr/>	<hr/> <hr/>
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 10.5 %)	11.28%	14.27%
	<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%, and 100%) are applied; for example cash and money instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to at least 12% of the carrying amount. Other asset categories have intermediate weightings.

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

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

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

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

#### As per Bank of Uganda:

<b>Tier 1 capital</b>	2014	2013
		Shs'000
Share capital fully paid up	817,667	859,585
Prior year retained earnings/(accumulated losses)	57,159	16,242
Shareholders capital deposit	17,566	-
Net after tax profits (50%)	-	28,119
Movement in general reserves	-	1,473
Deferred income tax asset	(1,716)	-
Unrealised foreign exchange gains	-	(1,088)
Intangible assets	(500)	(919)
	<u>890,176</u>	<u>903,412</u>
	=====	=====
Supplementary Capital Tier 2		
Regulatory reserve	10,780	10,657
	<u>10,780</u>	<u>10,657</u>
	=====	=====
On balance sheet items	1,337,387	1,568,378
Off balance sheet items	294	151,884
	<u>1,337,681</u>	<u>1,720,262</u>
	=====	=====
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	134.23%	97.71%
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	135.23%	98.86%

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

# 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.

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

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

4 CAPITAL MANAGEMENT (Continued)

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

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)

	2014 Shs'000	2013 Shs'000
6	<b>INTEREST INCOME</b>	
	Loans and advances to customers	2,108,120
	Government securities – held to maturity	397,804
	Government securities – available for sale	152,369
	Corporate bonds – held to maturity	32,203
	Deposits and placements with banking institutions	40,995
	2,731,491	2,535,840
7	<b>INTEREST EXPENSE</b>	
	Customer deposits	1,177,227
	Deposits and placements from banking institutions	39,853
	Interest on long term loan	51,816
	Interest on bond financing	82,731
	1,351,627	1,286,866
8	<b>OTHER OPERATING INCOME</b>	
	Loss on disposal of government securities	(7,932)
	Realised gain on sale of available for sale investments (note 17)	27,858
	Cumulative gain reclassified from equity on disposal of available for sale investments (note 17)	33
	Rental income	1,571
	Dividend income	1,900
	Miscellaneous income	19,145
	Gain on disposal of property	654
	Bad debts recovered	4,005
	47,234	70,827
9	<b>OPERATING EXPENSES</b>	
	Staff costs (note 10)	715,581
	Depreciation of property and equipment (note 21)	55,754
	Amortisation of intangible assets (note 22)	11,625
	Amortisation of operating lease (note 25)	-
	Auditors' remuneration - parent	3,651
	- subsidiaries	2,892
	Contribution to deposit protection fund	22,765
	Directors' emoluments - fees	5,935
	- other	55,158
	Operating lease rentals	102,060
	Advertising costs	64,851
	Communication	42,652
	Printing and stationery	20,719
	Computer and software maintenance	2,998
	Travelling and vehicle running expenses	42,970
	Legal and professional fees	16,326
	Security	24,478
	Insurance	20,422
	Bank charges	7,547
	Office expenses	79,958
	Agency intergration charges	3,704
	Other expenses	111,993
	1,414,039	1,124,685

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (Continued)

		2014 Shs'000	2013 Shs'000
10	<b>STAFF COSTS</b>		
	Salaries and allowances	559,019	503,315
	Staff training	9,759	23,306
	NSSF contribution	775	737
	Pension contribution – defined contribution	18,337	15,257
	Leave pay provision	13,741	2,817
	Medical expense	26,807	19,272
	Other	87,143	42,956
		<u>715,581</u>	<u>607,660</u>
		=====	=====
11	<b>TAXATION</b>		
	(a) Taxation expense:		
	Income tax based on taxable profit for the year at 30%	92,882	151,097
	Taxation assessed on separate income	427	366
	Prior year under provision of current tax	-	1,046
		<u>93,309</u>	<u>152,509</u>
	Deferred tax charge (note 29)	(23,322)	366
	Prior year underprovision – deferred tax	(116)	-
	Deferred tax not recognised (note 29)	(2,339)	(2,928)
		<u>67,532</u>	<u>149,947</u>
		=====	=====
	(b) Reconciliation of tax expense to the expected tax based on accounting profit:		
	Accounting profit before taxation	336,881	592,110
		=====	=====
	Tax at 30%	101,065	177,633
	Tax effect of expenses not deductible for tax	19,481	5,838
	Tax effect of income not subject to tax	(55,674)	(37,864)
	Prior year under provision current tax	321	1,046
	Income assessed separately for tax	-	366
	Deferred tax asset not recognised	2,339	2,928
		<u>67,532</u>	<u>149,947</u>
		=====	=====
	(c) Taxation recoverable		
	At 1 January	(27,131)	(21,852)
	Current tax charge for the year	86,658	152,509
	Paid in the year	(155,657)	(157,788)
		<u>(96,130)</u>	<u>(27,131)</u>
		=====	=====
	At 31 December	(96,130)	(27,131)
		<u>(96,130)</u>	<u>(27,131)</u>
		=====	=====

GROUP

BANK

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 TAXATION (Continued)

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

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

12 PROFIT FOR THE YEAR

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

13 DIVIDENDS

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

14 EARNINGS PER SHARE

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

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

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

15 CASH AND BALANCES WITH CENTRAL BANKS

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

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 2014 the cash reserve ratio requirement for Kenya was 5.25% (2013: 5.25%) while that of Uganda was 8% (2013: 8%) of all customer deposits. These funds are not available for the day to day operations of the Group.

16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

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

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

17 GOVERNMENT SECURITIES

(i) HELD TO MATURITY

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

(b) Treasury bonds at amortised cost

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Maturing within 1 year	139,655	202,845	139,655	202,845
Maturing after 1 year but within 5 years	1,144,322	1,067,914	886,437	797,266
Maturing after 5 years	2,392,495	2,283,298	2,392,495	2,283,298
	<u>3,676,472</u>	<u>3,554,057</u>	<u>3,418,587</u>	<u>3,283,409</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		
	2014	2013
	Sh'000	Sh'000
At 1 January	819,593	1,609,883
Purchases	1,219,000	2,587,261
Disposals	(1,110,131)	(3,563,074)
Fair value loss	(1,535)	(1,794)
	<hr/>	<hr/>
At 31 December	926,927	630,276
	=====	=====
The movement of the disposal during the year was as follows:		
Cost	1,350,000	3,454,000
Proceeds	1,377,891	3,563,074
	<hr/>	<hr/>
Gain on disposal of available for sale treasury bonds	27,891	109,074
	<hr/>	<hr/>
Cumulative gain reclassified from fair value reserve on disposal (now realised)	33	(19,566)
	<hr/>	<hr/>
Profit during the year (note 8)	27,858	128,640
	=====	=====

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

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Treasury bills at amortised cost	597,370	783,333	359,964	684,701
Treasury bonds at amortised cost	3,676,472	3,554,057	3,418,587	3,283,409
Treasury bonds available for sale	926,927	630,276	926,927	630,276
	<hr/>	<hr/>	<hr/>	<hr/>
	5,200,769	4,967,666	4,705,478	4,598,386
	=====	=====	=====	=====

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

18 CORPORATE BONDS – HELD TO MATURITY

GROUP AND BANK

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

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

19 LOANS AND RECEIVABLES

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

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

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

- (c) Analysis of gross advances by maturity:

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

(c) Provisions for impaired loans and receivables:

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

20 (a) OTHER ASSETS

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

(b) DUE FROM RELATED PARTIES

ABC Capital Kenya Limited	-	-	8,936	8,158
ABC Capital Bank Uganda Limited	-	-	10,316	3,955
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
	-	-	19,252	12,113
	=====	=====	=====	=====

(c) DUE TO RELATED PARTIES

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

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

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

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

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

22 (a) INTANGIBLE ASSETS – GROUP

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

22 (b) INTANGIBLE ASSETS - BANK

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

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

23 INVESTMENT IN SUBSIDIARIES

Unquoted investment at cost:

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

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

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 INVESTMENT IN SUBSIDIARIES (Continued)

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

The movement in investment during the year were as follows:

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

**Summarised financial information on subsidiaries with material non- controlling interests**

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

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

**Summarised statement of financial position**

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

23 INVESTMENT IN SUBSIDIARIES (Continued)

**Summarised statement of profit or loss and other comprehensive income**

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

**Summarised cash flows**

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 GOODWILL

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

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

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

25 OPERATING LEASE PREPAYMENT - GROUP

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

26 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

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

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

27 CUSTOMER DEPOSITS

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

Analysis of customer deposits by maturity:

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

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

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

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

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

29 DEFERRED TAX LIABILITY

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

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

30 LONG TERM LOAN - GROUP AND COMPANY

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

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.

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

30 LONG TERM LOAN - GROUP AND COMPANY (Continued)

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

31 CORPORATE BOND ISSUED

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

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

32 (a) SHARE CAPITAL - GROUP AND BANK

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

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

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

33 NON-CONTROLLING INTERESTS – GROUP

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

	2014 Sh'000	2013 Sh'000
Movement in non-controlling interests		

a) ABC Capital Uganda Limited

At 1 January	279,728	246,470
Share of profit for the year	5,117	-
Share of total comprehensive (loss)/profit for the year	(5,908)	33,258
	<u>278,937</u>	<u>279,728</u>
	=====	=====

b) ABC Capital Limited

Movement in non-controlling interests		
At 1 January	24,875	26,707
Share of loss	(382)	(1,832)
Share of other comprehensive loss	(7,157)	-
	<u>17,336</u>	<u>24,875</u>
	=====	=====

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

	2014 Sh'000	2013 Sh'000
33	NON-CONTROLLING INTERESTS – GROUP (Continued)	
c)	ABC Insurance Brokers Limited	
	Movement in non-controlling interests	
	At 1 January	-
	Share of profit	245
	Share of other comprehensive loss	-
	<u>245</u>	<u>-</u>
	At December	-
	=====	=====
34	NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS	
	2014 Sh'000	2013 Sh'000
(a)	Reconciliation of profit before taxation to cash generated from operations	
	Profit before tax	336,879
	592,110	592,110
	Adjustments for:	
	Depreciation on property and equipment	55,754
	Amortisation of intangible assets	11,625
	(Gain)/loss on valuation of investments held for trading	(1,535)
	<u>402,723</u>	<u>658,336</u>
	Profit before working capital changes	
	402,723	658,336
	Movements in:	
	Balances with Central Bank of Kenya (cash reserve ratio)	89,480
	Treasury bonds	(106,040)
	Corporate bonds	46,936
	Loans and advances to customers	(2,188,736)
	Other assets	(214,793)
	Customer deposits	(88,122)
	Other liabilities	150,310
	Related party balances	-
	Long term loan	149,297
	<u>(1,758,945)</u>	<u>192,565</u>
	=====	=====
	Cash (used in)/ generated from operations	
	(1,758,945)	192,565
	=====	=====
(b)	Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes	
	Cash on hand	203,007
	Balance with Central Bank of Kenya - other	941,488
	Balances with Bank of Uganda – other	64,782
	Treasury bills	597,370
	Deposits and balances due from banking institutions	223,303
	Deposits and balances due to banking institutions	(796,388)
	<u>1,233,562</u>	<u>2,323,390</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.

AFRICAN BANKING CORPORATION LIMITED

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

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

(a) Contingent liabilities	2014 Sh'000	2013 Sh'000
Letters of credit	360,864	269,881
Letters of guarantee	1,623,468	1,673,486
Acceptances	203,759	594,881
Bills in course of collection	50,038	407,542
Others	12,000	12,000
	<u>2,250,129</u>	<u>2,957,790</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.

(b) Capital commitments	2014 Sh'000	2013 Sh'000
Authorised but not contracted for	209,260	375,322
Authorised and contracted for	40,030	151,395
	<u>249,290</u>	<u>526,717</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.

(d) Operating lease arrangements

*The Group as a lessor*

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

	2014 Sh'000	2013 Sh'000
Within one year	468	468
In the second to fifth year inclusive	937	937
	<u>1,405</u>	<u>1,405</u>
	=====	=====

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 (Continued)

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

*The Group as a lessee*

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

	2014 Sh'000	2013 Sh'000
Within 1 year	65,107	63,773
In the second to fifth year inclusive	252,183	277,880
After 5 years	72,582	134,789
	<u>389,872</u>	<u>476,442</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	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
<b>a) Outstanding loans and receivables</b>				
At 1 January	23,518	24,632	200,679	12,037
Advanced during the year	-	-	-	196,000
Interest charged	1,853	1,982	35,023	25,289
Repayments during the year	(3,096)	(3,096)	(51,783)	(32,647)
	<u>22,275</u>	<u>23,518</u>	<u>183,919</u>	<u>200,679</u>
At 31 December	22,275	23,518	183,919	200,679
Interest earned	1,853	1,982	35,023	25,289
<b>b) Deposits</b>				
At 1 January	54,029	73,880	97,760	127,279
At 31 December	37,172	54,029	97,298	97,760
Interest paid	1,719	3,109	2,981	2,337
<b>c) Contingent liabilities</b>	-	-	3,000	2,000

# AFRICAN BANKING CORPORATION LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (Continued)

### 36 RELATED PARTY TRANSACTIONS -GROUP AND BANK (Continued)

#### d) Loans and receivables to management staff

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

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

#### (e) Key management compensation

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

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

### 37 ASSETS PLEDGED AS SECURITY - GROUP AND BANK

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

### 38 COUNTRY OF INCORPORATION

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

### 39 CURRENCY

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

# 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] 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:

- 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.
- 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.
- 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.
- 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.
- 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 department that carries out regular employee training to ensure compliance with crime prevention policies and practices.

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

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

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

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

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

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

# 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 2014

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

## 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 2014

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