BANK OF AFRICA KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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The directors submit their report together with the audited financial statements 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 Bank of Africa Kenya Limited ("the Bank" or "Company") and its subsidiary (together the "Group").

PRINCIPAL ACTIVITIES

The Group is engaged in the business of banking and the provision of related services and is licenced under the Banking Act.

RESULTS AND DIVIDEND

Profit for the year of Shs 185 million (2013: Shs 436 million) has been added to retained earnings. The directors do not recommend the approval of a dividend (2013: Shs 528,979,000).

DIRECTORS

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

Ambassador Dennis Awori	Chairman
Kwame Ahadzi	Managing Director (Resigned 1st September 2014)
Anis Kaddouri	Deputy Managing Director (Appointed Acting Managing Director on 2nd September 2014)
Mohamed Bennani	
Alexandre Randrianasolo	
Vincent De Brouwer	
Bernardus A.M. Zwinkels	
Abdelkabir Bennani	
Susan Kasinga	
Eunice Mbogo	
Dr. Monica J. Kerretts-Makau	
Mr. Amine Bouabid	Appointed on 15th October 2014

AUDITOR

The auditor, PricewaterhouseCoopers, retires from office at the conclusion of the next Annual General Meeting.

KPMG Kenya will be appointed auditor of the Company in place of the retiring auditor, PricewaterhouseCoopers, at the next Annual General Meeting at which accounts are laid before the Company, subject to sections 142 and 160 (1) of the Companies Act (Chapter 486, Laws of Kenya) and Central Bank of Kenya approval in accordance with section 24 (1) of the Banking Act (Chapter 488, Laws of Kenya).

By order of the Board

Anne Gitau
SECRETARY

25TH MARCH 2015

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and a framework of internal controls. The Board of Bank of Africa Kenya Limited is keen on ensuring the adoption of good corporate governance.

THE BOARD

The Board is made up of the Chairman, the Acting Managing Director, and nine Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each director receives information about the Bank and is advised of the legal, regulatory and other obligations of a director.

The full Board meetings were held as shown in the table below. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Acting Managing Director is in charge of the day to day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual directors.

Board meeting membership and attendance in 2014				
	21st February 2014	21st May 2014	15th October 2014	9th December 2014
Ambassador Dennis Awori	A	A	A	A
Mr. Mohamed Bennani	A	AP	A	A
Mr. Alexandre Randrianasolo	A	A	A	A
Mr. Vincent de Brouwer	A	AP	A	A
Mr. Bernardus A.M. Zwinkels	A	AP	A	A
Mr. Abdelkabir Bennani	A	A	A	A
Ms. Susan Kasinga	A	A	A	A
Ms. Eunice Mbogo	A	A	A	A
Dr. Monica J. Kerretts-Makau	A	A	A	A
Mr. Kwame Ahadzi	A	A	N/A	N/A
Mr. Anis Kaddouri	A	A	A	A
Mr. Amine Bouabid	N/A	N/A	A	A

A – Attended
AP – Absent with apology
N/A- Not Applicable

BOARD COMMITTEES

To increase efficiency and allow deeper focus on the management of key functions of the Bank, the Board has established the following four main Committees:-

The Board Audit Committee:
The main role of the Board Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control systems to ensure that checks and balances within the Bank are in place. The Committee also reviews the performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommends appropriate remedial action. The Members of this Committee are Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani, Ms. Eunice Mbogo and Dr. Monica J. Kerretts-Makau.

The Board Credit Committee:
The overall responsibility of the Board Credit Committee is to approve and review the credit risk strategy and credit risk policies of the Bank. The Committee sets the acceptable risk appetite and tolerance the Bank is willing to engage and the level of profitability the Bank expects to achieve for incurring the various credit risks. The Members of this Committee are Dr. Monica Kerretts-Makau (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani and Ms. Susan Kasinga.

The Board Risk Management Committee:
This Committee's main responsibility is to assist the Directors in discharging their responsibility of ensuring quality, integrity and reliability of the Bank's enterprise wide risk management and corporate accountability and associated risks in terms of management, assurance and reporting. The Committee also assists in fostering an effective risk management culture throughout the Bank as well as assisting the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies. The Members of this Committee are Ms. Eunice Mbogo (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani and Ms. Susan Kasinga.

The Board Nomination, Compensation and Human Resources Committee:
The purpose of this Committee is to enable the Board to discharge its responsibilities in relation to the nomination of appropriate directors to the Board and its committees, the assessment of the performance of the Board, Directors (including the Executive Directors) and Senior Management, succession planning for Directors and Senior Management, remuneration, welfare, retention and human capital development policies and programs for the Directors and all staff of the Bank. The Members of this Committee are Dr. Monica Kerretts-Makau (Chairperson), Ms. Eunice Mbogo, Ms. Susan Kasinga and Mr. Abdelkabir Bennani.

DIRECTORS' REMUNERATION

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to directors are disclosed in Note 29 of the financial statements.

BOARD PERFORMANCE EVALUATION

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance, that of its Committees and individual Directors is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

A comprehensive evaluation of the performance of the Board, the Board Committees and the Board Chairman for the year 2014 was conducted in March 2015, with the aim of assessing capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The process was carried out using a set of self-assessment questionnaires that ranked performance on a range of 'Poor' to 'Very Good' on the following areas, among others:

- ✓ Bank strategy evolution and follow through;
- ✓ Understanding and influencing the Bank's risk profile in the context of the industry;
- ✓ Review of board composition and mix relative to the mandate;
- ✓ Board attendance and participation in discussions;
- ✓ Effectiveness of board committees namely the Board Audit Committee, the Board Risk Committee, the Board Credit Committee and the Board Nomination, Compensation and Human Resources Committee; and
- ✓ Board relationship with executive management.

i. Board Self Evaluation
Each Director independently reviewed the performance of the entire Board and all comments were collated by the Chairperson of the Board Nomination, Compensation and Human Resources Committee for discussion by the Board.

It was agreed that the main strategic focus for the Bank in 2015 is to obtain cheap deposits, to enhance its risk management mechanisms, to enhance staff productivity and motivation, to control its operating expenses and to advance loans to credit worthy customers. The Board shall be monitoring keenly the performance of the Bank against each of these parameters.

ii. Director Peer Evaluation
Under the guidance of the Chairperson of the Board Nomination, Compensation and Human Resources Committee, peers were appointed to evaluate one another on personal attributes including: contribution to strategic development, independence of thought and mind, knowledge of banking or other relevant skills, and attendance at Board Meetings.

iii. Board Chairman's Evaluation
The Directors individually assessed the Chairman on matters relating to strategy formulation and implementation, leadership of the Board, independence, conduct of meetings, decision making and his willingness to devote time and effort to the Bank. Overall, it was agreed that the Chairman has been effective in his role and commands the respect of all Directors as well as the market.

GOING CONCERN

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

INTERNAL CONTROLS

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit department which is independent, reports to the Board Audit Committee and provides an independent confirmation that Group business standards, policies and procedures are being complied with.

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 Company as at the end of the financial year and of its profit or loss for that year. It is also requires the directors to ensure that the company and its subsidiary maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and its subsidiary. The directors are also responsible for safeguarding the assets of the Company and its subsidiary.

They directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. The also accept responsibility for:

(i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
(ii) Selecting and applying appropriate accounting policies; and
(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and the Company at 31 December 2014 and of the group financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the Board of Directors on 26TH FEBRUARY 2015 and signed on its behalf by:

Director

Director

pwc

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF BANK OF AFRICA KENYA LIMITED

Report on the financial statements

We have audited the accompanying consolidated financial statements of Bank of Africa Kenya Limited (the "Company" or "Bank") and its subsidiary (together, the "Group"), as set out on pages 8 to 68. These financial statements comprise the consolidated statement of financial position at 31 December 2014 and the consolidated statement of comprehensive income, consolidated statement changes in equity and consolidated statement of cash flows for the year then ended together with the statement of financial position of the Company as at 31 December 2014 and the statement of comprehensive income, statement of changes in equity and the statement of cashflows of the Company 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Companies Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the state of the the Group and Company's financial affairs 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 Kenyan Companies Act.

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF BANK OF AFRICA KENYA 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 Company, so far as appears from our examination of those books and;

iii) the Company's statement of financial positions and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Richard Njoroge - P/No. 1244

Certified Public Accountants
Nairobi

26 March 2015

Bank statement of comprehensive income

	Notes	2014 Shs 000	2013 Shs 000
Interest income	5	5,462,685	5,243,846
Interest expense	6	(3,157,464)	(3,108,995)
Net interest income		**2,305,221**	**2,134,851**
Fee and commission income	7	704,731	678,142
Fee and commission expense	7	(23,932)	(21,977)
Net fee and commission income		**680,799**	**656,165**
Net foreign exchange income		198,815	190,781
Other operating income	8	8,751	166,940
Total income		**3,193,586**	**3,148,737**
Impairment losses on loans and advances	16	(389,125)	(131,786)
Net operating income		**2,804,461**	**3,016,951**
Operating expenses	9	(2,639,073)	(2,037,747)
Profits from operations		**165,388**	**979,204**
Share of income of associate	30(a)	38,278	49,100
Profit before income tax		**203,666**	**1,028,304**
Income tax expense	11	(59,555)	(272,619)
Profit for the year		**144,111**	**755,685**
Other comprehensive income		-	-
Total comprehensive income for the year		**144,111**	**755,685**
Dividends			
Proposed final	12	-	528,979

The notes on pages 16 to 68 are an integral part of these financial statements.

Consolidated statement of comprehensive income

	Notes	2014 Shs 000	2013 Shs 000
Interest income	5	6,942,147	6,813,572
Interest expense	6	(3,648,761)	(3,690,177)
Net interest income		**3,293,386**	**3,123,395**
Fee and commission income	7	1,301,550	1,153,261
Fee and commission expense	7	(136,512)	(95,760)
Net fee and commission income		**1,165,038**	**1,057,501**
Net foreign exchange income		311,534	273,575
Other operating income	8	97,900	108,999
Total income		**4,867,858**	**4,563,470**
Impairment losses on loans and advances	16	(517,040)	(567,370)
Net operating income		**4,350,818**	**3,996,100**
Operating expenses	9	(4,174,759)	(3,383,769)
Profits from operations		**176,059**	**612,331**
Share of income of associate	30(a)	**38,278**	**49,100**
Profit before income tax		**214,337**	**661,431**
Income tax expense	11	(29,501)	(225,403)
Profit for the year		**184,836**	**436,028**
Other comprehensive income, net of income tax			
Items that may be subsequently reclassified to profit or loss			
Foreign currency translation difference for foreign operation		(127,113)	95,479
Total comprehensive Income for the year		**57,723**	**531,507**
Profit for the year attributable to:			
Owners of the Bank		165,869	548,726
Non controlling interest		18,967	(112,698)
		184,836	**436,028**
Total comprehensive Income Attributable to:			
Owners of the Bank		113,738	587,029
Non controlling interest		(56,015)	(55,522)
		57,723	**531,507**
Dividends	12	-	**528,979**
Proposed final			

The notes on pages 16 to 68 are an integral part of these financial statements.

Bank statement of financial position

	Notes	2014 Shs 000	2013 Shs 000
ASSETS			
Cash and balances with Central Bank	13	5,941,665	3,426,349
Due from other banking institutions	14	2,948,045	4,578,874
Due from group banks	29 (a)	3,849,117	1,355,404
Investment securities- available for sale	15(a)	83,884	83,889
Investment securities- held to maturity	15(b)	7,142,239	9,442,651
Loans and advances to customers	16	38,463,876	31,091,347
Current income tax		141,197	-
Deferred income tax	17	158,689	54,348
Other assets	18	943,719	681,964
Property and equipment	19	854,791	669,578
Intangible assets	20(a)	74,131	72,365
Prepaid operating lease rentals	21	-	-
Investment in associate	30(a)	600,822	426,118
Investment in subsidiary	30(b)	1,009,466	800,412
TOTAL ASSETS		**62,211,641**	**52,683,299**
LIABILITIES			
Customer deposits	22	41,670,812	36,740,085
Due to other banking institutions	23	626,453	1,497,759
Due to group banks	29(b)	7,402,067	4,374,262
Current income tax		-	83,979
Other liabilities	24	449,087	448,214
Long term liabilities	31	4,150,013	2,999,840
TOTAL LIABILITIES		**54,298,432**	**46,144,139**
EQUITY			
Share capital	25	5,275,991	4,167,663
Share premium	25	1,409,104	758,515
Regulatory reserves	26	347,356	91,932
Retained earnings		880,758	992,071
Proposed dividends	12	-	528,979
TOTAL EQUITY		**7,913,209**	**6,539,160**
TOTAL EQUITY AND LIABILITIES		**62,211,641**	**52,683,299**

The financial statements on pages 8 to 68 were approved for issue by the Board of Directors on 26th FEBRUARY 2015 and signed on its behalf by:

Director

Director

Director

Secretary

The notes on pages 16 to 68 are an integral part of these financial statements.

Consolidated statement of financial position

	Notes	2014 Shs 000	2013 Shs 000
ASSETS			
Cash and balances with Central Bank	13	8,109,890	5,767,304
Due from other banking institutions	14	3,923,921	5,157,625
Due from group banks	29 (a)	4,071,311	1,556,221
Financial assets at fair value through profit or loss		1,111	-
Investment Securities- available for sale	15(a)	83,884	83,889
Investment securities- held to maturity	15(b)	10,468,297	12,900,005
Loans and advances to customers	16	46,372,306	37,938,349
Current income tax		155,676	1,915
Deferred income tax	17	495,508	300,962
Other assets	18	1,178,168	918,012
Property and equipment	19	1,311,956	1,192,009
Intangible assets - Software	20(a)	184,541	170,812
- Goodwill	20(b)	15,610	15,610
Prepaid operating lease rentals	21	102,794	109,150
Investment in associate	30(a)	600,822	426,118
TOTAL ASSETS		**77,075,795**	**66,537,981**
LIABILITIES			
Customer deposits	22	52,840,845	46,833,218
Due to other banking institutions	23	988,505	1,923,624
Due to group banks	29(b)	8,061,554	4,632,150
Derivatives at fair value through profit or loss		-	274
Current income tax		-	83,979
Other liabilities	24	750,441	700,400
Long term liabilities	31	5,427,539	4,809,166
TOTAL LIABILITIES		**68,068,884**	**58,982,811**
EQUITY			
Share capital	25	5,275,991	4,167,663
Share premium	25	1,409,104	758,515
Regulatory reserves	26	374,866	124,886
Translation reserves		(176,535)	(93,970)
Retained earnings		1,115,194	1,168,871
Proposed dividends	12	-	528,979
SHAREHOLDER'S FUNDS		**7,998,620**	**6,654,944**
Non controlling interest		1,008,291	900,226
TOTAL EQUITY		**9,006,911**	**7,555,170**
TOTAL EQUITY AND LIABILITIES		**77,075,795**	**66,537,981**

The financial statements on pages 8 to 68 were approved for issue by the Board of Directors on 26TH FEBRUARY 2015 and signed on its behalf by:

Director

Director

Director

Secretary

The notes on pages 16 to 68 are an integral part of these financial statements.

Bank statement of changes in equity

	Notes	Share Capital Shs 000	Share Premium Shs 000	Regulatory Reserves Shs 000	Retained Earnings Shs 000	Proposed Dividend Shs 000	Total Equity Shs 000
At 1 January 2013		**3,400,000**	**421,200**	**289,384**	**567,913**	**236,872**	**4,915,369**
Profit for the year		-	-	-	755,685	-	**755,685**
Transfer to regulatory reserve	26	-	-	(197,452)	197,452	-	-
Transactions with owners, recorded directly in Equity							
Contributions by and distributions to owners of the Company							
Issue of shares	25	767,663	337,315	-	-	-	**1,104,978**
Dividends:							
Paid (final for 2012)		-	-	-	-	(236,872)	**(236,872)**
Proposed final for 2013	12	-	-	-	(528,979)	528,979	-
Total contributions by and distributions to owners		**767,663**	**337,315**	-	**(528,979)**	**292,107**	**868,106**
At 31 December 2013		**4,167,663**	**758,515**	**91,932**	**992,071**	**528,979**	**6,539,160**
At 1 January 2014		**4,167,663**	**758,515**	**91,932**	**992,071**	**528,979**	**6,539,160**
Profit for the year		-	-	-	144,111	-	**144,111**
Transfer to regulatory reserve	26	-	-	255,424	(255,424)	-	-
Transactions with owners, recorded directly in Equity							
Contributions by and distributions to owners of the Company							
Issue of shares	25	1,108,328	650,589	-	-	-	**1,758,917**
Dividends:							
Paid (final for 2013)	12	-	-	-	-	(528,979)	**(528,979)**
Total contributions by and distributions to owners		**1,108,328**	**650,589**	-	-	**(528,979)**	**1,229,938**
At 31 December 2014		**5,275,991**	**1,409,104**	**347,356**	**880,758**	-	**7,913,209**

The notes on pages 16 to 68 are an integral part of these financial statements.

Consolidated statement of changes in equity

	Notes	Share Capital Shs.000	Share Premium Shs.000	Translation Reserve Shs.000	Regulatory Reserves Shs.000	Retained Earnings Shs.000	Proposed Dividend Shs.000	Attributable to Equity Holders Shs.000	Non controlling Interest Shs.000	Total Equity Shs.000
At 1 January 2013		3,400,000	421,200	(132,273)	339,646	934,364	236,872	**5,199,809**	901,346	**6,101,155**
Comprehensive Income										
Profit for the year		-	-	-	-	548,726	-	**548,726**	(112,698)	**436,028**
Other comprehensive income										
Transfer to regulatory reserve	26	-	-	-	(214,760)	214,760	-	**-**	-	**-**
Currency Translation Differences				38,303				**38,303**	57,176	**95,479**
Total comprehensive income for the year		**-**	**-**	**38,303**	**(214,760)**	**763,486**	**-**	**587,029**	(55,522)	**531,507**
Transactions with owners, recorded directly in Equity										
Contributions by and distributions to owners of the Company										
Issue of shares	25	767,663	337,315	-	-	-	-	**1,104,978**	167,471	**1,272,449**
Dividends:										
Paid (final for 2012)		-	-	-	-	-	(236,872)	**(236,872)**	(113,069)	**(349,941)**
Proposed final for 2013	12	-	-	-	-	(528,979)	528,979	**-**	-	**-**
Total contributions by and distributions to owners		**767,663**	**337,315**	**-**	**-**	**(528,979)**	**292,107**	**868,106**	**54,402**	**922,508**
At 31 December 2013		**4,167,663**	**758,515**	**(93,970)**	**124,886**	**1,168,871**	**528,979**	**6,654,944**	**900,226**	**7,555,170**
At 1 January 2014		4,167,663	758,515	(93,970)	124,886	1,168,871	528,979	**6,654,944**	900,226	**7,555,170**
Comprehensive Income										
Profit for the year		-	-	-	-	165,869	-	**165,869**	18,967	**184,836**
Other comprehensive income										
Transfer to regulatory reserve	26	-	-	-	249,980	(249,980)	-	**-**	-	**-**
Effect of increased shareholding in subsidiary						30,434		**30,434**	(30,434)	**-**
Currency translation differences		-	-	(82,565)	-	-	-	**(82,565)**	(44,548)	**(127,113)**
Total comprehensive income for the year		**-**	**-**	**(82,565)**	**249,980**	**(53,677)**	**-**	**113,738**	(56,015)	**57,723**
Transactions with owners, recorded directly in Equity										
Contributions by and distributions to owners of the Company										
Issue of shares	25	1,108,328	650,589	-	-	-	-	**1,758,917**	164,080	**1,922,997**
Dividends:										
Paid (final for 2013)	12	-	-	-	-	-	(528,979)	**(528,979)**	-	**(528,979)**
Total contributions by and distributions to owners		**1,108,328**	**650,589**	**-**	**-**	**-**	**(528,979)**	**1,229,938**	**164,080**	**1,394,018**
At 31 December 2014		**5,275,991**	**1,409,104**	**(176,535)**	**374,866**	**1,115,194**	**-**	**7,998,620**	**1,008,291**	**9,006,911**

The notes on pages 16 to 68 are an integral part of these financial statements.

Bank statement of cash flows

	Notes	2014 Shs '000	2013 Shs '000
Cash flows from operating activities			
Interest receipts		5,478,390	5,304,787
Interest payments		(3,200,335)	(3,135,469)
Net fee and commission receipts		680,799	656,165
Other income received		207,567	263,503
Recoveries from loans previously written off		24,233	3,067
Payments to employees and suppliers		(2,451,540)	(2,005,223)
Income tax paid		(389,072)	(201,801)
Cash flows from operating activities before changes in operating assets and liabilities		**350,042**	**885,029**
Changes in operating assets and liabilities:			
Loans and advances		(7,372,529)	(1,208,876)
Cash reserve requirement		(259,725)	(48,776)
Other assets		(261,754)	112,332
Customer deposits		4,930,727	1,640,539
Deposits (to)/ from other banks		(924,180)	(1,569,044)
Amounts due (to)/ from group companies		(2,015,736)	(194,673)
Other liabilities		873	32,523
Net cash used in operating activities		**(5,552,282)**	**(350,946)**
Cash flows from investing activities			
Investment in subsidiary	30(b)	(209,054)	(167,537)
Investment in associate	30(a)	(136,426)	-
Purchase of property and equipment	19(b)	(346,529)	(265,093)
Purchase of intangible assets	20(a)	(27,983)	(32,638)
Proceeds from sale of property and equipment		2,925	47,805
Sale/(purchase) of investment securities		527,079	(31,601)
Dividends received		-	94,217
Net cash used in investing activities		**(189,988)**	**(354,847)**
Cash flows from financing activities			
Issue of ordinary shares		1,758,917	1,104,978
Proceeds from borrowings	31	1,355,578	2,140,875
Repayment of borrowings	31	(338,192)	(62,007)
Dividends paid		(528,979)	(236,872)
Net cash generated from financing activities		**2,247,324**	**2,946,974**
Net (decrease)/ increase in cash and cash equivalents		**(3,494,946)**	**2,241,181**
At start of year		6,917,598	4,676,417
At year end	**28**	**3,422,652**	**6,917,598**

The notes on pages 16 to 68 are an integral part of these financial statements.

Consolidated statement of cash flows

	Notes	2014 Shs '000	2013 Shs '000
Cash flows from operating activities			
Interest receipts		6,953,495	6,882,592
Interest payments		(3,769,873)	(3,647,124)
Net fee and commission receipts		1,165,038	1,057,501
Other income received		409,232	382,572
Recoveries from loans previously written off		225,493	227,010
Payments to employees and suppliers		(3,857,307)	(3,260,110)
Income tax paid		(476,028)	(153,744)
Cash flows from operating activities before changes in operating assets and liabilities		**650,050**	**1,488,697**
Changes in operating assets and liabilities:			
- loans and advances		(9,090,648)	(350,417)
- Cash reserve requirement		(381,542)	(50,095)
-Other assets		(271,691)	138,461
-Customer deposits		6,513,367	2,122,972
- Deposits to other banks		(1,018,803)	(1,689,658)
-Amounts due (to)/ from group companies		(2,038,587)	300,745
- Other liabilities		50,042	123,659
Net cash (used in)/generated from operating activities		**(5,587,812)**	**2,084,364**
Cash flows from investing activities			
Investment in Associate	30(a)	(136,426)	-
Purchase of property and equipment	19(a)	(431,281)	(346,239)
Purchase of intangible assets		(72,533)	(80,989)
Proceeds from sale of property and equipment		3,709	48,938
Sale/(purchase) of investment securities		152,987	(843,726)
Dividends received		-	-
Net cash used in investing activities		**(483,544)**	**(1,222,016)**
Cash flows from financing activities			
Issue of ordinary shares		1,922,997	1,272,449
Proceeds from borrowings	31	1,355,578	2,140,875
Repayment of borrowings	31	(869,992)	(301,221)
Dividends paid		(528,979)	(349,941)
Net cash generated from financing activities		**1,879,604**	**2,762,162**
Net (decrease)/ increase in cash and cash equivalents		**(4,191,752)**	**3,624,510**
At start of year		11,675,612	7,857,387
Effect of foreign exchange differences		(123,998)	193,715
At year end	**28**	**7,359,862**	**11,675,612**

The notes on pages 16 to 68 are an integral part of these financial statements.

Notes

1 General information

Bank of Africa Kenya Limited is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:

RE-INSURANCE PLAZA
TAIFA ROAD
P.O.BOX 69562
00400 NAIROBI

2 Summary of significant accounting policies

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

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS.

(a) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

For those assets and liabilities measured at fair value, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Fair values are categorised into three levels of fair value hieracrchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from iputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the bank at the end of the reporting period during which the change occurred.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(c) Changes in accounting policy and disclosures

(i) New standards, amendments and interpretations adopted by the Group

The following standards have been adopted by the group for the first time for the financial year beginning on or after 1 January 2014 and have a material impact on the group:

- Amendments to IAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It kust also be legally enforeceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the group.

(ii) New and revised standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretaions are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these financial statements. None of these is expected to a significant effect on the consolidated financial statements of the Group, except the following:

- IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued on July 2014. It replaces the guidance in IAS 30 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable otion at inception to changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adopton is permitted. The group is yet to assess the full impact of IFRS 9.

- IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benfits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2017, and replaces IAS 11 and IAS 18.

There are no other standards or interpreations that are not yet effective that would be expected to have a material impact on the group financial statements.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 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 subsidiary 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 of the acquirer's previously held equity interest in the acquiree is re-measured 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 subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss (note 2.6).

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.

(b) Changes in ownership interests

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 subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(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.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(d) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the group.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which entity operates ('the functional currency'). The consolidated financial statements presented in Kenya shillings, which is the group's presentation currency.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. All other foreign exchange gains and losses (including those that relate to borrowings and cash and cash equivalents) are presented in the statement of profit or loss for the year within "other gains/losses".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.3.2 Transactions and balances (continued)

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

2.3.3 Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.4 Sale and repurchase agreements

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

2.5 Financial assets and liabilities

2.5.1 Financial assets

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

2.5.1.1 Financial assets at fair value through profit or loss

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.1 Financial assets (continued)

2.5.1.1 Financial assets at fair value through profit or loss (continued)

The group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and embedded derivatives that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

2.5.1.2 Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- those that the group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

2.5.1.3 Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

- those that the group upon initial recognition designates as at fair value through profit or loss;
- those that the group designates as available-for-sale; and
- those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.1 Financial assets (continued)

2.5.1.4 Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and cumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss.

2.5.2 Financial liabilities

The group's holding in financial liabilities represents mainly deposits from banks and customers, long term liabilities and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

2.5.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Nairobi Securities Exchange, Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The group uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the group uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 4.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.3 Determination of fair value (continued)

The group uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the group's credit spreads widen, the group recognises a gain on these liabilities because the value of the liabilities has decreased. When the group's credit spreads narrow, the group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.5.4 De-recognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.5.5 Reclassification of financial assets

The group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.5 Financial assets and liabilities (continued)

2.5.6 Classes of financial instruments

The group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

<table>
<tr><th colspan="2">Category
(as defined by IAS 39)</th><th colspan="2">Class (as determined by the group)</th><th>Subclasses</th></tr>
<tr><td rowspan="11"></td><td>Financial assets designated at fair value through profit or loss</td><td>Financial assets designated at fair value through profit or loss</td><td>Debt securities</td><td></td></tr>
<tr><td rowspan="6">Loans and receivables</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="3">Loans and advances to customers</td><td rowspan="3"></td><td>SMEs</td></tr>
<tr><td>Corporates</td></tr>
<tr><td>Retail</td></tr>
<tr><td rowspan="2">Investment securities - debt instruments</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="4">Held-to-maturity Investments</td><td rowspan="2">Investment securities - debt securities</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="2">Investment securities - equity securities</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="2">Financial liabilities</td><td rowspan="2">Financial liabilities at armortised cost</td><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td colspan="2">Deposits from customers</td><td></td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Impairment of financial assets

2.6.1 Assets carried at amortised cost

The group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

a. significant financial difficulty of the issuer or obligor;
b. a breach of contract, such as a default or delinquency in interest or principal payments;
c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e. the disappearance of an active market for that financial asset because of financial difficulties; or
f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
    i. adverse changes in the payment status of borrowers in the portfolio; and
    ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.6 Impairment of financial assets (continued)

2.6.1 Assets carried at amortised cost (continued)

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in profit or loss.

2.6.2 Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

2.7 Offsetting financial instruments

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.

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.9 Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the group is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Buildings	1.5%
Fixtures, fittings and equipment	10.0%- 20.0%
Motor vehicles	33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

2.10 Intangible assets

2.10.1 Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.10 Intangible assets (continued)

2.10.2 Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Bank's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2.11 Impairment of non-financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Employee benefits

2.12.1 Pension obligations

The Group operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.12.2 Other entitlements

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.13 Provisions for liabilities

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.14 Income tax

2.14.1 Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.14.2 Deferred income tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

2.16 Acceptances and letters of credit

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

Notes (continued)

2 Summary of significant accounting policies (continued)

2.17 Share capital

Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

2.18 Leases

Leases are divided into finance leases and operating leases.

(i) *Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance lease

Leases of assets where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The leases entered into by the group are primarily operating leases.

2.19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Notes (continued)

2 Summary of significant accounting policies (continued)

2.20 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.21 Dividend income

Dividends are recognised in profit or loss when the Group's right to receive payment is established.

2.22 Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Group are not assets of the Group and are not included in the statement of financial position.

3 Critical accounting estimates and judgements in applying accounting policies

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

3.1 Impairment losses on loans and advances

The group reviews its loan portfolios to assess impairment at least on a quarterly basis. 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 an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with 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. The directors use 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 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.

3.2 Held-to-maturity investments

In accordance with IAS 39 guidance, the group classifies some 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 were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the group is required to reclassify the entire category as availablefor- sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

Notes (continued)

3 Critical accounting estimates and judgements in applying accounting policies (continued)

3.3 Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amounts from the cash generating unit have been determined based on value in use calculations. These calculations are based on financial budgets approved by the board covering a three year period. The discounts rates applied on the cashflows is based on the local currency lending rates for the respective countries where the subsidiary is based.

4 Financial risk management

The Group's business involves taking on risks in a targeted manner and managing them professionally.The effective management of risk within the stated risk appetite is fundamental to the banking activities of the Group.

Risk management is at the core of the operating and management structures of the Group and this involves managing and controlling of risks and in particular avoiding undue concentration of exposures, limiting potential loses from stress events and constraining profit or loss volatility. The core functions of the Group's risk management are to identify all key risks for the Group, measure these risks, manage the risk positions and determine capital allocations.

The overall responsibility for risk management within the Group rests with the Board of Directors. Through the risk management structure, the Group seeks to manage efficiently the core risks i.e credit, liquidity and market risks which arise directly through the Group's commercial activities. Accountability for risk management resides at all levels within the Group, from the Executive down through the organisation to each business manager and risk owner.

On a day to day basis, risks are managed through a number of management committees. Through this process the Group's monitors compliance with overall risk management policies. The Group's risk management policies are approved by the Board and they identify,analyse the risks faced by the group as well as the appropriate risk limits and controls.

The Group's Risk Management 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. Risk Management information is provided on a regular basis to the Board Risk Management & Compliance Committe.

The Board Audit Committe is responsible for monitoring compliance with the Group's risk management policies and procedures and for reviewing the robustness of the risk management framework in relation to the risks faced by the Group.

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the group's customers, clients or market counterparties fail to fulfil their contractual obligations to the group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.1 Credit risk management

Credit risk is the single largest risk for the group's business; the Directors therefore carefully manage the exposure to credit risk. It is managed in accordance with the Groups risk management control framework approved by the Board.

The Group's Credit Policy/Framework reflects the Groups' tolerance for risk i.e. credit risk appetite. This, as a minimum, reflects the Groups' strategy to grant credit based on various products, economic sectors, client segments, target markets giving due consideration to risks specific to each target market.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees.

4.1.2 Credit risk measurement

The Group establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book. Under IFRS, impairement allowances are recognized where there is objective evidence of impairement as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated cashflows of the financial asset or portfolio of financial assets.

Impairment of loans and receivables is measured as the difference between the carrying amount of present value of estimated cashflows discounted at the financial assets original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

4.1.3 Risk limit control and mitigation policies

The group manages, limits and controls concentrations of credit risk wherever they are identified in particular, to individual counterparties and banks, and to industries and countries.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default. Some other specific control and mitigation measures are outlined below:

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.3 Risk limit control and mitigation policies (continued)

(a) Collateral

The Group employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The group implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

(b) Lending limits (for derivative and loan books)

The Group maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

All financial instruments' carrying amounts as per the statement of financial position represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

Off balancesheet items carrying amounts represents the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as disclosed in note 27.

60% of the total maximum exposure is derived from loans and advances to banks and customers (2013: 57%); 11% represents investments in securities (2013: 16%).

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 88% of the loans and advances portfolio are considered to be neither past due nor impaired (normal grade), (2013: 90%) and;
- More than 99% of the Investments securities are in Government securities which are deemed low risk.

Loans and advances analysis

Loans and advances are summarised as follows:

	Group		Bank	
	2014 Shs'000	**2013 Shs'000**	**2014 Shs'000**	**2013 Shs'000**
Neither past due nor impaired	40,727,590	34,077,507	34,600,297	29,193,229
Past due but not impaired	4,131,583	2,619,979	2,292,365	834,658
Individually impaired	2,519,690	1,947,452	2,412,156	1,342,577
Gross	47,378,863	38,644,938	39,304,818	31,370,464
Less: Impairment of loans and advances (Note 16)	(1,006,557)	(706,589)	(840,942)	(279,117)
Net loans and advances	**46,372,306**	**37,938,349**	**38,463,876**	**31,091,347**

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired

Standard (normal grade)	40,727,590	34,077,507	34,600,297	29,193,230

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Past due up to 30 days	1,854,654	1,910,040	308,196	378,925
Past due 31-60 days	182,154	136,140	39,549	865
Past due 61-90 days	52,276	82,677	26,095	48,106
Past due > 90 days	2,042,499	491,122	1,918,525	406,763
Total past due loans and advances	**4,131,583**	**2,619,979**	**2,292,365**	**834,659**
Individually assessed impaired loans and advances comprising:				
- corporate	1,426,378	856,558	1,373,624	645,130
- retail	268,618	255,356	214,982	159,064
- SME	824,694	835,538	823,550	538,383
Impaired loans and advances	**2,519,690**	**1,947,452**	**2,412,156**	**1,342,577**

The bank's policy is to dispose of any repossessed collateral on the open market at market value.

Collateral repossessed

As at the reporting date, the Group and Bank had possession of the following collateral:

	Group and Bank	
	2014	**2013**
	Shs'000	**Shs'000**
Residential property	28,410	-
Motor vehicles	26,925	10,500
Total collateral repossessed	**55,335**	**10,500**

Notes (continued)

4 Financial risk management (continued)

4.1 Credit risk (continued)

4.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Concentrations of risk

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

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
By economic sector				
Wholesale/Retail	9,343,801	8,992,926	7,543,642	6,950,254
Manufacturing	9,783,568	6,183,262	8,815,667	5,536,156
Agriculture	1,660,218	1,767,889	1,111,470	1,184,933
Construction	7,615,972	4,223,753	6,224,048	3,177,626
Transport	3,812,660	3,093,883	3,198,966	2,509,662
Individual/Personal	4,624,018	4,841,922	3,552,898	4,133,744
Services	2,473,705	2,171,594	2,473,705	2,171,594
Financial institutions	679,069	597,832	631,512	556,524
Tourism	369,518	135,958	369,518	135,958
Communication	1,122,718	1,084,441	1,122,718	1,084,441
Hospitality	271,320	42,521	271,320	42,521
Others	5,622,296	5,508,957	3,989,354	3,887,051
Total on balance sheet exposure	**47,378,863**	**38,644,938**	**39,304,818**	**31,370,464**
Acceptances and letters of credit	2,024,464	1,554,140	1,595,440	1,316,519
Guarantee and performance bonds	13,944,796	11,165,872	12,154,508	8,936,837
Commitments to lend	3,088,538	4,020,478	2,583,490	3,345,331
Total non-funded exposure	**19,057,798**	**16,740,490**	**16,333,438**	**13,598,687**
	66,436,661	**55,385,428**	**55,638,256**	**44,969,151**

Notes (continued)

4 Financial risk management (continued)

4.2 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

4.2.1 Liquidity risk management process

The Group's liquidity management process, as carried out within the group and monitored by the Assets & Liabilities Committee (ALCO) and a separate team in Group Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The Group also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets .

Group Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

Notes (continued)

4 Financial risk management (continued)

4.2 Liquidity risk (continued)

4.2.2 Non-derivative financial liabilities and assets held for managing liquidity risk

Group		Months		Years		
At 31 December 2014	Up to 1	1 to 3	3 to 12	1 to 5	>5	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Customer deposits	24,068,362	15,795,992	9,356,994	3,619,497	-	**52,840,845**
Deposits and balances due to banking institutions	906,475	-	82,030	-	-	**988,505**
Amounts due to group banks	3,176,267	2,018,137	2,867,150	-	-	**8,061,554**
Long term liabilities	10,262	91,196	464,142	3,301,029	1,560,910	**5,427,539**
Other liabilities	750,441	-	-	-	-	**750,441**
Total financial liabilities (contractual maturity dates)	**28,911,807**	**17,905,325**	**12,770,316**	**6,920,526**	**1,560,910**	**68,068,884**
Assets held for managing liquidity (contractual maturity dates)	**35,080,333**	**7,087,813**	**5,093,869**	**16,637,107**	**10,308,655**	**74,207,777**

Group		Months		Years		
	Up to 1	1 to 3	3 to 12	1 to 5	>5	Total
At 31 December 2013	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Customer deposits	25,863,192	14,099,232	6,644,115	226,679	-	**46,833,218**
Deposits and balances due to banking institutions	1,311,907	512,691	99,026	-	-	**1,923,624**
Amounts due to group banks	1,209,200	3,422,950	-	-	-	**4,632,150**
Long term liabilities	-	-	116,762	3,864,425	827,979	**4,809,166**
Other liabilities	700,674	-	-	-	-	**700,674**
Total financial liabilities (contractual maturity dates)	**29,084,973**	**18,034,873**	**6,859,903**	**4,091,104**	**827,979**	**58,898,832**
Assets held for managing liquidity (contractual maturity dates)	**28,912,441**	**4,863,911**	**3,729,680**	**17,169,155**	**9,646,218**	**64,321,405**

Bank		Months		Years		
At 31 December 2014	Up to 1	1 to 3	3 to 12	1 to 5	>5	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Customer deposits	14,419,456	15,461,624	8,170,235	3,619,497	-	**41,670,812**
Deposits and balances due to banking institutions	544,423	-	82,030	-	-	**626,453**
Amounts due to group banks	2,607,481	2,018,137	2,776,449	-	-	**7,402,067**
Long term liabilities	-	91,196	334,317	2,186,307	1,538,193	**4,150,013**
Other liabilities	449,087	-	-	-	-	**449,087**
Total financial liabilities (contractual maturity dates)	**18,020,447**	**17,570,957**	**11,363,031**	**5,805,804**	**1,538,193**	**54,298,432**
Assets held for managing liquidity (contractual maturity dates)	**29,621,250**	**5,021,827**	**2,167,090**	**12,354,097**	**10,208,279**	**59,372,543**

Notes (continued)

4 Financial risk management (continued)

4.2 Liquidity risk (continued)

4.2.2 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

Bank	Months			Years		
	Up to 1	1 to 3	3 to 12	1 to 5	>5	Total
At 31 December 2013	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Customer deposits	18,661,520	13,625,802	4,408,788	43,975	-	**36,740,085**
Deposits and balances due to banking institutions	886,042	512,691	99,026	-	-	**1,497,759**
Amounts due to group banks	1,208,652	3,165,610	-	-	-	**4,374,262**
Long term liabilities	-	-	90,671	2,148,485	760,684	**2,999,840**
Other liabilities	448,212	-	-	-	-	**448,212**
Total financial liabilities (contractual maturity dates)	**21,204,426**	**17,304,103**	**4,598,485**	**2,192,460**	**760,684**	**46,060,158**
Assets held for managing liquidity (contractual maturity dates)	**24,038,843**	**2,817,753**	**1,912,897**	**13,149,122**	**8,741,863**	**50,660,478**

Assets held for managing liquidity risk

The Group has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds. The Group strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Group continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Group strategy. In addition, the Group holds a portfolio of liquid assets as part of its liquidity risk management strategy.

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Assets and Liabilities Committee (ALCO), Heads of each business unit and the Board of Directors.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's Retail and Enterprise banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

Overall authority for market risk for both trading and non-trading portfolios is vested in Assets and Liabilities Committee (ALCO). The bank's Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Foreign exchange risk

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

The table below summarises the Group's and the Company's exposure to foreign currency exchange rate risk as at 31 December 2014. Included in the table are the Group's and the Bank's financial instruments categorised by currency:

Group	USD Shs'000	GBP Shs'000	EUR Shs'000	Others Shs'000	Total Shs'000
As at 31 December 2014					
Assets					
Cash and balances with Central Banks	703,584	64,894	141,114	8,470	**918,062**
Placements with banks	3,211,858	109,965	255,470	158,114	**3,735,407**
Amounts due from group companies	3,236,368	458	704,479	198,562	**4,139,867**
Loans and Advances	16,634,314	38,851	721,770	21,793	**17,416,728**
Other assets	319,672	523	121,960	41	**442,196**
Total financial assets	**24,105,796**	**214,691**	**1,944,793**	**386,980**	**26,652,260**
Liabilities					
Customer deposits	10,977,094	165,307	807,361	9,140	**11,958,902**
Deposits and balances due to banking institutions	725,888	-	37,765	994	**764,647**
Amounts due to group banks	8,032,379	-	421,488	8,777	**8,462,644**
Long term liabilities	2,733,482	-	1,416,531	-	**4,150,013**
Other liabilities	1,235,562	2,649	75,171	203	**1,313,585**
Total financial liabilities	**23,704,405**	**167,956**	**2,758,316**	**19,114**	**26,649,791**
Net on-balance sheet position	**401,391**	**46,735**	**(813,523)**	**367,866**	**2,469**
Net off-balance sheet position	(953,282)	(46,078)	699,374	(159,799)	(459,785)
Net overall position	**(551,891)**	**657**	**(114,149)**	**208,067**	**(457,316)**
As at 31 December 2013					
Assets					
Cash and balances with Central Banks	781,420	114,393	284,936	3,099	**1,183,848**
Placements with banks	945,351	10,908	257,249	259,914	**1,473,422**
Amounts due from group companies	1,325,036	479	26,296	2,188	**1,353,999**
Loans and advances	14,425,837	28,712	930,096	9,133	**15,393,778**
Other assets	176,065	1	180,759	74	**356,899**
Total financial assets	**17,653,709**	**154,493**	**1,679,336**	**274,408**	**19,761,946**
Liabilities					
Customer deposits	6,206,809	139,828	1,214,718	152,947	**7,714,302**
Deposits and balances due to banking institutions	373,814	3,301	57,273	436	**434,824**
Amounts due to group banks	5,628,671	-	71,671	68	**5,700,410**
Long term liabilities	4,510,906	2,496	255,175	68	**4,768,645**
Other liabilities	8,037	97	83	184	**8,401**
Total financial liabilities	**16,728,237**	**145,722**	**1,598,920**	**153,703**	**18,626,582**
Net on-balance sheet position	**925,472**	**8,771**	**80,416**	**120,705**	**1,135,364**
Net off-balance sheet position	(890,189)	(5,683)	(89,056)	(111,003)	(1,095,931)
Net overall position	**35,283**	**3,088**	**(8,640)**	**9,702**	**39,433**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Foreign exchange risk (continued)

Bank **As at 31 December 2014**	**USD** **Shs'000**	**GBP** **Shs'000**	**EUR** **Shs'000**	**Others** **Shs'000**	**Total** **Shs'000**
Assets					
Cash and Balances with Central Bank	556,141	31,066	73,227	6,770	**667,204**
Placements with banks	2,164,337	77,868	157,677	148,014	**2,547,896**
Amounts due from group companies	2,877,062	-	670,879	197,843	**3,745,784**
Loans and advances	12,462,466	38,753	720,234	21,629	**13,243,082**
Other assets	66,265	523	12,008	41	**78,837**
Total financial assets	**18,126,271**	**148,210**	**1,634,025**	**374,297**	**20,282,803**
Liabilities					
Customer deposits	8,215,244	105,298	573,075	5,741	**8,899,358**
Deposits and balances due to banking institutions	588,644		37,765	46	**626,455**
Amounts due to group banks	6,969,136	-	421,488	8,777	**7,399,401**
Long term liabilities	2,733,482		1,416,531		**4,150,013**
Other liabilities	8,763	132	3,264	170	**12,329**
Total financial liabilities	**18,515,269**	**105,430**	**2,452,123**	**14,734**	**21,087,556**
Net on-balance sheet position	**(388,998)**	**42,780**	**(818,098)**	**359,563**	**(804,753)**
Net off-balance sheet position	134,736	(42,385)	786,120	(157,217)	721,254
Net overall position	**(254,262)**	**395**	**(31,978)**	**202,346**	**(83,499)**

As at 31 December 2013					
Assets					
Cash and Balances with Central Bank	230,709	31,265	108,524	535	**371,033**
Placements with banks	382,194	-	255,745	256,802	**894,741**
Amounts due from group companies	1,151,052	-	-	-	**1,151,052**
Loans and advances	11,205,728	28,472	927,121	8,757	**12,170,078**
Other assets	2,902	1	1,099	74	**4,076**
Total financial assets	**12,972,585**	**59,738**	**1,292,489**	**266,168**	**14,590,980**
Liabilities					
Customer deposits	3,737,827	90,382	967,659	148,467	**4,944,335**
Deposits and balances due to banking institutions	367,043	3,301	57,273	401	**428,018**
Amounts due to group banks	5,368,516	-	71,671	-	**5,440,187**
Long term liabilities	2,868,691		131,149		**2,999,840**
Other liabilities	8,037	97	83	184	**8,401**
Total financial liabilities	**12,350,114**	**93,780**	**1,227,835**	**149,052**	**13,820,781**
Net on-balance sheet position	**622,471**	**(34,042)**	**64,654**	**117,116**	**770,199**
Net off-balance sheet position	(615,295)	34,154	(65,462)	(111,003)	(757,606)
Net overall position	**7,176**	**112**	**(808)**	**6,113**	**12,593**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.1 Foreign exchange risk (continued)

Foreign exchange risk sensitivity analysis

At 31 December 2014 if the shilling had strengthened or weakened by 5% against major trading currencies, with other variables held constant, the impact on after tax profit would have been as shown below:

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
+ 5% movement	(86)	(39,738)	(28,166)	(26,957)
- 5% movement	86	39,738	28,166	26,957

4.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

The table below summarises the Group's and the Bank's exposure to interest rate risks. Included in the table are the Group's and the Bank's assets and liabilities at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing or maturity dates. The Group does not bear any interest rate risk on off balance sheet items.

Group		Months				
At 31 December 2014	Up to 1	1 to 3	3 to 12	>12	Non-interest Bearing	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Cash and Balances with Central Bank of Kenya	-	-	-	-	8,109,890	**8,109,890**
Investment securities-HTM	485,242	561,365	3,083,126	6,338,565	-	**10,468,298**
Placements with banks	3,529,428	394,493	-	-	-	**3,923,921**
Amounts due from group companies	1,252,514	2,698,287	120,510	-	-	**4,071,311**
Investment securities	-	-	-	-	83,884	**83,884**
Loans and advances	20,525,091	3,433,669	22,413,546	-	-	**46,372,306**
Total financial assets	**25,792,275**	**7,087,814**	**25,617,182**	**6,338,565**	**8,193,774**	**73,029,610**
Customer deposits	16,501,939	14,984,699	7,734,408	1,185,618	12,434,181	**52,840,845**
Deposits and balances due to banking institutions	906,475	-	82,030	-	-	**988,505**
Amounts due to group banks	3,176,267	2,018,137	2,867,150	-	-	**8,061,554**
Long term liabilities	10,263	91,196	464,142	4,861,938	-	**5,427,539**
Other liabilities	-	-	-	-	750,441	**750,441**
Total financial liabilities	**20,594,944**	**17,094,032**	**11,147,730**	**6,047,556**	**13,184,622**	**68,068,884**
Interest sensitivity gap	**5,197,331**	**(10,006,218)**	**14,469,452**	**291,009**	**(4,990,848)**	**4,960,726**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 Interest rate risk (continued)

Group		Months			Non-interest	
At 31 December 2013	Up to 1	1 to 3	3 to 12	>12	bearing	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with Central Bank	-	-	-	-	5,767,304	**5,767,304**
Investment securities-HTM	338,770	3,087,015	1,854,881	7,619,339	-	**12,900,005**
Placements with banks	5,157,625	-	-	-	-	**5,157,625**
Amounts due from group companies	1,072,325	483,896	-	-	-	**1,556,221**
Investment securities	-	-	-	-	83,889	**83,889**
Loans and advances	15,658,405	1,293,000	20,986,944	-	-	**37,938,349**
Total financial assets	**22,227,125**	**4,863,911**	**22,841,825**	**7,619,339**	**5,851,193**	**63,403,393**
Customer deposits	16,216,851	14,099,232	6,644,115	226,679	9,646,341	**46,833,218**
Deposits and balances due to banking institutions	1,311,907	512,691	99,026	-	-	**1,923,624**
Amounts due to group banks	1,209,200	3,422,950	-	-	-	**4,632,150**
Long term liabilities	-	-	116,762	4,625,108	67,296	**4,809,166**
Other liabilities	-	-	-	-	700,674	**700,674**
Total financial liabilities	**18,737,958**	**18,034,873**	**6,859,903**	**4,851,787**	**10,414311**	**58,898,832**
Interest sensitivity gap	**3,489,167**	**(13,170,962)**	**15,981,922**	**2,767,552**	**(4,563,118)**	**4,504,561**

Bank		Month				
At 31 December 2014	Up to 1	1 to 3	3 to 12	>12	Non-interest Bearing	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Cash and balances with Central Bank					5,941,665	**5,941,665**
Investment securities-HTM	-	-	837,307	6,304,932	-	**7,142,239**
Placements with banks	2,553,552	394,493	-	-	-	**2,948,045**
Amounts due from group companies	1,150,829	2,698,287	-	-	-	**3,849,116**
Investment securities	-	-	-	-	83,884	**83,884**
Loans and advances	19,031,485	1,929,047	17,503,344	-	-	**38,463,876**
Total financial assets	**22,735,866**	**5,021,827**	**18,340,651**	**6,304,932**	**6,025,549**	**58,428,825**
Customer deposits	11,174,284	14,650,331	6,547,649	1,185,618	8,112,930	**41,670,812**
Deposits and balances due to banking institutions	544,423	-	82,030	-	-	**626,453**
Amounts due to group banks	2,607,480	2,018,138	2,776,449	-	-	**7,402,067**
Long term liabilities	-	91,196	334,317	3,724,500	-	**4,150,013**
Other liabilities	-	-	-	-	449,087.00	**449,087**
Total financial liabilities	**14,326,187**	**16,759,665**	**9,740,445**	**4,910,118**	**8,562,017**	**54,298,432**
Interest sensitivity gap	**8,409,679**	**(11,737,838)**	**8,600,206**	**1,394,814**	**(2,536,468)**	**4,130,393**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.2 Interest rate risk (continued)

Bank **At 31 December 2013**	**Up to 1**	**1 to 3**	**3 to 12**	**>12**	**Non-interest Bearing**	**Total**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
Cash and balances with Central Bank	-	-	-	-	3,426,349	**3,426,349**
Investment securities-HTM	-	1,574,162	622,628	7,245,861	-	**9,442,651**
Placements with banks	4,578,874	-	-	-	-	**4,578,874**
Amounts due from group companies	871,508	483,896	-	-	-	**1,355,404**
Investment securities	-	-	-	-	83,889	**83,889**
Loans and advances	14,480,148	759,695	15,851,504	-		**31,091,347**
Total financial assets	**19,930,530**	**2,817,753**	**16,474,132**	**7,245,861**	**3,510,238**	**49,978,514**
Customer deposits	12,404,314	13,625,802	4,408,788	43,975	6,257,206	**36,740,085**
Deposits and balances due to banking institutions	886,042	512,691	99,026	-	-	**1,497,759**
Amounts due to group banks	1,208,652	3,165,610	-	-	-	**4,374,262**
Long term liabilities	-	-	90,671	2,909,169		**2,999,840**
Other liabilities					448,212	**448,212**
Total financial liabilities	14,499,008	17,304,103	4,598,485	2,953,144	6,705,418	**46,060,158**
Interest sensitivity gap	**5,431,522**	**(14,486,350)**	**11,875,647**	**4,292,717**	**(3,195,180)**	**3,918,356**

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

Interest rate risk sensitivity analysis

At 31 December 2014 if interest rates were to increase or decrease by 2.5%, with other variables held constsnt, the impact on after tax profit would have been as shown below:

	Group		**Bank**	
	2014	**2013**	**2014**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
+ 2.5% movement	41,978	(49,183)	23,838	(14,986)
- 2.5% movement	(41,978)	49,183	(23,838)	14,986

Notes (continued)

4 Financial risk management (continued)

4.4 Fair value of financial instruments

(a) Financial instruments measured at fair value

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

Group	**Carrying value**		**Fair value**	
	2014	**2013**	**2014**	**2013**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
Financial assets				
Loans and advances to banks	7,995,232	6,713,846	7,995,232	6,713,846
Loans and advances to customers	46,372,306	37,938,349	46,372,306	37,938,349
Financial assets held-to-maturity	10,468,297	12,900,005	9,420,332	11,693,538
Financial liabilities				
Deposits due to banks	9,050,059	6,555,774	9,050,059	6,555,774
Customer deposits	52,840,845	46,833,218	52,840,845	46,833,218
Long term liabilities	5,427,539	4,809,166	5,427,539	4,809,166
Bank				
Financial assets				
Loans and advances to banks	6,797,162	5,934,278	6,797,162	5,934,278
Loans and advances to customers	38,463,876	31,091,347	38,463,876	31,091,347
Financial assets held-to-maturity	7,142,239	9,442,651	6,094,274	8,236,185
Financial liabilities				
Deposits due to banks	8,028,520	5,872,021	8,028,520	5,872,021
Customer deposits	41,670,812	36,740,085	41,670,812	36,740,085
Long term liabilities	4,150,013	2,999,840	4,150,013	2,999,840

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection. The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.
The estimated fair value of fixed interest bearing deposits is based on discounted cashflows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determinefair value.

(iii) Investment securities

The fair value for loans and receivables and held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Notes (continued)

4 Financial risk management (continued)

(a) Fair value of financial instruments (continued)

(iv) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interestbearing deposits, is the amount repayable on demand.The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest

Fair value 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 group'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 (for example,Nairobi Securities Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

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). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

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 Group considers relevant and observable market prices in its valuations where possible.

		Group			Bank	
Fair value hierarchy	**Level 1**	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
At 31 December 2014						
	Shs' 000	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**	**Shs' 000**
Financial assets:						
– Available-for-sale	-	-	83,884	-	-	83,884
At 31 December 2013						
Financial assets						
– Available-for-sale	-	-	83,889	-	-	83,889

The fair values of the Group's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates as set out in the previous maturity analysis.

Notes (continued)

4 Financial risk management (continued)

4.5 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs 1 Billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 8%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.

- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

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 table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2014 and 2013. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

Notes (continued)

4 Financial risk management (continued)

4.5 Capital management (continued)

		2014	2013
Tier 1 capital		**Shs '000**	**Shs '000**
	Share capital	5,275,991	4,167,663
	Share premium	1,409,104	758,515
	Retained earnings	880,759	992,071
	Investment in subsidiary and associate	(1,461,139)	(1,115,663)
		6,104,715	**4,802,586**
Tier 2 capital			
	Subordinated debt	1,792,105	692,588
	Statutory reserves	347,356	91,932
	Total regulatory capital	**8,244,176**	**5,587,106**
Risk weighted assets			
	On balance sheet- Credit risk	40,181,023	31,788,970
	Off balance sheet- Credit risk	6,780,616	5,602,869
	Market and Operational risk	4,819,845	6,530,841
	Total risk weighted assets	**51,781,484**	**43,922,680**
Deposit Liabilities		49,690,554	42,080,738

Capital ratios

Core capital/total deposit liabilities (CBK minimum 10.5%) (2013: 8%)	12.3%	11.4%
Core Capital/Total risk weighted assets (CBK Minimum 10.5%) (2013: 8%)	11.8%	10.9 %
Total Capital/Total risk weighted assets (CBK minimum 14.5%) (2013: 12%)	15.9%	12.7%

The increase of the regulatory capital in 2014 is mainly due to new additional share capital, the contribution of the current-year profit and the subordinated debt received from BOA Group S.A . The increase of the risk-weighted assets reflects the expansion of the business in 2014.

Notes (continued)

5 Interest income

	Group		Bank	
	2014 Shs '000	2013 Shs '000	2014 Shs '000	2013 Shs '000
Loans and advances	5,538,444	5,411,782	4,516,882	4,238,598
Government and other securities	1,073,825	945,961	639,699	573,088
Balances with other banking institutions	288,502	408,931	264,728	385,263
Other	41,376	46,898	41,376	46,897
	6,942,147	**6,813,572**	**5,462,685**	**5,243,846**

There is no interest accrued on impaired financial assets.

6 Interest expense

Customer deposits	3,038,478	3,221,792	2,711,330	2,791,195
Deposits by banks	294,522	247,037	250,555	212,230
Borrowed funds	212,503	172,050	152,429	91,717
Other	103,258	49,298	43,150	13,853
	3,648,761	**3,690,177**	**3,157,464**	**3,108,995**

7 Fees and commission income

Credit related fees and commissions	564,957	521,080	433,091	373,181
Service related fees & commissions	736,593	632,181	271,640	304,961
Fee and commission income	**1,301,550**	**1,153,261**	**704,731**	**678,142**
Fees & commission paid	(136,512)	(95,760)	(23,932)	(21,977)
Net fee and commission income	**1,165,038**	**1,057,501**	**680,799**	**656,165**

8 Other operating income

Dividend income from subsidiary	-	-	-	94,217
Gain on sale of fixed assets	2,913	69,954	2,913	69,954
Other	94,987	39,045	5,838	2,769
	97,900	**108,999**	**8,751**	**166,940**

9 Expenses by nature

The following items are included within operating expenses:

Employee benefits (Note 10)	1,805,514	1,587,097	1,170,331	960,721
Depreciation of property and equipment (Note 19)	273,752	233,447	161,316	126,142
Amortisation of intangible assets (Note 20)	54,456	43,459	26,217	26,395
Profit on sale of property and equipment	(3,128)	(70,420)	(2,925)	(69,954)
Operating lease rentals	19,054	11,033	17,467	11,304
Auditors' remuneration	10,718	9,198	5,720	5,500
Amortisation of prepaid operating lease rentals (Note 21)	1,587	1,648	-	85

Notes (continued)

10 Employee benefits expense

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
The following items are included within employee benefits expense:				
Salaries and wages	1,411,860	1,233,300	891,692	729,054
Retirement benefit costs				
– Defined contribution pension scheme	100,005	63,328	59,955	49,795
– National Social Security Fund	17,471	41,905	1,363	2,237
Other staff costs	276,178	248,564	217,321	179,635
	1,805,514	**1,587,097**	**1,170,331**	**960,721**

11 Income tax expense

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
Current income tax	238,288	352,031	163,896	277,450
Deferred income tax (Note 17)	(208,787)	(131,606)	(104,341)	(9,809)
Prior year understated current income tax	-	4,978	-	4,978
	29,501	**225,403**	**59,555**	**272,619**

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

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	Shs '000	**Shs '000**	**Shs '000**	**Shs '000**
Profit before income tax	214,337	661,431	203,666	1,028,304
Tax calculated at the statutory income tax rate of 30% (2013: 30%)	64,301	198,429	61,100	308,491
Tax effect of:				
Income not subject to tax	(230,948)	(195,479)	(39,852)	(91,147)
Expenses not deductible for tax purposes	132,994	106,059	38,307	50,297
Other - final tax on interest on government paper at 15%	74,358	74,574	-	-
Prior year deferred income tax adjustments	(11,204)	36,842	-	-
Prior year understated current income tax	-	4,978	-	4,978
Income tax expense	**29,501**	**225,403**	**59,555**	**272,619**

12 Dividends

At the Annual General Meeting to be held in June 2015, no dividend in respect of the year ended 31 December 2014 is to be proposed (2013: Shs 126.92) per share amounting to nil dividend (2013: Shs 528,979,000). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

Notes (continued)

13 Cash and balances with central banks

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Cash in hand	1,771,254	2,089,048	789,985	917,528
Balances with central banks	6,338,636	3,678,256	5,515,680	2,508,821
	8,109,890	**5,767,304**	**5,941,665**	**3,426,349**

14 Due from other banking institutions

	Group 2014	Group 2013	Bank 2014	Bank 2013
Placements	2,770,811	3,872,579	1,827,882	3,699,552
Current account balances due from other banks	1,153,110	1,285,046	1,120,163	879,322
	3,923,921	**5,157,625**	**2,948,045**	**4,578,874**
Weighted average effective interest rate	6.54%	8.11%	5.31%	8.04%

15 Investment securities

(a) Available-for-sale

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Unlisted equity securities	83,884	83,889	83,884	83,889

The fair value of the investment in unlisted companies was estimated by using the purchase price paid for acquisition. The movement in investment securities available-for-sale is as summarised below:

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
At start of the year	83,889	52,288	83,889	52,288
Additions	1,578,380	31,601	1,578,380	31,601
Disposals	(1,578,385)	-	(1,578,385)	-
At year end	**83,884**	**83,889**	**83,884**	**83,889**

(b) Held to maturity

	Group 2014	Group 2013	Bank 2014	Bank 2013
Corporate bonds	141,565	103,223	141,565	103,223
Treasury Bonds	10,326,732	12,796,782	7,000,674	9,339,428
	10,468,297	**12,900,005**	**7,142,239**	**9,442,651**
Maturing after 91 days of acquisition	10,468,297	12,900,005	7,142,239	9,442,651
	10,468,297	**12,900,005**	**7,142,239**	**9,442,651**
Weighted average effective interest rate	9.09%	7.86%	7.01%	6.62%

Notes (continued)

16 Loans and advances to customers

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
Overdrafts	15,745,266	12,999,520	14,713,727	11,810,116
Personal loans	4,622,523	2,338,693	4,496,588	2,222,909
Mortgages	2,621,988	2,269,089	2,621,988	2,269,089
Commercial loans	22,264,091	20,109,706	15,347,520	14,140,319
Discounted bills	2,124,995	927,930	2,124,995	928,031
Gross loans and advances	**47,378,863**	**38,644,938**	**39,304,818**	**31,370,464**
Less: Provision for impairment				
Individually assessed	(905,547)	(662,374)	(824,880)	(262,942)
Collectively assessed	(101,010)	(44,215)	(16,062)	(16,175)
Net loans and advances	**46,372,306**	**37,938,349**	**38,463,876**	**31,091,347**
Weighted average effective interest rate	12.88%	14.09%	13.10%	13.52%

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

	Group Specific allowances Shs'000	Group Collective allowances Shs'000	Group Total Shs'000	Bank Specific allowances Shs'000	Bank Collective allowances Shs'000	Bank Total Shs'000
31 December 2013						
At start of the year	366,415	56,782	423,197	131,756	12,402	144,158
Provision for impairment	790,607	3,773	794,380	131,080	3,773	134,853
Recoveries	(227,010)	-	(227,010)	(3,067)	-	(3,067)
Write offs	(318,048)	-	(318,048)	-	-	-
Transfers	19,252	(19,252)	-	-	-	-
Movement in suspended interest	3,173	-	3,173	3,173	-	3,173
Exchange differences	27,985	2,912	30,897	-	-	-
At end of the year	**662,374**	**44,215**	**706,589**	**262,942**	**16,175**	**279,117**
31 December 2014						
At start of the year	662,374	44,215	706,589	262,942	16,175	279,117
Provision for impairment	679,735	55,557	735,292	413,471	(113)	413,358
Recoveries	(218,251)	-	(218,251)	(24,233)	-	(24,233)
Write offs	(408,650)	-	(408,650)	-	-	-
Movement in suspended interest	172,700	-	172,700	172,700	-	172,700
Exchange differences	17,639	1,238	18,877	-	-	-
At end of the year	**905,547**	**101,010**	**1,006,557**	**824,880**	**16,062**	**840,942**

Notes (continued)

16 Loans and advances to customers (continued)

Charge to income statement

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
Provisions	735,291	794,380	413,358	134,853
Recoveries	(218,251)	(227,010)	(24,233)	(3,067)
Net provisions charged to income statement	**517,040**	**567,370**	**389,125**	**131,786**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2014 was Shs 2,519 million (2013: Shs 1,947 million).

17 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2013:30%).

The movement on the deferred income tax account is as follows:

	Group		Bank	
	2014	**2013**	**2014**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
At start of the year	300,962	158,263	54,348	44,539
Income statement credit (Note 11)	208,787	131,606	104,341	9,809
Exchange differences	(14,241)	11,093	-	-
At year end	**495,508**	**300,962**	**158,689**	**54,348**

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

(a) Group	**1.1.2013**	**Charged/ (credited) to income statement**	**31.12.2013**
	Shs'000	**Shs'000**	**Shs'000**
Deferred income tax liability			
Property and equipment	78,925	15,264	94,189
Deferred income tax asset			
Provisions	(52,889)	(6,464)	(59,353)
Tax losses	(10,925)	-	(10,925)
Property and equipment	(48,463)	(146,218)	(194,681)
Exchange differences	(124,911)	(5,281)	(130,192)
Net deferred income tax asset	**(158,263)**	**(142,699)**	**(300,962)**

Notes (continued)

17 Deferred income tax (continued)

(a) Group (continued)

	1.1.2014 Shs'000	Charged/ (credited) to income statement Shs'000	31.12.2014 Shs'000
Deferred income tax liability			
Property and equipment	94,189	23,925	118,114
Deferred income tax asset			
Provisions	(59,353)	(98,503)	(157,856)
Property and equipment	(10,925)	(15,186)	(26,111)
Tax losses	(194,681)	(115,672)	(310,353)
Exchange differences	(130,192)	10,890	(119,302)
Net deferred income tax asset	**(300,962)**	**(194,546)**	**(495,508)**

(b) Bank

	1.1.2013 Shs'000	Charged/ (credited) to income statement Shs'000	31.12.2013 Shs'000
Deferred income tax asset			
Provisions	(32,479)	(10,944)	(43,423)
Property and equipment	(12,060)	1,135	(10,925)
Net deferred income tax asset	**(44,539)**	**(9,809)**	**(54,348)**

Deferred income tax asset	1.1.2014 Shs'000	Charged/ (credited) to income statement Shs'000	31.12.2014 Shs'000
Provisions	(43,423)	(89,155)	(132,578)
Property and equipment	(10,925)	(15,186)	(26,111)
Net deferred income tax asset	**(54,348)**	**(104,341)**	**(158,689)**

18 Other assets

	Group 2014 Shs'000	2013 Shs'000	Bank 2014 Shs'000	2013 Shs'000
Uncleared effects	192,867	288,606	192,867	288,606
Prepayments	287,845	183,988	135,239	91,354
Other receivables	697,456	445,418	615,613	302,004
	1,178,168	**918,012**	**943,719**	**681,964**

Notes (continued)

19 Property and equipment

(a) Group

	Buildings & freehold land	Motor vehicles	Fixtures, fittings and equipment	Work in progress	Total
31 December 2013					
Opening book amount	106,762	21,590	887,105	78,720	1,094,172
Exchange difference	6,464	596	25,393	2,162	34,615
Opening net book amount	**113,226**	**22,186**	**912,498**	**80,882**	**1,128,792**
Additions	-	19,753	291,880	34,606	346,239
Transfers	-	-	63,107	(63,107)	-
Disposals	(12,000)	(24,081)	(39,200)	-	(75,281)
Accumulated depreciation on disposal	1,710	21,462	2,979	(445)	25,706
Depreciation charge	(2,676)	(11,766)	(219,005)	-	(233,447)
Closing net book amount	**100,260**	**27,554**	**1,012,259**	**51,936**	**1,192,009**
31 December 2013					
Cost	118,657	59,899	1,880,982	51,936	2,111,474
Accumulated depreciation	(18,397)	(32,345)	(868,723)	-	(919,465)
Net book amount	**100,260**	**27,554**	**1,012,259**	**51,936**	**1,192,009**

	Buildings & freehold land	Motor vehicles	Fixtures, fittings and equipment	Work in progress	Total
31 December 2014					
Opening net book amount	100,260	27,554	1,012,259	51,936	1,192,009
Exchange differences	(4,428)	(299)	(17,104)	(1,238)	(23,069)
Opening net book amount	**95,832**	**27,254**	**995,155**	**50,698**	**1,168,940**
Additions	-	14,283	302,115	114,883	431,281
Transfers	-	11,472	94,189	(118,834)	(13,173)
Disposals	-	(8,370)	(3,785)	-	(12,155)
Accumulated depreciation on disposals	-	8,370	2,445	-	10,815
Depreciation charge	(2,386)	(16,024)	(255,342)	-	(273,752)
Closing net book amount	**93,446**	**36,986**	**1,134,777**	**46,747**	**1,311,956**
At 31 December 2014					
Cost	113,417	76,170	2,239,913	46,747	2,476,247
Accumulated depreciation	(19,971)	(39,184)	(1,105,136)	-	(1,164,291)
Net book amount	**93,446**	**36,986**	**1,134,777**	**46,747**	**1,311,956**

Notes (continued)

19 Property and equipment (continued)

(b) Bank	Buildings & freehold land	Motor vehicles	Fixtures, fittings and equipment	Work in progress	Total
31 December 2013					
Opening book amount	10,470	12,714	508,826	46,516	578,526
Additions	-	18,248	226,362	20,483	265,093
Transfers	-	-	43,103	(43,103)	-
Disposals	(12,000)	(22,953)	(39,200)	-	(74,153)
Accumulated depreciation on disposals	1,710	21,462	3,082	-	26,254
Depreciation charge	(180)	(8,688)	(117,274)	-	(126,142)
Closing net book amount	**-**	**20,783**	**624,899**	**23,896**	**669,578**
At 31 December 2013					
Cost	-	34,663	1,120,964	23,896	1,179,523
Accumulated depreciation	-	(13,880)	(496,065)	-	(509,945)
Net book amount	**-**	**20,783**	**624,899**	**23,896**	**669,578**
31 December 2014					
Opening net book amount	-	20,783	624,899	23,896	669,578
Additions	-	-	241,125	105,404	346,529
Transfers	-		93,078	(93,078)	-
Disposals	-	(6,115)	(876)	-	(6,991)
Accumulated depreciation on disposals	-	6,115	876	-	6,991
Depreciation charge	-	(9,585)	(151,731)	-	(161,316)
Closing net book amount	**-**	**11,198**	**807,371**	**36,222**	**854,791**
At 31 December 2014					
Cost	-	28,548	1,454,264	36,222	1,519,034
Accumulated depreciation	-	(17,350)	(646,893)	-	(664,243)
Net book amount	**-**	**11,198**	**807,371**	**36,222**	**854,791**

Notes (continued)

20 Intangible assets

(a) Software

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
At start of the year	170,812	129,057	72,365	66,122
Exchange Differences	(4,349)	4,225	-	-
Additions	59,361	80,989	27,983	32,638
Transfers	13,173	-	-	-
Amortisation	(54,456)	(43,459)	(26,217)	(26,395)
At year end	**184,541**	**170,812**	**74,131**	**72,365**
At 31 December				
Cost	484,608	420,376	260,389	232,406
Accumulated amortisation	(300,067)	(249,564)	(186,258)	(160,041)
Net book amount	**184,541**	**170,812**	**74,131**	**72,365**

(b) Goodwill

Group	**2014 Shs'000**	**2013 Shs'000**
Balance at 1 January 2013, 31 December 2013 and 31 December 2014	15,610	15,610

The goodwill consists of equity interest held by the group in Bank of Africa Uganda, a subsidiary. (See note 30(b). The above goodwill is attributable to the strong position and profitability of Bank of Africa Uganda Limited in the Uganda market.

Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) indentified according to subsidiaries. The recoverable amount of the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by the Board of Directors covering a three year period and discounted at rates comparable to that earned from risk assets.

The key assumptions used for value in use calculations are as below;

Key assumptions	**2014**	**2013**
Discount rate	13%	13%
Annual growth rate	5%	5%

Based on the value in use calculations, there was no impairment of goodwill identified in 2014 (2013: Shs nil).

Notes (continued)

21 Prepaid operating lease rentals

This relates to leasehold land for the Group's residential property. The amount is amortized over the remaining lease period.

	Group		Bank	
	2014	2013	2014	2013
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
At start of year	109,150	108,569	-	4,779
Amortization charge for the year	(1,587)	(1,648)	-	(85)
Additions	-	6,922	-	-
Disposal	-	(4,693)	-	(4,694)
Exchange difference	(4,769)	-		
At end of year	**102,794**	**109,150**	-	-

22 Customer deposits

	Group 2014 Shs '000'	Group 2013 Shs '000'	Bank 2014 Shs '000'	Bank 2013 Shs '000'
Current and demand deposits	16,034,179	14,878,378	11,035,629	10,677,659
Savings accounts	5,174,057	4,102,382	1,284,052	1,118,082
Fixed deposit accounts	31,343,441	27,577,658	29,303,309	24,827,046
Margin deposits	289,168	274,800	47,822	117,298
	52,840,845	**46,833,218**	**41,670,812**	**36,740,085**
Weighted average effective interest rate	6.10%	7.01%	7.26%	7.72%

23 Due to other banking institutions

	Group		Bank	
	2014	2013	2014	2013
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Overnight borrowing	544,347	518,460	544,347	518,460
Current account balances	76	374,489	76	367,582
Term borrowings due to banks	444,082	1,030,675	82,030	611,717
	988,505	**1,923,624**	**626,453**	**1,497,759**
Weighted average effective interest rate	5.38%	4.81%	5.25%	4.76%

24 Other liabilities

	Group		Bank	
	2014	2013	2014	2013
	Shs '000'	Shs '000'	Shs '000'	Shs '000'
Deferred income	117,408	61,896	117,408	61,896
Outstanding bankers cheques	94,571	68,124	73,489	45,795
Accrued expenses	303,952	145,297	124,055	35,736
Other payables	234,510	425,083	134,135	304,787
	750,441	**700,400**	**449,087**	**448,214**

Notes (continued)

25 Share capital and share premium

	Number of shares '000	Ordinary shares Shs'000	Share premium Shs'000
At 1 January 2013	3,400	3,400,000	421,200
Issue of shares	767	767,663	337,315
Balance as at 31 December 2013	**4,167**	**4,167,663**	**758,515**
At 1 January 2014	4,167	4,167,663	758,515
Issue of shares	1,108	1,108,328	650,589
Balance as at 31 December 2014	**5,275**	**5,275,991**	**1,409,104**

The total authorised number of ordinary shares is 5,275,991 with a par value of Shs 1,000 per share.

26 Regulatory reserve

	Group		Bank	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
At start of year	124,886	339,646	91,932	289,384
Transfer from/ (to) retained earnings	249,980	(214,760)	255,424	(197,452)
At end of year	**374,866**	**124,886**	**347,356**	**91,932**

The regulatory reserves represent an appropriation from retained earnings to comply with regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with regulations over the impairment provisions recognized in accordance with the Group's accounting policies.

27 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Group conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the statement of financial position.

Contigent liabilities	Group		Bank	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
Acceptances and letters of credit	2,024,464	1,554,140	1,595,440	1,316,519
Guarantees and performance bonds	13,944,796	11,165,872	12,154,508	8,936,837
At end of year	**15,969,260**	**12,720,012**	**13,749,948**	**10,253,356**

Notes (continued)

27 Off balance sheet financial instruments, contingent liabilities and commitments (continued)

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Group 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, which are subsequently reimbursed by customers.

Guarantees are generally written by a bank 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.

Commitments

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Unutilized credit lines and other facilities	3,088,539	4,020,477	2,583,490	3,345,331
Curreny Forwards	25,765	10,439	25,765	10,439
Foreign exchange spots	34,360	15,072	34,360	15,072
At end of year	**3,148,664**	**4,045,988**	**2,643,615**	**3,370,842**

Nature of commitments

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

Forward foreign exchange contracts are commitments to either purchase or sell a specified quantity of foreign currency at a specified future date at an agreed rate. The fair values of the respective currency forwards are carried under other assets or other liabilities as appropriate.

28 Analysis of cash and cash equivalents as shown in the consolidated cash flow statement

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Cash and balances with central banks (Note 13)	8,109,890	5,767,304	5,941,665	3,426,349
Less: cash reserve requirement	(2,954,396)	(2,665,668)	(2,060,788)	(1,858,221)
Investment and other securities	1,046,608	3,425,785	-	1,574,162
Deposits due from other Banks	3,529,428	5,157,625	2,553,552	4,578,874
Due to banks and non-bank financial institutions (note 23)	(544,423)	(892,949)	(544,423)	(886,042)
Amounts due from group banks (net)	(1,827,245)	883,515	(2,467,354)	82,476
At end of year	**7,359,862**	**11,675,612**	**3,422,652**	**6,917,598**

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

Notes (continued)

29 Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exrcise significant influence over the other party in making financial or operation decisions, or one party controls both. The Group is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE incorporated in Morocco. There are other companies which are related to Bank of Africa Kenya Limited through common shareholdings or common directorships.

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

(a) Amounts due from group banks	**Group**		**Bank**	
	2014	**2013**	**2014**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
BOA Uganda	-	-	197,741	
Bank of Africa Tanzania	1,289,871	1,150,853	1,289,544	1,150,579
BOA France	704,054	229,676	670,879	203,859
BOA RDC	181,434	173,734	-	-
BOA Mer Rouge	101	88	101	88
BOA Ghana	1,588,861	878	1,587,946	878
BOA Madagascar	102,906		102,906	
Other group entities	204,084	992	-	-
	4,071,311	**1,556,221**	**3,849,117**	**1,355,404**
Weighted average effective interest rate	3.13%	1.79%	3.32%	2.02%
Interest income earned on the above	88,090	23,648	86,368	21,870
Ledger fees earned on the above	1,322	38	1,322	38

(b) Amounts due to group banks	**Group**		**Bank**	
	2014	**2013**	**2014**	**2013**
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**
BOA Madagascar	1,379,788	402,945	1,379,788	402,945
BOA Uganda			208,957	2,507
BOA Tanzania	1,289,237	1,151,195	1,289,172	1,151,127
Banque de Credit de Bujumbura	633,267	357,433	633,267	357,433
BOA Cote D'Ivoire	359	380	359	380
BOA RDC	2,745	812	522	504
BOA Ghana	1,591,038	694,775	1,591,038	694,775
BOA Mer Rouge	3,163,131	2,022,997	2,297,628	1,763,149
La Congolaise De Banque	1,336	1,443	1,336	1,442
BMCE Bank international	653	170	-	-
	8,061,554	**4,632,150**	**7,402,067**	**4,374,262**
Weighted average effective interest rate	2.49%	4.61%	2.58%	3.34%
Interest expense incurred on the above	157,988	216,269	152,349	149,335

Notes (continued)

29 Related party transactions (continued)

(c) Investments in group companies

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
BOA France	81,696	81,701	81,696	81,701

(d) Expenses incurred within the group

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
Technical assistance fees paid to AFH	221,896	135,299	129,067	46,187
Information technology fees paid to AISSA	33,204	31,516	18,726	15,672
	255,100	**166,815**	**147,793**	**61,859**

(e) Loans to key management and directors

Group

Advances to customers as at 31 December 2014 includes loans to key management amounting to Shs 99 million (2013: Shs147 million).

Total loans to directors amounted to Shs 39 million as at 31 December 2014 (2013: Shs 25 million).

Company

Advances to customers as at 31 December 2014 includes loans to key management amounting to Shs 90 million (2013: Shs 138 million).

There were no loans advance to directors as at 31 December 2014 (2013: Shs 10 million)

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
Interest income earned on loans to key management	15,646	8,648	3,726	7,817

(f) Key management compensation

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
Salaries and other short-term employment benefits	311,471	269,105	211,652	171,355

(g) Directors' remuneration

	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
Salaries to executive directors (included in key management compensation above)	61,969	58,973	48,395	53,081
Other compensation to non-executive directors	160,556	85,009	19,040	12,173
	222,525	**143,982**	**67,435**	**65,254**

(h) Subordinated debt

The disclosures on the subordinated debt from BoA Group S.A. are included in Note 31.

Notes (continued)

30 Investment in associate and subsidiary

(a) Associate	Group 2014 Shs'000	Group 2013 Shs'000	Bank 2014 Shs'000	Bank 2013 Shs'000
At start of the year	426,118	377,018	426,118	377,018
Issue of new shares	136,426	-	136,426	-
Share of profits	47,218	49,100	47,218	49,100
Effect of shareholding dilution	(8,940)	-	(8,940)	-
At year end	**600,822**	**426,118**	**600,822**	**426,118**

Set out below is the Associate of the group as at 31 December 2014, which, in the opinion of the directors, is material to the group. The Associate has share capital consisting solely of ordinary shares, which are held directly by the group; the country of incorporation or registration is also their principal place of business.

Nature of investment in Associates 2014 and 2013:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Nature of the relationship	Measurement method
Bank of Africa- Tanzania	Tanzania	21.6% (2013: 24.05%)	Banking services	Equity

Summarised balance sheet	2014 Shs'000	2013 Shs'000
Assets		
Cash and balances with banks	7,738,363	5,474,253
Government securities - held to maturity	3,016,731	4,258,192
Loans and advances to customers	14,312,378	12,592,155
Other assets	875,776	689,166
Total assets	**25,943,248**	**23,013,766**
Liabilities		
Customer deposits	16,368,701	16,068,320
Deposits from other banks	5,442,428	3,877,830
Other liabilities	1,350,534	1,295,817
Total liabilites	**23,161,663**	**21,241,967**
Net assets	**2,781,585**	**1,771,799**

Summarised income statement

Total operating income	2,129,295	1,767,068
Total operating expenses	(1,825,056)	(1,474,656)
Profit before income tax	**304,239**	**292,412**
Income tax expense	(94,892)	(94,793)
Profit for the year	**209,347**	**197,619**

Notes (continued)

30 Investment in associate and subsidiary (continued)

(a) Associate (continued)

Reconciliation of summarised financial information

	2014 Shs'000	2013 Shs'000
Opening net assets	1,771,799	1,567,643
Issue of new shares	848,346	-
Profit/(loss) for the period	209,347	197,619
Exchange differences	(47,906)	6,537
Closing net assets	**2,781,586**	**1,771,798**
Interest in associate (21.6%; 2013: 24.05%)	600,822	426,118
Carrying value in associates	600,822	426,118
Difference	-	-

(b) Subsidiary

	Group		Bank	
	2014 Shs'000	2013 Shs'000	2014 Shs'000	2013 Shs'000
At start of the year	-	-	800,412	632,875
Rights issue	-	-	209,054	167,537
At end of the year	-	-	**1,009,466**	**800,412**

Investment in subsidiary comprises the Bank's investment in Bank of Africa Uganda Limited (BOAU). BOAU is incorporated in Uganda. The Bank owns 51.7% (2013: 50.01%) of the total shareholding in BOAU.

There were no transactions with non-controlling interests during the year.

Significant restrictions

There are restrictions on exporting capital in the Uganda (where Bank of Africa Uganda is incorporated), other than through normal dividends.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for the subsidiary, BOA Uganda.

Notes (continued)

30 Investment in associate and subsidiary (continued)

b) Subsidiary (continued)

Summarised balance sheet	**2014 Shs'000**	**2013 Shs'000**
Assets		
Cash and balances with banks	3,772,993	3,123,029
Government securities - held to maturity	3,326,058	3,457,354
Loans and advances to customers	7,908,430	6,847,002
Other assets	1,257,229	1,214,606
Total assets	**16,264,710**	**14,641,991**
Liabilities		
Customer deposits	11,170,033	10,093,133
Deposits from other banks	1,428,236	686,259
Other liabilities	1,578,882	2,061,788
Total liabilites	**14,177,151**	**12,841,180**
Net assets	**2,087,559**	**1,800,811**

Summarised income statement

Total operating income	1,546,356	1,508,950
Total operating expenses	(1,535,685)	(1,781,604)
Profit before income tax	**10,671**	**(272,654)**
Income tax expense	30,054	47,216
Profit for the year	**40,725**	**(225,438)**

Summarised cashflow statement

Net cash flow from operating activities	1,242,684	123,227
Net cash flow from investing activities	(115,345)	(125,422)
Net cash flow from financing activities	(117,666)	(261,816)
Net increase in cash and cash equivalents	**1,009,673**	**(264,011)**
Cash and cash equivalents at start of year	2,808,025	2,885,819
Exchange differences	(123,998)	186,217
Cash and cash equivalents at end of year	**3,693,700**	**2,808,025**

Notes (continued)

31 Long term liabilities

	Group		Bank	
	2014	2013	2014	2013
	Shs'000	Shs'000	Shs'000	Shs'000
Borrowings	3,139,106	3,856,663	2,067,038	2,307,253
Subordinated debt	2,288,433	952,503	2,082,975	692,587
	5,427,539	**4,809,166**	**4,150,013**	**2,999,840**
At start of year	4,809,166	2,926,962	2,999,840	878,422
Additions	1,355,578	2,140,875	1,355,578	2,140,875
Repayments	(869,992)	(301,221)	(338,192)	(62,007)
Net accrued Interest	6,190	15,035	6,190	15,035
Exchange Loss	126,597	27,515	126,597	27,515
	5,427,539	**4,809,166**	**4,150,013**	**2,999,840**

The carrying amounts of the long term liabilities approximate to their fair value. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Group at the balance sheet date.

Long term borrowings by Bank of Africa Kenya Limited are;

- An unsecured 7 year term loan of Euro 3 million from PROPARCO signed for the development of the bank's lending business in foreign currency. It bears an interest rate referenced to the Euribor. The effective interest rate on the loan at 31 December 2014 was 5.58% (2013: 5.58%).

- An unsecured 7 year term loan of USD 25 million from FMO for the development of bank's lending business in foreign currency. It bears an interest rate referenced to the Libor. The effective interest rate on the loan at 31 December 2014 was 5.23%. (2013 :5.41%)

The subordinated debt is made up of of two facilities as below;

- An unsecured 7 year loan of USD 8 million issued by International Finance Corporation (IFC) to enhance the Banks capital base. The debt has an initial five year principal repayment moratorium. The debt obligation of the Bank ranks ahead of the interest of holders of equity and is redeemable on maturity. It bears an interest rate referenced to the Libor. The effective interest rate on the subordinated debt as at 31 December 2014 was 5.46% (2013: 6.42%). The subordinated is treated as Tier 2 capital in line with CBK guidelines.

- A subordinated convertible loan as an unsecured 7 year loan of EUR 12.3 million issued by BOA Group S.A to enhance the Banks capital base. The debt has an initial five year principal repayment moratorium. It bears an interest rate referenced to the Euribor. The effective interest rate on the subordinated debt as at 31 December 2014 was 5.29%. The subordinated is treated as Tier 2 capital in line with CBK guidelines.

Long term borrowings by Bank of Africa Uganda Limited are;

- EIB - Private Enterprise Finance Facility relates to a line of credit granted to the Bank for financing projects to be carried out in Uganda by private enterprises or microfinance institutions in selected sectors. Each tranche of these funds attracts a fixed rate based on the twelve month average of interest rates offered by Ugandan deposit-taking banks for three months term deposits as published by Bank of Uganda plus a margin. Each tranche has a minimum tenor of three years and a maximum tenor of ten years. The effective interest rate on the loan at 31 December 2014 was 5.47% (2013: 5.47%).

Notes (continued)

31 Long term liabilities (continued)

- The International Finance Corporation (IFC) term facility provides funding to be used by the Bank to finance its lending operations to small, medium enterprises, retail and corporate business in accordance with the provisions of the agreement. The interest rate for any relevant period is the sum of the relevant spread and LIBOR on the interest determination date for that interest period for six (6) months. The funds are advanced for a period of five years. The effective interest rate on the loan at 31 December 2014 was 4.24% (2013: 4.24%).

- The FMO Term Facility is a line of credit granted to the Bank to on-lend to eligible sub-borrowers with matching funds provided by the Bank. The Euro denominated funds attract a floating rate of interest equivalent to the weighted average deposit rate of banks in Uganda as published by the Central Bank plus a margin. The US Dollar denominated funds attract an interest rate per annum which is the aggregate of the applicable margin and LIBOR. These funds have a tenor of five years. The effective interest rate on the loan at 31 December 2014 was 3.84% (2013: 3.84%).

- The PROPARCO subordinated loan is a USD 3 million debt granted to the Bank for a term of seven years including a grace period for principal payments of five years. The loan attracts a floating rate of interest and is registered as Tier 2 Capital under the conditions prescribed by Bank of Uganda for purposes of computation of capital adequacy. The effective interest rate on the loan at 31 December 2014 was 4.14% (2013: 4.14%).

- The Bank of Uganda (BOU) Agricultural Credit Facility relates to a partnership between the Government of Uganda and commercial banks to facilitate farmers in acquisition of agricultural and agro-processing machinery and equipment. This facility attracts a fixed interest rate of 10% and has a maximum tenor of eight years.

None of the borrowings were in default during the year.

32 Fiduciary activities

The Group holds asset security documents on behalf of customers with a value of Shs 331 million (2013: Shs 211 million). These securities are held by the Custody Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

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