KENYA

ANNUAL REPORT

2013

BANK OF AFRICA
Groupe BMCE BANK

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MESSAGE FROM THE CEO OF BOA GROUP

The BANK OF AFRICA Group's 2013 financial year was highlighted mainly by the following five objectives:

- continue its external growth,
- improve its operating structure,
- launch a vast plan to strengthen its risk control,
- expand its sales & marketing set up,
- continue to enhance its financial results.

The BANK OF AFRICA Group's development was reflected in 2013 by the opening of a subsidiary in Togo.

Meanwhile, the Group's institutionalisation continued with an expansion in its Central Departments at head office.

With the same determination of more precision-based management, a major project for redefining risk management was launched in synergy with the BMCE Bank Group, our majority shareholder. In the same light, a system of environmental and social management was set up in this same area.

The restructuring of our sales & marketing organisation and the implementation of our business model were maintained and extended to our corporate clients and English-speaking subsidiaries.

As for financial results, the progress made in 2012 continued in 2013, as seen in the following data.

Customer deposits reached 3.4 billion euros, a 7.2% increase driven mainly by an increase in the number of accounts, which exceeded the 2 million mark in May 2014.

Outstanding customer loans came to 2.5 billion euros, a 13.4% increase.

Total assets rose by 9.7% to 4.8 billion euros at end-2013.

Net Banking Income (NBI) improved by 10.2% to 320.6 million euros.

Consolidated net profit rose slightly, by 1% from 56.2 million euros in 2012 to 56.7 million euros, due to a large provision made on a file in a WAEMU BOA. Without this provision, net income rose by about 16%, thus reflecting the Group's dynamism.

In 2014, we will maintain and strengthen our policy, which reconciles commercial development and structural reinforcement within the framework of our 2013-2015 Three-Year Development Plan. The final objective is to reinforce our participation in financing national economies and to increase the involvement of African citizens in the economic and social life of their countries.

I thank all our customers for their trust in us, the BANK OF AFRICA staff for their unfailing commitment, and our shareholders for their steadfast support, particularly our majority shareholder, BMCE Bank.

Mohamed BENNANI
BOA GROUP S.A. Chairman and CEO

Photo © E.Legouhy

OVER 30 YEARS OF GROWTH AND EXPANSION

BANKING NETWORK*

1983 BANK OF AFRICA – MALI

15 Branches and 1 Business Centre in Bamako.
10 Regional Branches and 20 Local Branches.

1990 BANK OF AFRICA – BENIN

22 Branches, 1 Business Centre and 2 Port Branches in Cotonou.
21 Regional Branches.

1994 BANK OF AFRICA – NIGER

Created in 1989: NIGERIAN INTERNATIONAL BANK (NIB). Integrated into BOA network in 1994.

11 Branches in Niamey.
8 Regional Branches.

1996 BANK OF AFRICA – CÔTE D'IVOIRE

Created in 1980: BANAFRIQUE.
Integrated into BOA network in 1996.

14 Branches and 1 Business Centre in Abidjan.
8 Regional Branches and 1 Local Branch.

1998 BANK OF AFRICA – BURKINA FASO

17 Branches and 1 Business Centre in Ouagadougou.
14 Regional Branches.

1999 BANK OF AFRICA – MADAGASCAR

Created in 1989: BANKIN'NY TANTSAHA MPAMOKATRA (BTM) / National Bank for Rural Development.
Integrated into BOA network in 1999.

21 Branches and 1 Business Centre in Antananarivo.
59 Regional Branches.

2001 BANK OF AFRICA – SENEGAL

18 Branches and 1 Business Centre and 1 WU Counter in Dakar.
10 Regional Branches and 1 regional WU Counter.

2004 BANQUE DE L'HABITAT DU BENIN

2 Branches in Cotonou.

2004 BANK OF AFRICA – KENYA

Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

15 Branches and 1 Business Centre in Nairobi.
15 Regional Branches, 1 Business Centre in Mombasa.

2006 BANK OF AFRICA – UGANDA

Created in 1985: SEMBULE INVESTMENT BANK Ltd > ALLIED BANK. Integrated into BOA network in 2006.

20 Branches in Kampala.
13 Regional Branches.

2007 BANK OF AFRICA – TANZANIA

Created in 1995: EURAFRICAN BANK – TANZANIA Ltd (EBT). Integrated into BOA network in 2007.

10 Branches in Dar es Salaam.
9 Regional Branches.

2008 BANQUE DE CREDIT DE BUJUMBURA

Created in 1909 in Brussels: BANQUE DU CONGO BELGE (BCB). 1922: BCB Branch in Usumbura, Burundi. 25 July 1964: BANQUE DE CREDIT DE BUJUMBURA (BCB). Integrated into BOA network in 2008.

8 Branches, 1 Business Centre and 5 Counters, in Bujumbura.
12 Branches and 1 Counter in Provinces.

2010 BANK OF AFRICA – RDC

7 Branches in Kinshasa.
1 Regional Branch.

2010 BANK OF AFRICA – MER ROUGE

Created in 1908: BANQUE INDOSUEZ MER ROUGE (BIRM). Integrated into BOA network in 2011.

4 Branches and 1 Counter in Djibouti.
1 Representive Office in Addis Abeba in Ethiopia.

2011 BANK OF AFRICA – GHANA

Created in 1999: AMALBANK.
Integrated into BOA network in 2011.

14 Branches and 1 Business Centre in Accra.
5 Regional Branches.

2013 BANK OF AFRICA – TOGO

3 Branches in Lomé.

SUBSIDIARIES*

1997 ACTIBOURSE

Head Office in Cotonou.
1 Liaison Office in Abidjan.
1 contact in each BOA company.

2002 AÏSSA

Head Office in Cotonou.

2002 AGORA

Head Office in Abidjan.

2004 ATTICA

Head Office in Abidjan.

2009 BOA-ASSET MANAGEMENT

Head Office in Abidjan.

2010 BOA-FRANCE

4 Branches in Paris.
1 Branch in Marseille.

OTHER ENTITIES*

1999 BANK OF AFRICA FOUNDATION

Head Office in Bamako.
Presence in 11 countries
where the Group operates.

2000 BOA GROUP EIG

Head Offfice in Paris.

(*) BANK OF AFRICA Network at 31/03/2014.

OVER 30 YEARS OF EXPERIENCE SERVING CUSTOMERS

A STRONG NETWORK*

5,000 people at the service of more than one million customers.

About 430 dedicated operating and service support offices in 17 countries.

A continuously expanding base of Automated Teller Machines and Electronic Payment Terminals, numbering around 600.

Close to 1,800,000 bank accounts.

A WIDE AND VARIED OFFER

Full range of banking and financial services.

An attractive range of bank insurance products.

Tailored solutions for all financing issues.

Successful financial engineering.

A LEADING BANKING PARTNER, BMCE BANK,

which is part of FinanceCom, a major Moroccan financial group.

STRATEGIC PARTNERS, INCLUDING:

PROPARCO,

INTERNATIONAL FINANCE CORPORATION (IFC - WORLD BANK GROUP),

WEST AFRICAN DEVELOPMENT BANK (BOAD),

NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO),

BELGIUM INVESTMENT COMPANY FOR DEVELOPING COUNTRIES (BIO),
and investment fund AUREOS.

UNIQUE EXPERIENCE IN AFRICA

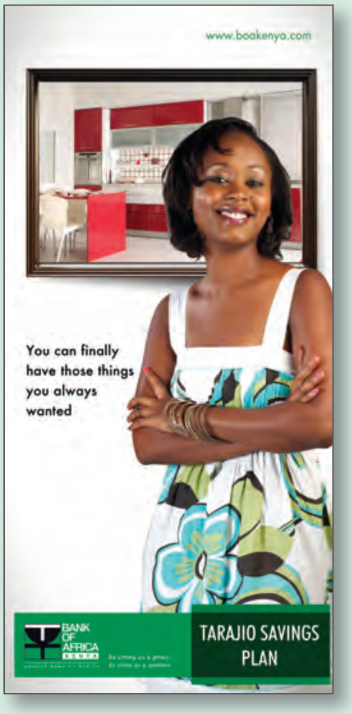
Continuous development for over 30 years.

THE COMMITMENTS OF THE GROUP

- **QUALITY** of customer service
- **DYNAMIC,** accessible staff
- **FINANCIAL SOLIDITY**
- **COHESIVE** network
- **DIVERSITY:** wide range of financing solutions
- **EXPERTISE** in financial engineering
- **STRONG** partners

GROUP TURNOVER
2013:
493.7
MILLION EUROS

(*) Figures at 30/04/2014.



BANKING PRODUCTS & SERVICES OF BOA-KENYA

ACCOUNTS

Access Account
Current Account
Goodwill Account
Salary Account
Personal Current Account
Wakili Current Account
Elite Account
Mwanariadha Account

INVESTMENT PRODUCTS

Ambitions Savings Plan 'Tarajio'
Call Deposits Account
Chama Account
Children Savings Account
Fixed Deposit Account
Ordinary Savings Account
Student Account

ELECTRONIC BANKING

B-Web
SESAME ATM Card
VISA LIBRA Card - Classic
VISA PROXIMA Card - Electron
VISA Prepaid TOUCAN Card

MOBILE FINANCIAL SERVICES

B-Mobile
B-Web Smart
M-Pesa

PACKS

EMPLOYEE Pack 'Jisort Account'
MY BUSINESS Pack 'Inuka Account'
PUBLIC SERVICE Pack 'Hudumia Salary Pack'

LOANS

Mortgage Finance
Personal Loan
Personal Motor Loan
Salary Advance
Schools Fees Loan 'Soma Loan'

TRANSFERS & CHANGES

Foreign Exchange
Moneygram
Western Union

COMPLEMENTARY PRODUCTS & SERVICES

Banker's Cheques
Utility Bill Payments
Custodial Services

COMPANY SERVICES

BOA-KENYA thus offers a wide range of products and services to the attention of Corporates and SMEs, organizations, institutions and professionals.

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ACTIVITY REPORT

Kwame AHADZI
Managing Director

Anis KADDOURI
Deputy Managing Director

© BOA-KENYA

COMMENTS
FROM THE MANAGING DIRECTOR

It is my pleasure to present the Annual Report and Statement of Audited Accounts as at 31st December 2013 for BANK OF AFRICA – KENYA.

Kenya marked 50 years of independence in 2013 and looking back at the many years, there is much to celebrate economically, socially, and institutionally. The Country has a strong track record of macroeconomic management with low inflation, low fiscal deficits, and sustainable debt levels. Economic growth has not been as high as in its peers, but Kenya's market-oriented policies have paid dividends. Kenya's private sector is more vibrant, its financial sector is now the third largest in terms of assets in Sub-Saharan Africa after Nigeria and South Africa. In addition, the new Constitution, passed in 2010, has created a strong foundation for better institutions, devolution and participatory governance.

With an estimated growth of 4.7 percent in 2013, Kenya entered 2014 on a strong economic position. For the first time in years, the economy avoided the curse of lower growth in an election year. In 2013, the current account deficit narrowed considerably, from more than 10 percent of GDP to 7.5 percent, thus reducing the economy's vulnerability to external shocks. Year-on-year inflation was 7.4 percent in November 2013, and average inflation was 5.6 percent, down from 9.6 percent in 2012. Netting out the impact of the recent VAT increases, the inflation rate is within the 2 percentage-point margin of the 5 percent medium-term target. With a strong macroeconomic foundation and ongoing structural reforms, this growth momentum is expected to be maintained in 2014, when output is projected to grow by 5.1 percent.

Kenyan banks are ahead of their counterparts in other African countries in many payment system innovations and lending to SMEs. With the advent of mobile information and communications technology (ICT) developments, the ceiling for innovation targeting specific segments of the market and outreach has been raised almost indefinitely. The World Bank has predicted that a mature banking sector and more generally, a well-developed financial sector that supports a vibrant private sector will be an important advantage to achieving Kenya's Vision 2030 goals.

The year started with Central Bank Rate (CBR) at 9.5% and closed the year at 8.5%. The effects of the low interest rates were directly reflected in the lower stocks of gross non-performing loans (NPLs) and the increase in credit in 2013. However, banks continued to deploy enhanced appraisal standards to mitigate credit risks and the Central Bank closely monitored the trends.

During 2013, BOA-KENYA admitted 3 additional independent Non-Executive local Directors, and all of them are professionals of repute and high achievers. These outstanding ladies, Dr. Monica KERRETS – MAKAU, Ms Susan KASINGA and Ms Eunice MBOGO, are Directors in other leading institutions and we look forward to their support in taking the Bank to greater heights.

I am also proud to mention that the Bank has been steadily expanding and its network now stands at 30 branches. Our latest addition is Sameer Park Enterprise Business Centre along Mombasa Road which opened in December 2013. We have also opened a new Retail branch at Moi Avenue in Mombasa and transformed the existing one into an Enterprise Business Centre for our corporate clients. In 2014, there are also advanced plans to open branches in Gikomba, Embu, Githurai and a second one in Ongata Rongai.

In terms of strategy, the year 2013 was focused on consolidation of structures and processes, and integration into BOA Group/BMCE Bank banking practices and programs. The implementation of the PACA Retail strategy did take off with the introduction of product packages and major realignments in branch management structures and target markets. The full effect of this overarching change will be felt in the years to come. A key focus in all these changes are to diversify the Bank's deposit mobilization base with major emphasis on expanding the retail banking space and also commencing business within the public sector.

Against this backdrop, the Bank's balance sheet registered a 7.6 percent growth closing at KES 52.7 billion compared to KES 49.0 billion as at December 2012. Net loans and advances to customers increased to KES 31.1 billion. Customer deposits were KES 36.7 billion reflecting a 4.7 percent growth. Profit before tax improved significantly to 1,028 million for the period under review from KES 571 million in 2012, representing an increase of 80.1 percent.

The Bank also continued with its promise to set aside part of its profits for sustainable Corporate Social Responsibility (CSR) initiatives in our communities. One of the key highlights was the continued sponsorships to enable athletes invest their earnings wisely and be role models to others. In conjunction with local athletic coaches and managers, we hosted 2 empowerment seminars for athletes in Eldoret and Kericho. These seminars have proven very popular with upcoming and top performing athletes who are mentored on topics such as investment, savings, health issues, public relations and personal branding. We do feel proud when we spot athletes who have been mentored in such seminars winning major races at the Olympics and the other major championships.

These results would not have been achieved without the strong support and loyalty of our customers, and we remain grateful for the partnership. We also wish to thank our shareholders for the continuing faith in our business model and the financial support. To our colleagues, I say 'thank you' for the passion for the BOA brand and the commitment demonstrated this far in growing the Bank.

Kwame AHADZI
Managing Director

HIGHLIGHTS 2013

APRIL

Meru Branch held a roadshow in Meru town so as to attract retail customers in the area.

MAY

The Dutch Development Bank (FMO), a shareholder of BOA-KENYA, lent KES 2.2 billion (USD 25 million) to the Bank to deepen the lender's credit to small and medium enterprises (SMEs) in East Africa.

Participation in the 2013 BANK OF AFRICA network management meetings, in Dakar, Senegal.

Opening of Kenyatta Avenue Branch, located in Nairobi. This brings the Bank's network to 13 branches in Nairobi, the capital city of Kenya and 27 branches countrywide.

OCTOBER

Participation in the 2013 BANK OF AFRICA Directors meetings, in Fès, Morocco.

BOA-KENYA held Corporate Golf Tournaments in Nairobi and Nakuru. The tournaments which were well attended and attracted top golfers in the country as well as BOA-KENYA customers and staff, were held at the Nairobi Royal Golf Club.

During the last quarter of 2013, BOA-KENYA enhanced its unsecured Personal Loan product to include a one-month loan repayment waiver every year in a move to increase credit uptake. This enhancement was to make the product more appealing to customers and to cushion them from the impulses of high cost of living by allowing them to manage their credit repayment schedule.

© BOA-KENYA

KEY FIGURES ON 31/12/2013

ACTIVITY

Loans*	31,091
Deposits*	36,740

INCOME

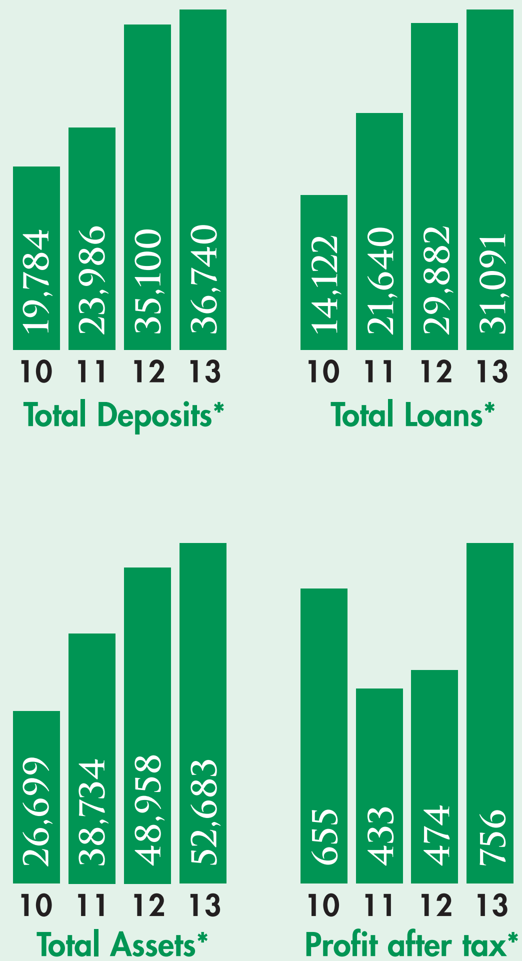
Net interest income*	2,135
Operating income*	3,149
Operating expense*	(2,038)
Profit before tax*	1,028
Profit after tax*	756

STRUCTURE

Number of Employees	394

Total Assets*
52,683

GROWTH FROM 2010 TO 2013



FMO Manager-Financial Institutions for Africa, Jorim SCHRAVEN (left) and the Chairman of BOA-KENYA Board, Amb. Dennis AWORI sign the KES 2.2 billion loan agreement as the BOA-KENYA MD, Kwame AHADZI looks on.

John MUTERU, BOA-KENYA Head of Audit (left), presents an award to Shash ASHISH after he emerged as first runner-up during the golf tournament held in Nakuru.

(*) In KES millions (Euro 1 = KES 119.02, as at 31st Dec 2013)

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

BANK OF AFRICA – KENYA, being keen on supporting and giving back to the communities in the areas in which it is present, continued to pursue its Corporate Social Responsibility through various initiatives. In the year 2013, the Bank engaged in social and economic initiatives as follows:

SOCIAL

BOA International Marathon of Bamako

BOA-KENYA sponsored 2 athletes to attend the 6th edition of BOA International Marathon of Bamako, Mali. The event, a traditional marathon of 42.195 km, featured more than 2,000 runners and 11 other African countries and was organized under the theme, "Solidarity with Mali," in view of the months'-long conflict in the northern part of the country, involving armed Islamist groups. Regarded as one of the toughest marathon races in Africa because of the rather warm and dry conditions under which it is held, this year's BOA International Marathon of Bamako was run at a much quicker pace than 2012's race.

1


2


Kenya's two-man team comprising athletes David NTHIGA and Kariuki G. ONOMGA gave a good account of themselves. David NTHIGA emerged 2nd winner wile Kariuki ONOMGA emerged 5th winner. Kudos to the team!

The Bank is proud to be associated with Athletics Kenya and continues to nurture the athletes through yearly sponsorship of "athletics camp".

3


BOA INTERNATIONAL MARATHON

1. The departure of the Mens race.
2. Arrival of David NTHIGA, ranking second.
3. BOA-KENYA MD, Kwame AHADZI, rewarding the athletes for their stunning performance.

© BOA-MALI & BOA-KENYA

BOA-KENYA held a horse racing event in collaboration with Rawhide Limited at the Kenya Police Anti-Stock Theft Unit Headquarters in Gilgil. This is an annual event organized by Rawhide Limited that goes to support the Anti-Stock Theft Unit Primary School.

BOA-KENYA continued to participate in the interbank competitions organized by the Kenya Institute of Bankers. The Bank registered participation in Soccer, Badminton, Table Tennis, Squash, Swimming and Chess. Overall performance for the different categories was good with the football team "Green Army" reaching Quarter Finals in the tournament. The Bank was ranked in the 11th position out of a total 21 Banks.

ECONOMY

BOA-KENYA once again collaborated with Supamamas Ltd to hold a forum with the theme 'Business Strategies That Work'. The annual event brings together mothers with an aim to promote entrepreneurship within the target group. The event also provides an ideal platform for the Bank to educate the mothers on products that would meet their business and personal needs as well as suit their lifestyle. The products include: Chama Investment Account, Ambitions Savings Plan – Tarajio Savings Plan, 123 Cool Kids Account and My Business Pack – Inuka Account among others.

Customer Business Forums and Seminars

BOA-KENYA through its branch network held a series of business forums for its customers with the aim of educating customers on the Bank's products and services, investment opportunities, forex trading and overall wealth maximization. The forums were held in:

Ruaraka on 24th April 2013,
Nairobi on 25th May 2013,
Meru on 13th July 2013,
Kisii on 21st August 2013,
Kisumu on 22nd August 2013,
Bungoma on 27th September 2013
and Mombasa on 4th October 2013.

Patrick MOKAYA, General Manager, Business Dev. for BOA-KENYA awarding the top 3 winners of the horse racing event held in Gilgil.

The BOA-KENYA football team - Green Army - receiving pointers from the coach during the interbank competitions.

A BOA-KENYA official explains some of the Bank's products to one of the mothers at the Supamamas event.

BOARD OF DIRECTORS & CAPITAL

BOARD OF DIRECTORS

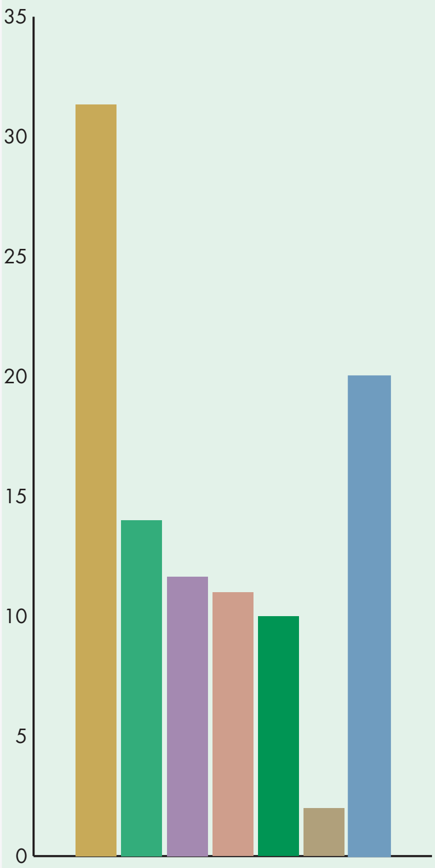
The Directors who held office during the year up to 27th March 2014 were:

Ambassador Dennis AWORI, Chairman
Mohamed BENNANI
Kwame AHADZI
Abdelkabir BENNANI
Vincent de BROUWER
Anis KADDOURI
Susan KASINGA
Dr. Monica J. KERRETTS-MAKAU
Eunice MBOGO
Alexandre RANDRIANASOLO
Bernardus A. M. ZWINKELS

CAPITAL

The Bank, as at 31st December 2013, had issued 4,167,663 shares with a nominal value of KES 1,000 per share. The following is the Bank's shareholding structure as at 31st December 2013.

Shareholding position based on number of shares (%).



31.34%	BANK OF AFRICA – BENIN
14.01%	AFH-OCEAN INDIEN
11.65%	BANK OF AFRICA – MADAGASCAR
11.00%	BANK OF AFRICA – COTE D'IVOIRE
10.00%	BOA GROUP S.A.
2.00%	AGORA S.A.
20.00%	NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)

REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

Ambassador Dennis AWORI
Chairman of the Board of Directors

2013 KENYA KEY FIGURES

Area (thousand Km²): 581

Population (million inhabitants): 44.3[1]

GDP (USD billions): 44.1[1]

GDP Per capita (USD): 994[2]

Number of banks: 43

Estimations as at 31/12/2013

1 Reference: http://donnees.banquemondiale.org/pays/kenya
2 Reference: By making the report between the GDP and the population

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2013 in accordance with 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 436 million (2012: Shs 703 million) has been added to retained earnings. The Directors recommend the approval of a final dividend of Shs 528,979,000 (2012: Shs 236,872,000).

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
Anis KADDOURI	Deputy Managing Director (Appointed 16th September 2013)
Jean-Geo PASTOURET	Deputy Managing Director (Deceased 30th September 2013)
Mohamed BENNANI	
Alexandre RANDRIANASOLO	
Vincent de BROUWER	
Bernardus A.M. ZWINKELS	
Abdelkabir BENNANI	
Susan KASINGA	Appointed 6th August 2013
Eunice MBOGO	Appointed 3rd September 2013
Dr. Monica J. KERRETTS-MAKAU	Appointed 11th September 2013
Davinder Singh SIKAND (Alternate Director: Shakir MERALI)	Resigned 15th February 2013

AUDITOR

The Company's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159(2) of the Companies Act and Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

Anne GITAU

Secretary

27 March 2014

CORPORATE GOVERNANCE REPORT

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 Managing Director, the Deputy Managing Director and eight 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 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 2013

	15th March 2013	29th May 2013	2nd October 2013	17th December 2013
Ambassador Dennis AWORI	A	A	A	A
Mohamed BENNANI	A	A	A	A
Alexandre RANDRIANASOLO	A	A	A	A
Vincent de BROUWER	A	A	A	A
Bernardus A.M. ZWINKELS	A	A	A	A
Abdelkabir BENNANI	A	A	A	A
Susan KASINGA	N/A	N/A	A	A
Eunice MBOGO	N/A	N/A	A	A
Dr. Monica J. KERRETTS-MAKAU	N/A	N/A	A	A
Kwame AHADZI	A	A	A	A
Anis KADDOURI	N/A	NA	A	A
Jean-Geo PASTOURET	A	AP	N/A	N/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 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 recommend appropriate remedial action. The Committee is chaired by Ms. Susan KASINGA. Other Committee members are Vincent de BROUWER, Abdelkabir BENNANI, Eunice MBOGO and Dr. Monica J. KERRETTS-MAKAU.

THE BOARD CREDIT COMMITTEE:

The overall responsibility of the 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 Committee is chaired by Dr. Monica KERRETTS-MAKAU. Other Committee members are Vincent de BROUWER, Abdelkabir BENNANI, Susan KASINGA, Kwame AHADZI and Anis KADDOURI.

THE BOARD RISK MANAGEMENT COMMITTEE:

The 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 Committee is chaired by Ms. Eunice MBOGO. Other Committee members are Vincent de BROUWER, Abdelkabir BENNANI, Kwame AHADZI and Anis KADDOURI.

THE BOARD NOMINATION, COMPENSATION AND HUMAN RESOURCES COMMITTEE:

The purpose of the 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 Committee is chaired by Dr. Monica KERRETTS-MAKAU. Other Committee members are Eunice MBOGO and Susan KASINGA.

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 28 of the financial statements.

BOARD PERFORMANCE EVALUATION

Under the Prudential Guidelines issued by the Regulator, 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 2013 was conducted in February 2014, with the aim of assessing their 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 Board Audit Committee, Board Risk Committee, Board Credit Committee and 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 noted that with the appointment of the additional independent non-executive Directors, the scope and depth of debates had become even richer and local content reinforced. The focus of the Board in 2014 shall be to further enhance the name and brand of the Bank in Kenya and increase the Bank's involvement in corporate social responsibility activities. The Board shall be monitoring keenly the performance of the Bank against its 3 year strategy

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.

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 members 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.

BOA-KENYA Board of Directors.

Seated L to R – Eunice MBOGO, Susan KASINGA, Amb. Dennis AWORI, Mohamed BENNANI, Alexandre RANDRIANASOLO and Abdelkabir BENNANI. Standing L to R – Bernardus A. M. ZWINKELS, Dr. Monica J. KERRETTS-MAKAU, Kwame AHADZI, Vincent de BROUWER, Anis KADDOURI and Anne GITAU.

STATEMENTS OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the 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.

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

(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 2013 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 21 February 2014 and signed on its behalf by:

Anis KADDOURI	**Kwame AHADZI**
Director	Director

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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 24 to 95. These financial statements comprise the consolidated statement of financial position at 31 December 2013 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 2013 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 2013 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 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 Kang'e Saiti- P/No. 1652

Certified Public Accountants

Nairobi, 27 March 2014

PricewaterhouseCoopers CPA.
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P.O. Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 – www.pwc.com/ke

Partners: A Eriksson P Kinisu K Muchiru M Mugasa F Muriu P Ngahu A Njeru R Njoroge B Okundi K Saiti R Shah

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

BOA GROUP IN 2014

Over 30 years of growth

A presence in 17 countries

430 Branches and 600 ATMs

5,000 Employees of 25 nationalities

5 Economic zones:

WAEMU, ECOWAS, EAC, COMESA, SACD

A leading banking partner,

BMCE Bank, which is part of FinanceCom,

a major Moroccan financial group.

As at 31/03/2014

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

BANK STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2013	2012 RESTATED
		SHS 000	SHS 000
INTEREST INCOME	5	5,243,846	5,634,468
INTEREST EXPENSE	6	(3,108,995)	(3,993,892)
NET INTEREST INCOME		**2,134,851**	**1,640,576**
FEE AND COMMISSION INCOME	7	678,142	493,395
FEE AND COMMISSION EXPENSE	7	(21,977)	(23,776)
NET FEE AND COMMISSION INCOME		**656,165**	**469,619**
NET FOREIGN EXCHANGE INCOME		190,781	172,321
OTHER OPERATING INCOME	8	166,940	47,618
TOTAL INCOME		**3,148,737**	**2,330,134**
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	16	(131,786)	(76,910)
NET OPERATING INCOME		**3,016,951**	**2,253,224**
OPERATING EXPENSES	9	(2,037,747)	(1,714,809)
PROFIT FROM OPERATIONS		**979,204**	**538,415**
SHARE OF INCOME OF ASSOCIATES	30(A)	49,100	32,418
PROFIT BEFORE INCOME TAX		**1,028,304**	**570,833**
INCOME TAX EXPENSE	11	(272,619)	(162,273)
PROFIT FOR THE YEAR		**755,685**	**408,560**
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**755,685**	**408,560**
DIVIDENDS:			
PROPOSED FINAL		528,979	236,872

The notes on pages 32 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2013	2012 RESTATED
		SHS 000	SHS 000
INTEREST INCOME	5	6,813,572	7,404,212
INTEREST EXPENSE	6	(3,690,177)	(4,635,824)
NET INTEREST INCOME		**3,123,395**	**2,768,388**
FEE AND COMMISSION INCOME	7	1,153,261	1,028,591
FEE AND COMMISSION EXPENSE	7	(95,760)	(83,579)
NET FEE AND COMMISSION INCOME		**1,057,501**	**945,012**
NET FOREIGN EXCHANGE INCOME		273,575	260,767
OTHER OPERATING INCOME	8	108,999	29,369
TOTAL INCOME		**4,563,470**	**4,003,536**
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	16	(567,370)	(293,533)
NET OPERATING INCOME		**3,996,100**	**3,710,003**
OPERATING EXPENSES	9	(3,383,769)	(2,905,418)
PROFIT FROM OPERATIONS		**612,331**	**804,585**
SHARE OF INCOME OF ASSOCIATES	30(A)	49,100	32,418
PROFIT BEFORE INCOME TAX		**661,431**	**837,003**
INCOME TAX EXPENSE	11	(225,403)	(134,378)
PROFIT FOR THE YEAR		**436,028**	**702,625**
OTHER COMPREHENSIVE INCOME, net of income tax Items that may be subsequently reclassified to profit or loss Foreign currency translation differences for foreign operations		95,479	(128,905)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**531,507**	**573,720**
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
OWNERS OF THE BANK		548,726	533,762
NON CONTROLLING INTEREST		(112,698)	168,863
		436,028	**702,625**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
OWNERS OF THE BANK		587,029	442,752
NON CONTROLLING INTEREST		(55,522)	130,968
		531,507	**573,720**
DIVIDENDS:			
PROPOSED FINAL		528,979	236,872

The notes on pages 32 to 95 are an integral part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

BANK STATEMENT OF FINANCIAL POSITION

	NOTES	2013	2012 RESTATED	2011 RESTATED
		SHS 000	SHS 000	SHS 000
ASSETS				
CASH AND BALANCES WITH CENTRAL BANK	13	3,426,349	6,167,146	2,889,002
DUE FROM OTHER BANKING INSTITUTIONS	14	4,578,874	1,203,068	2,102,491
DUE FROM GROUP BANKS	29(A)	1,355,404	811,892	923,688
INVESTMENT SECURITIES - AVAILABLE FOR SALE	15(A)	83,889	52,288	50,100
INVESTMENT SECURITIES - HELD TO MATURITY	15(B)	9,442,651	8,567,568	9,014,580
LOANS AND ADVANCES TO CUSTOMERS	16	31,091,347	29,882,472	21,639,691
CURRENT INCOME TAX		-	-	8,589
DEFERRED INCOME TAX	17	54,348	44,539	32,043
OTHER ASSETS	18	681,964	569,632	492,245
PROPERTY AND EQUIPMENT	19	669,578	578,526	526,576
INTANGIBLE ASSETS	20(A)	72,365	66,122	72,876
PREPAID OPERATING LEASE RENTALS	21	-	4,779	4,864
INVESTMENT IN ASSOCIATE	30(A)	426,118	377,018	344,600
INVESTMENT IN SUBSIDIARY	30(B)	800,412	632,875	632,875
TOTAL ASSETS		**52,683,299**	**48,957,925**	**38,734,220**
LIABILITIES				
CUSTOMER DEPOSITS	22	36,740,085	35,099,546	23,986,396
DUE TO OTHER BANKING INSTITUTIONS	23	1,497,759	3,066,804	3,074,741
DUE TO GROUP BANKS	29(B)	4,374,262	4,568,934	5,505,369
CURRENT INCOME TAX		83,979	13,161	-
OTHER LIABILITIES	24	448,214	415,689	598,217
LONG TERM LIABILITIES	31	2,999,840	878,422	926,688
TOTAL LIABILITIES		**46,144,139**	**44,042,556**	**34,091,411**
EQUITY				
SHARE CAPITAL	25	4,167,663	3,400,000	3,400,000
SHARE PREMIUM	25	758,515	421,200	421,200
REGULATORY RESERVES	26	91,932	289,384	211,240
RETAINED EARNINGS		992,071	567,913	474,369
PROPOSED DIVIDEND	12	528,979	236,872	136,000
TOTAL EQUITY		**6,539,160**	**4,915,369**	**4,642,809**
TOTAL EQUITY AND LIABILITIES		**52,683,299**	**48,957,925**	**38,734,220**

The financial statements on pages 24 to 95 were approved for issue by the Board of Directors on 21 February 2014 and signed on its behalf by*:

Anis KADDOURI	**Kwame AHADZI**	**Amb. Dennis AWORI**	**Anne GITAU**
Director	Director	Director	Secretary

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2013	2012 RESTATED	2011 RESTATED
		SHS 000	SHS 000	SHS 000
ASSETS				
CASH AND BALANCES WITH CENTRAL BANKS	13	5,767,304	8,115,774	4,522,936
DUE FROM OTHER BANKING INSTITUTIONS	14	5,157,625	2,013,941	3,579,842
DUE FROM GROUP BANKS	29(A)	1,556,221	1,091,609	1,196,385
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS		-	-	433,528
INVESTMENT SECURITIES - AVAILABLE-FOR-SALE	15(A)	83,889	52,288	63,604
INVESTMENT SECURITIES - HELD TO MATURITY	15(B)	12,900,005	11,165,696	10,705,570
LOANS AND ADVANCES TO CUSTOMERS	16	37,938,349	37,587,932	29,986,012
CURRENT INCOME TAX		1,915	2,756	26,869
DEFERRED INCOME TAX	17	300,962	158,263	72,363
OTHER ASSETS	18	918,012	779,552	685,149
PROPERTY AND EQUIPMENT	19	1,192,009	1,094,178	1,104,322
INTANGIBLE ASSETS - SOFTWARE COSTS	20(A)	170,812	129,057	107,752
- GOODWILL	20(B)	15,610	15,610	15,610
PREPAID OPERATING LEASE RENTALS	21	109,150	108,569	41,802
INVESTMENT IN ASSOCIATE	30(A)	426,118	377,018	344,600
TOTAL ASSETS		**66,537,981**	**62,692,243**	**52,886,344**
LIABILITIES				
CUSTOMER DEPOSITS	22	46,833,218	44,710,247	33,545,076
DUE TO OTHER BANKING INSTITUTIONS	23	1,923,624	3,613,282	4,399,495
DUE TO GROUP BANKS	28(B)	4,632,150	4,750,308	5,904,445
CURRENT INCOME TAX		83,979	13,161	-
OTHER LIABILITIES	24	700,674	577,128	676,418
LONG TERM LIABILITIES	31	4,809,166	2,926,962	2,701,674
TOTAL LIABILITIES		**58,982,811**	**56,591,088**	**47,227,108**
EQUITY				
SHARE CAPITAL	25	4,167,663	3,400,000	3,400,000
SHARE PREMIUM	25	758,515	421,200	421,200
REGULATORY RESERVES	26	124,886	339,646	253,598
TRANSLATION RESERVES		(93,970)	(132,273)	(41,263)
RETAINED EARNINGS		1,168,871	934,364	723,522
PROPOSED DIVIDEND	12	528,979	236,872	136,000
SHAREHOLDERS' FUNDS		**6,654,944**	**5,199,809**	**4,893,057**
NON CONTROLLING INTEREST		900,226	901,346	766,179
TOTAL EQUITY		**7,555,170**	**6,101,155**	**5,659,236**
TOTAL EQUITY AND LIABILITIES		**66,537,981**	**62,692,243**	**52,886,344**

The financial statements on pages 24 to 95 were approved for issue by the Board of Directors on 21 February 2014 and signed on its behalf by*:

Anis KADDOURI
Director

Kwame AHADZI
Director

Amb. Dennis AWORI
Director

Anne GITAU
Secretary

(*) The notes on pages 32 to 95 are an integral part of these financial statements.

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

BANK STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL	SHARE PREMIUM	REGULATORY RESERVES	RETAINED EARNINGS	PROPOSED DIVIDEND	TOTAL EQUITY
		SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2012							
AS PREVIOUSLY STATED		3,400,000	421,200	211,240	503,578	136,000	4,672,018
PRIOR YEAR ADJUSTMENT	32	-	-	-	(29,209)	-	(29,209)
RESTATED		3,400,000	421,200	211,240	474,369	136,000	4,642,809
PROFIT FOR THE YEAR		-	-	-	408,560	-	408,560
TRANSFER TO REGULATORY RESERVE	26	-	-	78,144	(78,144)	-	-
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY							
DISTRIBUTIONS TO OWNERS OF THE COMPANY							
DIVIDENDS:							
PAID (FINAL FOR 2011)	12	-	-	-	-	(136,000)	(136,000)
PROPOSED FINAL FOR 2012	12	-	-	-	(236,872)	236,872	-
TOTAL DISTRIBUTIONS TO OWNERS		**-**	**-**	**-**	**(236,872)**	**100,872**	**(136,000)**
AT 31 DECEMBER 2012		**3,400,000**	**421,200**	**289,384**	**567,913**	**236,872**	**4,915,369**
AT 1 JANUARY 2013							
AS PREVIOUSLY STATED		3,400,000	421,200	289,384	662,305	236,872	5,009,761
PRIOR YEAR ADJUSTMENT	32				(94,392)		(94,392)
RESTATED		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)	12	-	-	-	-	(236,872)	(236,872)
- PROPOSED FINAL FOR 2013	12	-	-	-	(528,979)	528,979	-
TOTAL CONTRIBUTIONS BY AND DISTRIBUTION TO OWNERS		**767,663**	**337,315**	**-**	**-**	**292,107**	**868,106**
AT 31 DECEMBER 2013		**4,167,663**	**758,515**	**91,932**	**992,071**	**528,979**	**6,539,160**

The notes on pages 32 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	NOTES	SHARE CAPITAL	SHARE PREMIUM	TRANSLATION RESERVES	REGULATORY RESERVES	RETAINED EARNINGS	PROPOSED DIVIDEND	ATTRIBUTABLE TO EQUITY HOLDERS	NON CONTROLLING INTEREST	TOTAL EQUITY
		SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2012										
AS PREVIOUSLY STATED		**3,400,000**	**421,200**	**(41,263)**	**253,598**	**743,984**	**136,000**	**4,913,519**	**757,436**	**5,670,955**
PRIOR YEAR ADJUSTMENT	32					(20,462)		(20,462)	8,743	(11,719)
RESTATED		**3,400,000**	**421,200**	**(41,263)**	**253,598**	**723,522**	**136,000**	**4,893,057**	**766,179**	**5,659,236**
COMPREHENSIVE INCOME										
PROFIT FOR THE YEAR		-	-	-	-	533,762	-	533,762	168,863	702,625
TRANSFER TO REGULATORY RESERVE	26	-	-	-	86,048	(86,048)	-	-	-	-
CURRENCY TRANSLATION DIFFERENCES		-	-	(91,010)	-	-	-	(91,010)	(37,895)	(128,905)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**-**	**-**	**(91,010)**	**86,048**	**447,714**	**-**	**442,752**	**130,968**	**573,720**
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS OF THE GROUP										
ISSUE OF SHARES		-	-	-	-	-	-	-	54,226	54,226
DIVIDENDS:										
PAID (FINAL FOR 2011)	12	-	-	-	-	-	(136,000)	(136,000)	(50,027)	(186,027)
PROPOSED FINAL FOR 2012	12	-	-	-	-	(236,872)	236,872	-	-	-
TOTAL DISTRIBUTION TO OWNERS		**-**	**-**	**-**	**-**	**(236,872)**	**100,872**	**(136,000)**	**4,199**	**(131,801)**
AT 31 DECEMBER 2012		**3,400,000**	**421,200**	**(132,273)**	**339,646**	**934,364**	**236,872**	**5,199,809**	**901,346**	**6,101,155**
AT 1 JANUARY 2013										
AS PREVIOUSLY STATED		**3,400,000**	**421,200**	**(133,932)**	**339,646**	**1,019,310**	**236,872**	**5,283,096**	**890,245**	**6,173,341**
PRIOR YEAR ADJUSTMENT	32			1,659		(84,946)		(83,287)	11,101	(72,186)
RESTATED		**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 GROUP										
ISSUE OF SHARES	25	767,663	337,315	-	-	-	-	1,104,978	167,471	1,272,449
DIVIDENDS:										
- PAID (FINAL FOR 2012)	12	-	-	-	-	-	(236,872)	(236,872)	(113,069)	(349,941)
- PROPOSED FINAL FOR 2013	12	-	-	-	-	(528,979)	528,979	-	-	-
TOTAL CONTRIBUTIONS BY AND DISTRIBUTION 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**

The notes on pages 32 to 95 are an integral part of these financial statements.

BANK STATEMENT OF CASH FLOWS

	NOTES	2013 SHS 000	2012 SHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		5,304,787	5,285,395
INTEREST PAYMENTS		(3,135,469)	(3,095,648)
NET FEE AND COMMISSION RECEIPTS		656,165	469,619
OTHER INCOME RECEIVED		263,503	13,281
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		3,067	9,392
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(2,005,223)	(1,452,215)
INCOME TAX PAID		(201,801)	(161,608)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**885,029**	**1,068,216**
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(1,208,876)	(8,316,453)
- CASH RESERVE REQUIREMENT		(48,776)	(555,832)
- OTHER ASSETS		112,332	(77,387)
- CUSTOMER DEPOSITS		1,640,539	11,113,150
- DEPOSITS (TO)/FROM OTHER BANKS		(1,569,044)	891,486
- AMOUNTS DUE (TO)/FROM GROUP COMPANIES		(194,673)	(682,557)
- OTHER LIABILITIES		32,523	(247,711)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES		**(350,946)**	**3,192,912**
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN SUBSIDIARY	30(B)	(167,537)	-
PURCHASE OF PROPERTY AND EQUIPMENT	19	(265,093)	(162,329
PURCHASE OF INTANGIBLE ASSETS	20(A)	(32,638)	(16,204)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		47,805	1,245
SALE/(PURCHASE) OF INVESTMENT SECURITIES		(31,601)	282,950
PURCHASE OF OTHER FINANCIAL ASSETS		-	(2,188)
DIVIDENDS RECEIVED		94,217	43,728
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES		**(354,847)**	**147,202**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES		1,104,978	-
PROCEEDS FROMBORROWINGS	31	2,140,875	-
REPAYMENT OF BORROWINGS	31	(62,007)	(61,929)
DIVIDENDS PAID		(236,872)	(136,000)
NET CASH FROM /(USED IN) FINANCING ACTIVITIES		**2,946,974**	**(197,929)**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**2,241,181**	**3,142,185**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
AT START OF YEAR		4,676,417	1,534,232
INCREASE		2,241,181	3,142,185
AT YEAR END	**28**	**6,917,598**	**4,676,417**

The notes on pages 32 to 95 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	NOTES	2013 SHS 000	2012 SHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		6,882,592	8,728,965
INTEREST PAYMENTS		(3,647,124)	(4,377,708)
NET FEE AND COMMISSION RECEIPTS		1,057,501	945,012
OTHER INCOME RECEIVED		382,574	284,013
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		227,010	9,391
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(3,260,110)	(2,991,603)
INCOME TAX PAID		(153,744)	(98,136)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		**1,488,699**	**2,499,934**
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
- LOANS AND ADVANCES		(350,417)	(7,605,569)
- CASH RESERVE REQUIREMENT		(50,095)	(559,993)
- OTHER ASSETS		138,460	141,010
- CUSTOMER DEPOSITS		2,122,972	11,165,171
- DEPOSITS (TO)/FROM OTHER BANKS		(1,689,658)	(786,213)
- AMOUNTS DUE (TO)/FROM GROUP COMPANIES		(118,158)	(1,154,137)
- OTHER LIABILITIES		123,658	(174,261)
NET CASH GENERATED FROM OPERATING ACTIVITIES		**1,665,461**	**3,525,942**
CASH FLOWS FROM INVESTING ACTIVITIES			
PURCHASE OF PROPERTY AND EQUIPMENT	19	(346,238)	(268,202)
PURCHASE OF INTANGIBLE ASSETS	20(A)	(80,989)	(35,976)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		48,938	5,728
SALE/(PURCHASE) OF INVESTMENT SECURITIES		(231,109)	(8,057)
NET CASH USED IN INVESTING ACTIVITIES		**(609,398)**	**(306,507)**
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES		1,272,449	54,226
PROCEEDS FROMBORROWINGS	31	2,140,875	697,400
REPAYMENT OF BORROWINGS	31	(301,221)	(485,775)
DIVIDENDS PAID		(349,941)	(186,027)
NET CASH FROM FINANCING ACTIVITIES		**2,762,162**	**79,824**
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,818,225**	**3,299,259**
MOVEMENT IN CASH AND CASH EQUIVALENTS			
AT START OF YEAR		7,857,387	4,558,128
INCREASE		3,818,225	3,299,259
AT YEAR END	**28**	**11,675,612**	**7,857,387**

The notes on pages 32 to 95 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
31 DECEMBER 2013

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 hierarchy 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 inputs 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 value 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.

(c) Changes in accounting policy and disclosures

(i) New and amended standards adopted

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2013 have been adopted by the Company. Of those, the following have had an effect on the Group and Company's financial statements:

- IAS 1 (Amendment), Presentation of financial statements: The amendment requires entities to Group items of other comprehensive income according to whether or not they will be subsequently reclassified to profit or loss.

- IFRS 7 (Amendment), Financial Instruments: disclosures: The amendment provides new guidance on offsetting financial assets and financial liabilities. It allows investors to bridge differences in the offsetting reporting requirements of IFRS and US GAAP and introduces new disclosures that provide better information on how entities mitigate credit risk, including related collateral pledged.

- IFRS 10 Consolidated financial statements: The new standard replaces all the guidances on control and consolidation in IAS 27, Consolidated and separate financial statements and SIC-12, Special purpose entities. IFRS 10 introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is bases on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.

- IFRS 12 sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 and it replaced the disclosure requirements currently found in IAS 28, 'Investments in associates'. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. The impact of adopting of IFRS 12 has been increased disclosures in the financial statements.

- IFRS 13, Fair value measurement: The new standard defines fair value, set out a framework for measuring fair value, and requires disclosures about fair value measuerments. IFRS 13 applies when other standard require or permit fair value measurements; it does not introduce any new requirements to measure an asset or liability at fair value.

(ii) New and revised standards and interpretations which have been issued but are not yet effective

The Group and Company has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2013.

- Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011) – The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014, with retrospective application.

- Amendments to IAS 36 titled Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013) – The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014. Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013) – The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as 'novation of derivatives'), as a consequence of laws or regulations, if specific conditions are met. They are effective for annual periods beginning on or after 1 January 2014.

(ii) New and revised standards and interpretations which have been issued but are not yet effective (continued)

- Amendments to IFRS 10, IFRS 12 and IAS 27 titled Investment Entities (issued in October 2012) – The amendments define "investment entities" and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity's investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014, retrospectively with some transitional provisions. The Directors do not anticipate any effect on the Company's consolidated financial statements as the parent company is not an investment entity.

- IFRS 9 - Financial Instruments it replaces parts of IAS 39 – Financial Instruments, Recognition and Measurement that relate classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity's business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirments of IAs 39. The main change is that, in cases where the fair value option is applied for financial liabilities, the part of a fair value change arising from a change in an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

- Amendments to IFRS 9 - Financial Instruments, hedge accounting: it replaces parts of IAS 39 – Financial Instruments, Recognition and Measurement that relate hedge accounting. The changes align hedge accounting closely to entity risk management policy, replaces the brightline under IAS 39 for hedge effectiveness and eligibility for hedge accounting, changes what qualifies as a hedged item removing the restrictions under IAS 39 and relaxes the rules on the use of some hedging instruments such as purchased options and non-derivative financial items. The standard has no mandatory effective date but it is available for immediate application.

The Directors have assessed the potential impact of the above and expect that they will not have a significant impact on the Company's financial statements for 2014.

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 a rising 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.

(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 associate' 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-net)".

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.

Translation differences on non-monetary financial assets and liabilities such as equities held at fairvalue 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 hyper inflationary 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.

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.

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 the statement of 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.

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.

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:

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses
	Financial assets designated at fair value through profit or loss	Financial assets designated at fair value through profit or loss	Debt securities	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers		SMEs
				Corporates
				Retail
		Investment securities - debt instruments		Listed
				Unlisted
	Held-to-maturity Investments	Investment securities - debt securities		Listed
				Unlisted
		Investment securities - equity securities		Listed
				Unlisted
Financial liabilities	Financial liabilities at armortised cost	Deposits from banks		
		Deposits from customers		
Off-balance sheet financial Instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

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.

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.

2.6.1 Assets carried at amortised cost (continued)

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.

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.

2.10.2 Goodwill

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

For the purpose of impairment testing, goodwill acquired in a business combinationis 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.

2.10.2 Goodwill (continued)

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.

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.

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.

2.18.1 The Bank is the lessee

(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 toprofit or loss on a straight-line basis over the period of the lease.

2.18.1 The Bank is the lessee (continued)

(i) Operating lease (continued)

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.

2.18.2 The Group is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

2.18.3 Fees paid in connection with arranging leases

The Group makes payments to agents for services in connection with negotiating lease contracts with the Group's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset, and depreciated over the life of the lease.

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.

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.

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 available for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

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 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 Group regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Group's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance. The Group defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in regulatory requirements,market conditions, products and services offered.

The Group's Board Audit and 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. The Group's Board Audit and Risk Management Committees are assisted in these functions by the Internal Audit and Enterprise Risk & Complaince departments, who independently undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Committees. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as Liquidity risk, foreign exchange risk, price risk, interest rate risk and credit risk. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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.

The Group is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

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. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

Credit risk policies and procedures are reviewed by the management and are approved by the Board. The Group has a system of checks and balances in place around the extension of credit that comprise of:
- an independent credit risk management function;
- multiple credit approvers; and
- independent audit, risk review and compliance functions.

The Group's Credit Policy 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.

Salient features of the Group's risk approval process are delineated below:
• Every extension of credit to any counterparty requires approval by various pre-defined levels of approving authorities as defined in the Credit Policy manual.
• All business units must apply consistent standards in arriving at their credit decisions.
• Every material change to a credit facility requires approval at the appropriate/pre-defined level.

The disbursement of credit facilities at each Group Bank is managed by a centralized Credit Administration Department (CAD), reporting to the respective Risk Management function. CAD is also responsible for collateral/documents management including safekeeping.

The Group monitors its credit portfolio on a continuing basis. Procedures are in place to identify, at an early stage, credit exposures for which there may be a risk of loss. The objective of an early warning system is to address potential problems while various options may still be available. Early detection of problem loans is a tenet of our credit culture and is intended to ensure that greater attention is paid to such exposure. The Group has an established Debt Recovery Unit to focus on expediting recoveries of problem credits. The Unit negotiates with problem borrowers and recommends restructuring and rescheduling of stuck up loans to the Management, the Board Credit Committee and the full Board. For cases where the possibilities of economically viable means of recovery are exhausted, legal proceedings are initiated.

The Group follows the guidelines of the Central Bank of Kenya or the regulators under their respective jurisdictions for the classification/write off procedures relating to problem loans.

4.1.2 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 banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to monthly or more frequent review, when considered necessary. 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:

(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.

4.1.2 Risk limit control and mitigation policies (continued)

(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.

4.1.3 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 balance sheet 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 26.

57% of the total maximum exposure is derived from loans and advances to banks and customers (2012: 57%); 16% represents investments in investment securities (2012: 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), (2012: 96%); 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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
NEITHER PAST DUE NOR IMPAIRED	34,077,507	36,335,496	29,193,230	28,935,864
PAST DUE BUT NOT IMPAIRED	2,619,979	931,279	834,658	405,437
INDIVIDUALLY IMPAIRED	1,947,452	744,354	1,342,577	685,329
GROSS	38,644,938	38,011,129	31,370,465	30,026,630
LESS: IMPAIRMENT OF LOANS AND ADVANCES (NOTE 16)	(706,589)	(423,197)	(279,117)	(144,158)
NET LOANS AND ADVANCES	**37,938,349**	**37,587,932**	**31,091,347**	**29,882,472**

No other financial assets are either past due or impaired.

LOANS AND ADVANCES NEITHER PAST DUE NOR IMPAIRED

STANDARD (NORMAL GRADE)	34,077,507	36,335,496	29,193,230	28,935,864

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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
PAST DUE UP TO 30 DAYS	1,910,040	164,247	378,925	106,952
PAST DUE 31- 60 DAYS	136,140	54,571	865	37,652
PAST DUE 61- 90 DAYS	82,677	111,760	48,106	89,137
PAST DUE > 90 DAYS	491,122	600,701	406,763	171,696
TOTAL PAST DUE LOANS AND ADVANCES	**2,619,979**	**931,279**	**834,658**	**405,437**

Individually assessed impaired loans and advances comprising:

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
- CORPORATE	856,558	195,417	645,130	194,809
- RETAIL	255,356	120,987	159,064	87,436
- SME	835,538	427,950	538,383	403,084
IMPAIRED LOANS AND ADVANCES	**1,947,452**	**744,354**	**1,342,577**	**685,329**

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

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

COLLATERAL REPOSSESSED

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

	GROUP AND BANK	
	2013	2012
	SHS 000	SHS 000
MOTOR VEHICLES	10,500	6,900

CONCENTRATIONS OF RISK

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

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
BY ECONOMIC SECTOR				
WHOLESALE/RETAIL	8,992,926	9,174,061	6,950,254	6,412,491
MANUFACTURING	6,183,262	6,498,662	5,536,156	5,856,175
AGRICULTURE	1,767,889	1,719,675	1,184,933	1,374,366
CONSTRUCTION	4,223,753	6,152,587	3,177,626	4,877,571
TRANSPORT	3,093,883	2,674,116	2,509,662	2,306,405
INDIVIDUAL/PERSONAL	4,841,922	4,539,543	4,133,744	3,671,752
SERVICES	2,171,594	2,523,467	2,171,594	2,523,467
FINANCIAL INSTITUTIONS	597,832	1,026,955	556,524	907,497
TOURISM	135,958	61,389	135,958	61,389
COMMUNICATION	1,084,441	737,208	1,084,441	737,208
HOSPITALITY	42,521	152,480	42,521	152,480
OTHERS	5,508,957	2,750,986	3,887,054	1,145,829
TOTAL ON BALANCE SHEET EXPOSURE	**38,644,938**	**38,011,129**	**31,370,466**	**30,026,630**
ACCEPTANCES AND LETTERS OF CREDIT	1,554,140	2,368,026	1,316,519	1,422,728
GUARANTEE AND PERFORMANCE BONDS	11,165,872	6,530,517	8,936,837	4,788,413
COMMITMENTS TO LEND	4,020,478	3,931,547	3,345,331	3,508,182
TOTAL NON-FUNDED EXPOSURE	**16,740,490**	**12,830,090**	**13,598,687**	**9,719,323**
TOTAL	**55,385,426**	**50,841,219**	**44,969,153**	**39,745,953**

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 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.

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.

4.2.2 Funding approach

Sources of liquidity are regularly reviewed by a separate team in Group Treasury to maintain awide diversification by currency, provider, product and term.

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

The table below presents the cash flows payable by the Group under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, where as the Group manages the liquidity risk based on a different basis (see 'Liquidity risk management process' above for details), not resulting in a significantly different analysis.

The table below presents the cash flows payable and receivable by the Group and the Company under financial assets and liabilities by remaining contractual maturities at the balance sheet date.

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

GROUP	MONTHS			YEARS		
	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
AT 31 DECEMBER 2013						
FINANCIAL ASSETS						
CASH AND BALANCES WITH CENTRAL BANKS	5,767,304	-	-	-	-	5,767,304
INVESTMENT SECURITIES-HTM	338,770	3,087,015	1,854,881	3,177,729	4,441,610	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- AVAILABLE-FOR-SALE	-	-	-	-	83,889	83,889
LOANS AND ADVANCES	15,658,405	1,293,000	1,874,799	13,991,426	5,120,719	37,938,349
OTHER ASSETS	918,012	-	-	-	-	918,012
TOTAL FINANCIAL ASSETS	**28,912,441**	**4,863,911**	**3,729,680**	**17,169,155**	**9,646,218**	**64,321,405**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	26,347,464	14,099,232	6,644,115	226,679	-	47,317,390
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	-	-	123,769	4,586,948	827,979	5,538,696
OTHER LIABILITIES	700,674	-	-	-	-	700,674
TOTAL FINANCIAL LIABILITIES	**29,569,245**	**18,034,873**	**6,866,910**	**4,813,627**	**827,979**	**60,112,634**
GAP	**(654,804)**	**(13,170,962)**	**(3,170,230)**	**12,355,528**	**8,818,239**	**4,208,771**

GROUP	MONTHS			YEARS		
	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
AT 31 DECEMBER 2012						
FINANCIAL ASSETS						
CASH AND BALANCES WITH CENTRAL BANKS	8,115,774	-	-	-	-	8,115,774
INVESTMENT SECURITIES-HTM	290,223	241,580	2,448,328	3,381,319	4,804,246	11,165,696
PLACEMENTS WITH BANKS	2,013,941	-	-	-	-	2,013,941
AMOUNTS DUE FROM GROUP COMPANIES	1,048,308	-	43,301	-	-	1,091,609
INVESTMENT SECURITIES-AFS	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	15,856,628	1,960,044	2,461,079	11,710,910	5,599,171	37,587,832
OTHER ASSETS	662,111	-	73,637	-	43,804	779,552
TOTAL FINANCIAL ASSETS	**27,986,985**	**2,201,624**	**5,026,345**	**15,092,229**	**10,499,509**	**60,806,691**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	19,162,971	14,354,883	6,576,403	3,805,504	1,289,789	45,189,550
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,206,130	-	407,152	-	-	3,613,282
AMOUNTS DUE TO GROUP BANKS	1,961,137	-	2,789,171	-	-	4,750,308
LONG TERM LIABILITIES	897	-	49,139	2,762,057	308,687	3,120,780
OTHER LIABILITIES	577,128	-	-	-	-	577,128
TOTAL FINANCIAL LIABILITIES	**24,908,263**	**14,354,883**	**9,821,865**	**6,567,561**	**1,598,476**	**57,251,048**
GAP	**3,078,722**	**(12,153,259)**	**(4,795,520)**	**8,524,667**	**8,901,033**	**3,555,644**

4.2.3 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
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2013						
FINANCIAL ASSETS						
CASH AND BALANCES WITH CENTRAL BANK	3,426,349	-	-	-	-	3,426,349
INVESTMENT SECURITIES-HTM	-	1,574,162	622,628	2,804,251	4,441,610	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	1,290,269	10,344,871	4,216,364	31,091,347
OTHER ASSETS	681,964	-	-	-	-	681,964
TOTAL FINANCIAL ASSETS	**24,038,843**	**2,817,753**	**1,912,897**	**13,149,122**	**8,741,863**	**50,660,478**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	19,145,792	13,625,802	4,408,788	43,975	-	37,224,357
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	-	-	97,678	2,871,008	760,684	3,729,370
OTHER LIABILITIES	448,212	-	-	-	-	448,212
TOTAL FINANCIAL LIABILITIES	**21,688,698**	**17,304,103**	**4,605,492**	**2,914,983**	**760,684**	**47,273,960**
GAP	**2,350,145**	**(14,486,350)**	**(2,692,595)**	**10,234,139**	**7,981,179**	**3,386,518**

BANK		MONTHS		YEARS		
	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
AT 31 DECEMBER 2012						
FINANCIAL ASSETS						
CASH AND BALANCES WITH CENTRAL BANK	6,167,146	-	-	-	-	6,167,146
INVESTMENT SECURITIES-HTM	-	-	799,535	2,963,786	4,804,247	8,567,568
PLACEMENTS WITH BANKS	1,203,068	-	-	-	-	1,203,068
AMOUNTS DUE FROM GROUP COMPANIES	768,591	-	43,301	-	-	811,892
INVESTMENT SECURITIES-AFS	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	13,542,736	1,652,998	1,959,623	8,676,342	4,050,773	29,882,472
OTHER ASSETS	569,632	-	-	-	-	569,632
TOTAL FINANCIAL ASSETS	**22,251,173**	**1,652,998**	**2,802,459**	**11,640,128**	**8,907,308**	**47,254,066**
FINANCIAL LIABILITIES						
CUSTOMER DEPOSITS	12,061,796	13,557,372	4,910,403	3,759,489	1,289,790	35,578,850
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,720,214	-	346,590	-	-	3,066,804
AMOUNTS DUE TO GROUP BANKS	1,952,801	-	2,616,133	-	-	4,568,934
LONG TERM LIABILITIES	-	-	49,139	769,561	253,539	1,072,240
OTHER LIABILITIES	415,689	-	-	-	-	415,689
TOTAL FINANCIAL LIABILITIES	**17,150,500**	**13,557,372**	**7,922,265**	**4,529,050**	**1,543,330**	**44,702,517**
GAP	**5,100,673**	**(11,904,374)**	**(5,119,806)**	**7,111,078**	**7,363,978**	**2,551,549**

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

Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with Central Banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with Central Banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

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 Board of Directors and heads of each business unit.

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 commercial 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 ALCO. The Bank's Risk & Compliance 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.

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 2013. Included in the table are the Group's and the Company's financial instruments categorised by currency:

GROUP

	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2013					
FINANCIAL ASSETS					
CASH AND BALANCES WITH CENTRAL BANKS	781,420	114,393	284,936	3,099	1,183,847
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	15,393,779
OTHER ASSETS	176,065	1	180,759	74	356,900
TOTAL FINANCIAL ASSETS	**17,653,709**	**154,493**	**1,679,336**	**274,408**	**19,761,947**
FINANCIAL 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	434,823
AMOUNTS DUE TO GROUP BANKS	5,628,671	-	71,671	68	5,700,411
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**	**1,135,366**
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**	**39,434**

4.3.1 Foreign exchange risk (continued)

GROUP

	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2012					
FINANCIAL ASSETS					
CASH AND BALANCES WITH CENTRAL BANKS	821,020	88,290	157,268	48,675	1,115,253
PLACEMENTS WITH BANKS	999,649	145,811	99,318	299,360	1,544,138
AMOUNTS DUE FROM GROUP COMPANIES	711,680	-	1,756	22,367	735,803
LOANS AND ADVANCES	11,068,134	46,883	981,594	344,629	12,441,241
OTHER ASSETS	114,093	12,444	17,962	129	144,627
TOTAL FINANCIAL ASSETS	**13,714,576**	**293,428**	**1,257,898**	**715,160**	**15,981,062**
FINANCIAL LIABILITIES					
CUSTOMER DEPOSITS	5,308,172	213,919	952,416	110,784	6,585,291
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,136,737	-	253,516	70,396	3,460,649
AMOUNTS DUE TO GROUP BANKS	4,398,754	-	56,834	-	4,455,588
LONG TERM LIABILITIES	690,704	-	187,717	-	878,421
OTHER LIABILITIES	40,347	9,568	33,199	4,099	87,213
TOTAL FINANCIAL LIABILITIES	**13,574,714**	**223,487**	**1,483,682**	**185,279**	**15,467,162**
NET ON-BALANCE SHEET POSITION	**139,862**	**69,941**	**(225,784)**	**529,881**	**513,900**
NET OFF-BALANCE SHEET POSITION	(172,646)	(62,770)	228,889	(477,738)	(484,265)
NET OVERALL POSITION	**(32,784)**	**7,171**	**3,105**	**52,143**	**29,635**

The net off-balance sheet position represents the difference between long and short positions of foreign currency derivative financial instruments.

BANK

	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2013					
FINANCIAL ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	230,709	31,265	108,524	535	371,032
PLACEMENTS WITH BANKS	382,194	-	255,745	256,802	894,740
AMOUNTS DUE FROM GROUP COMPANIES	1,151,052	-	-	-	1,151,052
LOANS AND ADVANCES	11,205,728	28,472	927,121	8,757	12,170,079
OTHER ASSETS	2,902	1	1,099	74	4,077
TOTAL FINANCIAL ASSETS	**12,972,585**	**59,738**	**1,292,489**	**266,168**	**14,590,980**
FINANCIAL LIABILITIES					
CUSTOMER DEPOSITS	3,737,827	90,382	967,659	148,467	4,944,336
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**	**13,820,782**
NET ON-BALANCE SHEET POSITION	**622,471**	**(34,042)**	**64,654**	**117,116**	**770,198**
NET OFF-BALANCE SHEET POSITION	(615,295)	34,154	(65,462)	(111,003)	(757,606)
NET OVERALL POSITION	**7,176**	**112**	**(808)**	**6,113**	**12,592**

4.3.1 Foreign exchange risk (continued)

BANK

	USD	GBP	EUR	OTHERS	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AS AT 31 DECEMBER 2012					
FINANCIAL ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	673,105	77,427	118,014	-	868,546
PLACEMENTS WITH BANKS	732,338	135,269	67,242	268,149	1,202,998
AMOUNTS DUE FROM GROUP COMPANIES	646,951	-	1,756	-	648,707
LOANS AND ADVANCES	9,869,688	46,786	979,575	327,037	11,223,086
OTHER ASSETS	64,201	12,444	17,769	129	94,543
TOTAL FINANCIAL ASSETS	**11,986,283**	**271,926**	**1,184,356**	**595,315**	**14,037,880**
FINANCIAL LIABILITIES					
CUSTOMER DEPOSITS	4,499,253	204,818	892,430	44,613	5,641,114
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,406,294		243,486	68,986	2,718,766
AMOUNTS DUE TO GROUP BANKS	4,333,545	-	56,834	-	4,390,379
LONG TERM LIABILITIES	690,704	-	187,717	-	878,421
OTHER LIABILITIES	16,569	1,013	930	1,569	20,081
TOTAL FINANCIAL LIABILITIES	**11,946,365**	**205,831**	**1,381,397**	**115,168**	**13,648,761**
NET ON-BALANCE SHEET POSITION	**39,918**	**66,095**	**(197,041)**	**480,147**	**389,119**
NET OFF-BALANCE SHEET POSITION	(85,038)	(59,886)	199,825	(477,738)	(422,837)
NET OVERALL POSITION	**(45,120)**	**6,209**	**2,784**	**2,409**	**(33,718)**

The net off-balance sheet position represents the difference between long and short positions of foreign currency derivative financial instruments.

FOREIGN EXCHANGE RISK SENSITIVITY ANALYSIS

At 31 December 2013 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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
+ 5% MOVEMENT	(39,738)	(17,987)	(26,957)	(13,619)
- 5% MOVEMENT	39,738	17,987	26,957	13,619

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.

4.3.2 Interest rate risk (continued)

GROUP	MONTHS				NON-INTEREST	
	UP TO 1	1 TO 3	3 TO 12	>12	BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2013						
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	1,874,798	19,112,146	-	37,938,349
TOTAL FINANCIAL ASSETS	**22,227,125**	**4,863,911**	**3,729,679**	**26,731,485**	**5,851,193**	**63,403,393**
CUSTOMER DEPOSITS	22,474,057	14,099,232	6,644,115	226,679	3,389,135	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	**24,995,163**	**18,034,873**	**6,859,903**	**4,851,787**	**4,157,105**	**58,898,832**
INTEREST SENSITIVITY GAP	**(2,768,039)**	**(13,170,962)**	**(3,130,224)**	**21,879,698**	**1,694,088**	**4,504,561**

GROUP	MONTHS				NON-INTEREST	
	UP TO 1	1 TO 3	3 TO 12	>12	BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2012						
CASH AND BALANCES WITH CENTRAL BANK	2,298,332	-	-	-	5,817,442	8,115,774
INVESTMENT SECURITIES-HTM	290,223	241,580	2,448,327	8,185,566	-	11,165,696
PLACEMENTS WITH BANKS	2,013,941	-	-	-	-	2,013,941
AMOUNTS DUE FROM GROUP COMPANIES	1,048,308	-	43,301	-	-	1,091,609
INVESTMENT SECURITIES	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	15,856,629	1,960,044	2,461,079	15,761,681	1,548,399	37,587,832
OTHER ASSETS	153,619		73,637	43,804	508,492	779,552
TOTAL FINANCIAL ASSETS	**21,661,052**	**2,201,624**	**5,026,344**	**23,991,051**	**7,926,621**	**60,806,693**
CUSTOMER DEPOSITS	16,350,233	14,140,069	6,367,049	5,080,417	2,772,479	44,710,247
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	3,206,130	-	407,152	-	-	3,613,282
AMOUNTS DUE TO GROUP BANKS	1,961,137	-	2,789,171	-	-	4,750,308
LONG TERM LIABILITIES	898	-	31,286	2,839,631	55,148	2,926,963
OTHER LIABILITIES	-	-	-	-	577,128	577,128
TOTAL FINANCIAL LIABILITIES	**21,518,398**	**14,140,069**	**9,594,658**	**7,920,048**	**3,404,370**	**56,577,927**
INTEREST SENSITIVITY GAP	**142,654**	**(11,938,445)**	**(4,568,314)**	**16,071,003**	**4,521,867**	**4,228,765**

4.3.2 Interest rate risk (continued)

BANK	MONTHS				NON-INTEREST	
	UP TO 1	1 TO 3	3 TO 12	>12	BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2013						
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	1,290,269	14,561,235		31,091,347
TOTAL FINANCIAL ASSETS	**19,930,530**	**2,817,753**	**1,912,897**	**21,807,096**	**3,510,238**	**49,978,514**
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	2,909,169	-	2,999,840
OTHER LIABILITIES	-	-	-	-	448,212	448,212
TOTAL FINANCIAL LIABILITIES	**20,756,214**	**17,304,103**	**4,598,485**	**2,953,144**	**448,212**	**46,060,159**
INTEREST SENSITIVITY GAP	**(825,684)**	**(14,486,350)**	**(2,685,588)**	**18,853,952**	**3,062,026**	**3,918,355**

BANK		MONTHS			NON-INTEREST	
	UP TO 1	1 TO 3	3 TO 12	>12	BEARING	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2012						
CASH AND BALANCES WITH CENTRAL BANK	2,298,332	-	-	-	3,868,814	6,167,146
INVESTMENT SECURITIES-HTM	-	-	799,535	7,768,033	-	8,567,568
PLACEMENTS WITH BANKS	1,203,068	-	-	-	-	1,203,068
AMOUNTS DUE FROM GROUP COMPANIES	768,590	-	43,301	-	-	811,892
INVESTMENT SECURITIES	-	-	-	-	52,288	52,288
LOANS AND ADVANCES	13,542,736	1,652,998	1,959,623	12,727,114	-	29,882,472
OTHER ASSETS	153,619	-	73,637	43,804	298,572	569,632
TOTAL FINANCIAL ASSETS	**17,966,345**	**1,652,998**	**2,876,096**	**20,538,951**	**4,219,674**	**47,254,064**
CUSTOMER DEPOSITS	12,021,538	13,342,558	4,701,049	5,034,401	-	35,099,546
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	2,720,214	-	346,590	-	-	3,066,804
AMOUNTS DUE TO GROUP BANKS	1,952,801	-	2,616,133	-	-	4,568,934
LONG TERM LIABILITIES	-	-	31,286	847,136	-	878,422
OTHER LIABILITIES	-	-	-	-	415,689	415,689
TOTAL FINANCIAL LIABILITIES	**16,694,553**	**13,342,558**	**7,695,058**	**5,881,537**	**415,689**	**44,029,405**
INTEREST SENSITIVITY GAP	**1,271,792**	**(11,689,560)**	**(4,818,962)**	**14,657,414**	**3,803,985**	**3,224,669**

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.

4.3.2 Interest rate risk (continued)

INTEREST RATE RISK SENSITIVITY ANALYSIS

At 31 December 2013 if interest rates were to increase or decrease by 2.5%, with other variables held constant, the impact on after tax profit would have been as shown below:

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
+ 2.5% MOVEMENT	(49,183)	5,136	(14,986)	10,138
- 2.5% MOVEMENT	49,183	(5,136)	14,986	(10,138)

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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
FINANCIAL ASSETS				
LOANS AND ADVANCES TO BANKS	6,716,353	3,105,549	6,716,353	3,105,549
LOANS AND ADVANCES TO CUSTOMERS	37,938,349	37,587,932	37,938,349	37,587,932
FINANCIAL ASSETS HELD-TO-MATURITY	12,900,005	11,165,696	11,693,538	9,715,409
FINANCIAL LIABILITIES				
DEPOSITS DUE TO BANKS	6,555,774	8,363,590	6,555,774	8,363,590
CUSTOMER DEPOSITS	46,833,218	44,710,247	46,833,218	44,710,247
LONG TERM LIABILITIES	4,809,166	2,926,963	4,809,166	2,926,963

BANK	CARRYING VALUE		FAIR VALUE	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
FINANCIAL ASSETS				
LOANS AND ADVANCES TO BANKS	5,934,278	2,014,960	5,934,278	2,014,960
LOANS AND ADVANCES TO CUSTOMERS	31,091,347	29,882,472	31,091,347	29,882,472
FINANCIAL ASSETS HELD-TO-MATURITY	9,442,651	8,567,568	8,236,185	7,117,281
FINANCIAL LIABILITIES				
DEPOSITS DUE TO BANKS	5,872,021	7,635,738	5,872,021	7,635,738
CUSTOMER DEPOSITS	36,740,085	35,099,546	36,740,085	35,099,546
LONG TERM LIABILITIES	2,999,840	878,422	2,999,840	878,422

(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 cash flows 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 determine fair 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, fairvalue is estimated using quoted market prices for securities with similar credit, maturity andyield characteristics.

(iv) Deposits from banks and customers

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing 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.

4.4 FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

(b) 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.

FAIR VALUE HIERARCHY

	GROUP			BANK		
	LEVEL 1	LEVEL 2	LEVEL 3	LEVEL 1	LEVEL 2	LEVEL 3
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
AT 31 DECEMBER 2013						
FINANCIAL ASSETS:						
– AVAILABLE-FOR-SALE	-	-	83,889	-	-	83,889
AT 31 DECEMBER 2012						
FINANCIAL ASSETS:						
– AVAILABLE-FOR-SALE	-	-	52,288	-	-	52,288

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.

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 2013 and 2012. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

4.5 CAPITAL MANAGEMENT (CONTINUED)

	2013	2012
	SHS 000	SHS 000
TIER 1 CAPITAL		
SHARE CAPITAL	4,167,663	3,400,000
SHARE PREMIUM	758,515	421,200
RETAINED EARNINGS	992,071	567,913
INVESTMENT IN SUBSIDIARY AND ASSOCIATE	(1,115,663)	(916,524)
TOTAL	**4,802,586**	**3,472,589**
TIER 2 CAPITAL		
SUBORDINATED DEBT	692,588	690,704
STATUTORY RESERVES	91,932	289,384
TOTAL REGULATORY CAPITAL	**5,587,105**	**4,452,677**
RISK WEIGHTED ASSETS		
ON BALANCE SHEET	31,788,970	29,819,798
OFF BALANCE SHEET	12,133,710	4,723,046
TOTAL RISK WEIGHTED ASSETS	**43,922,680**	**34,542,844**
DEPOSIT LIABILITIES	**42,080,738**	**42,266,383**
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%)	11.4%	8.2%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 8%)	10.9 %	10.31%
TOTAL CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 12%)	12.7%	12.9%

The increase of the regulatory capital in the year of 2013 is mainly due to new additional capital and the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in 2013.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and Directors' judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

5. INTEREST INCOME

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
LOANS AND ADVANCES	5,411,782	5,921,921	4,238,598	4,455,766
GOVERNMENT AND OTHER SECURITIES	945,961	1,062,432	573,088	792,292
BALANCES WITH OTHER BANKING INSTITUTIONS	408,931	177,286	385,263	315,627
OTHER INTEREST INCOME	46,898	242,573	46,897	70,783
TOTAL	**6,813,572**	**7,404,212**	**5,243,846**	**5,634,468**

There is no interest accrued on impaired financial assets.

6. INTEREST EXPENSE

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
CUSTOMER DEPOSITS	3,221,792	3,765,543	2,791,195	3,390,390
DEPOSITS BY BANKS	247,037	447,646	212,230	312,703
BORROWED FUNDS	172,050	79,335	91,717	48,226
OTHER	49,298	343,300	13,853	242,573
TOTAL	**3,690,177**	**4,635,824**	**3,108,995**	**3,993,892**

7. FEES AND COMMISSION INCOME

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
CREDIT RELATED FEES AND COMMISSIONS	521,080	503,475	373,181	343,968
SERVICE RELATED FEES & COMMISSIONS	632,181	525,116	304,961	149,427
FEE AND COMMISSION INCOME	**1,153,261**	**1,028,591**	**678,142**	**493,395**
FEES & COMMISSION PAID	(95,760)	(83,579)	(21,977)	(23,776)
NET FEE AND COMMISSION INCOME	**1,057,501**	**945,012**	**656,165**	**469,619**

8. OTHER OPERATING INCOME

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
DIVIDEND INCOME FROM SUBSIDIARY	-	-	94,217	43,728
GAIN ON SALE OF FIXED ASSETS	69,954	903	69,954	903
OTHER	39,045	28,466	2,769	2,987
TOTAL	**108,999**	**29,369**	**166,940**	**47,618**

9. EXPENSES BY NATURE

The following items are included within operating expenses:

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
EMPLOYEE BENEFITS (NOTE 10)	1,587,097	1,310,721	960,721	755,694
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 19)	233,447	207,838	126,142	109,943
AMORTISATION OF INTANGIBLE ASSETS (NOTE 20)	43,459	42,954	26,395	22,958
PROFIT ON SALE OF PROPERTY AND EQUIPMENT	(70,420)	(517)	(69,954)	(903)
OPERATING LEASE RENTALS	11,033	11,587	11,304	10,430
AUDITORS' REMUNERATION	9,198	9,303	5,500	6,224
AMORTISATION OF PREPAID OPERATING LEASE RENTALS (NOTE 21)	1,648	1,216	85	85

10. EMPLOYEE BENEFITS EXPENSE

The following items are included within employee benefits expense:

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
SALARIES AND WAGES	1,233,300	1,058,261	729,054	599,606
RETIREMENT BENEFIT COSTS – DEFINED CONTRIBUTION SCHEME	63,328	63,274	49,795	29,495
– NATIONAL SOCIAL SECURITY FUND	41,905	10,332	2,237	1,623
OTHER STAFF COSTS	248,563	178,854	179,635	124,970
TOTAL	**1,587,097**	**1,310,721**	**960,721**	**755,694**

11. INCOME TAX EXPENSE

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
CURRENT INCOME TAX	352,031	224,694	277,450	174,769
DEFERRED INCOME TAX (NOTE 16)	(131,606)	(92,811)	(9,809)	(12,496)
(OVER) PROVISION OF DEFERRED TAX IN PRIOR YEAR	-	2,495	-	-
PRIOR YEAR UNDERSTATED CURRENT INCOME TAX	4,978	-	4,978	-
TOTAL	**225,403**	**134,378**	**272,619**	**162,273**

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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
PROFIT BEFORE INCOME TAX	661,431	837,003	1,028,304	570,833
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2012: 30%)	198,429	251,101	308,491	171,250
TAX EFFECT OF:				
INCOME NOT SUBJECT TO TAX	(167,988)	(132,124)	(63,656)	(25,072)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	106,059	66,725	50,297	45,625
OTHER - FINAL TAX ON INTEREST ON GOVERNMENT PAPER AT 15%	47,083	20,271	(27,491)	(29,530)
PRIOR YEAR DEFERRED INCOME TAX ADJUSTMENTS	36,842	(71,595)	-	-
PRIOR YEAR UNDERSTATED CURRENT INCOME TAX	4,978	-	4,978	-
INCOME TAX EXPENSE	**225,403**	**134,378**	**272,619**	**162,273**

12. DIVIDENDS

At the annual general meeting to be held in May 2014 a final dividend in respect of the year ended 31 December 2013 of Shs 126.92 (2012: Shs 66.67) per share amounting to a total of Shs 528,979,000 (2012: Shs 236,872,000) is to be proposed. Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

13. CASH AND BALANCES WITH CENTRAL BANKS

		GROUP		BANK	
		2013	2012	2013	2012
		SHS 000	SHS 000	SHS 000	SHS 000
	CASH IN HAND	2,089,048	1,943,903	917,528	850,466
	BALANCES WITH CENTRAL BANKS	3,678,256	6,171,871	2,508,821	5,316,680
TOTAL		**5,767,304**	**8,115,774**	**3,426,349**	**6,167,146**

14. DUE FROM OTHER BANKING INSTITUTIONS

	PLACEMENTS	3,872,579	1,650,703	3,699,552	926,381
	CURRENT ACCOUNT BALANCES DUE FROM OTHER BANKS	1,285,046	363,238	879,322	276,687
TOTAL		**5,157,625**	**2,013,941**	**4,578,874**	**1,203,068**

All amounts due from other banking institutions are due within 91 days.

15. INVESTMENT SECURITIES

(a) Available-for-sale

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
UNLISTED EQUITY SECURITIES	83,889	52,288	83,889	52,288

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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR	52,288	63,604	52,288	50,100
ADDITIONS	31,601	13,357,188	31,601	13,357,188
DISPOSALS	-	(13,368,504)	-	(13,355,000)
AT YEAR END	**83,889**	**52,288**	**83,889**	**52,288**

(b) Held to maturity

TREASURY BILLS AND BONDS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
MATURING WITHIN 91 DAYS	3,425,785	531,803	1,574,162	-
MATURING AFTER 91 DAYS	9,474,220	10,633,893	7,868,489	8,567,568
TOTAL	**12,900,005**	**11,165,696**	**9,442,651**	**8,567,568**

16. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
OVERDRAFTS	12,999,520	12,952,523	11,810,116	11,082,980
PERSONAL LOANS	2,338,693	1,933,571	2,222,909	1,933,571
MORTGAGES	2,269,089	1,194,051	2,269,089	1,194,051
COMMERCIAL LOANS	20,109,706	21,220,825	14,140,319	15,109,266
DISCOUNTED BILLS	927,930	710,159	928,031	706,762
GROSS LOANS AND ADVANCES	**38,644,938**	**38,011,129**	**31,370,464**	**30,026,630**
LESS: PROVISION FOR IMPAIRMENT				
INDIVIDUALLY ASSESSED	(662,374)	(366,446)	(262,942)	(131,756)
COLLECTIVELY ASSESSED	(44,215)	(56,751)	(16,175)	(12,402)
NET LOANS AND ADVANCES	**37,938,349**	**37,587,932**	**31,091,347**	**29,882,472**

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

16. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

	GROUP			BANK		
	SPECIFIC ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL	SPECIFIC ALLOWANCES	COLLECTIVE ALLOWANCES	TOTAL
	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000	SHS 000
31 DECEMBER 2012						
AT START OF THE YEAR	100,534	58,088	158,622	61,602	8,883	70,485
PROVISION FOR IMPAIRMENT	299,405	3,519	302,924	82,782	3,519	86,301
RECOVERIES	(9,391)	-	(9,391)	(9,391)	-	(9,391)
WRITE OFFS	(10,479)	(1,538)	(12,017)	(3,237)	-	(3,237)
EXCHANGE DIFFERENCES	(13,654)	(3,287)	(16,941)	-	-	-
AT END OF THE YEAR	**366,415**	**56,782**	**423,197**	**131,756**	**12,402**	**144,158**
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**

CHARGE TO INCOME STATEMENT

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
PROVISIONS	794,380	302,924	134,853	86,301
RECOVERIES	(227,010)	(9,391)	(3,067)	(9,391)
NET PROVISIONS CHARGED TO INCOME STATEMENT	**567,370**	**293,533**	**131,786**	**76,910**

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2013 was Shs 1,947 million (2012: Shs 744 million).

17. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted income tax rate of 30% (2012: 30%).
The movement on the deferred income tax account is as follows:

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR				
AS PREVIOUSLY STATED	158,872	74,665	-	-
PRIOR YEAR ADJUSTMENT	(609)	(2,302)	-	-
RESTATED	158,263	72,363	44,539	32,043
INCOME STATEMENT CREDIT (NOTE 11)	131,606	92,811	9,809	12,496
EXCHANGE DIFFERENCES	11,093	(6,911)	-	-
AT YEAR END	**300,962**	**158,263**	**54,348**	**44,539**

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

2012	1.1.2012	CHARGED/(CREDITED) TO INCOME STATEMENT	31.12.2012
	SHS 000	SHS 000	SHS 000
DEFERRED INCOME TAX LIABILITY			
PROPERTY AND EQUIPMENT	88,239	(20,848)	67,391
DEFERRED INCOME TAX ASSET			
PROVISIONS	(40,393)	(10,802)	(51,195)
TAX LOSSES	(80,234)	31,771	(48,463)
EXCHANGE DIFFERENCES	(39,975)	(86,021)	(125,996)
NET DEFERRED INCOME TAX ASSET	**(72,363)**	**(85,900)**	**(158,263)**

2013	1.1.2013	CHARGED/(CREDITED) TO INCOME STATEMENT	31.12.2013
	SHS 000	SHS 000	SHS 000
DEFERRED INCOME TAX LIABILITY			
PROPERTY AND EQUIPMENT	67,391	15,873	83,264
DEFERRED INCOME TAX ASSET			
PROVISIONS	(52,889)	(6,464)	(59,353)
TAX LOSSES	(48,463)	(146,218)	(194,681)
EXCHANGE DIFFERENCES	(124,911)	(5,281)	(130,192)
NET DEFERRED INCOME TAX ASSET	**(158,263)**	**(142,090)**	**(300,962)**

17. DEFERRED INCOME TAX (CONTINUED)

(B) BANK

2012	1.1.2012	CHARGED/(CREDITED) TO INCOME STATEMENT	31.12.2012
	SHS 000	SHS 000	SHS 000
DEFERRED INCOME TAX ASSET			
PROVISIONS	(19,983)	(12,496)	(32,479)
PROPERTY AND EQUIPMENT	(12,060)	-	(12,060)
NET DEFERRED INCOME TAX ASSET	**(32,043)**	**(12,496)**	**(44,539)**

2013	1.1.2013	CHARGED/(CREDITED) TO INCOME STATEMENT	31.12.2013
	SHS 000	SHS 000	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)**

18. OTHER ASSETS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
UNCLEARED EFFECTS	288,606	316,534	288,606	255,587
PREPAYMENTS	183,988	163,416	91,354	69,591
OTHER ASSETS	445,418	299,602	302,004	244,454
TOTAL	**918,012**	**779,552**	**681,964**	**569,632**

19. PROPERTY AND EQUIPMENT

(A) GROUP

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WORK IN PROGRESS	TOTAL
2012	**SHS 000**	**SHS 000**	**SHS 000**	**SHS 000**	**SHS 000**
31 DECEMBER 2012					
OPENING BOOK AMOUNT	116,413	20,079	869,811	100,802	1,107,105
EXCHANGE DIFFERENCE	(7,132)	(790)	(26,045)	(7,806)	(41,773)
OPENING NET BOOK AMOUNT	**109,281**	**19,289**	**843,766**	**92,996**	**1,065,332**
ADDITIONS	-	15,443	139,428	113,332	268,202
TRANSFERS	-	-	96,942	(127,608)	(30,666)
DISPOSALS	-	(5,034)	(10,237)	-	(15,271)
ACCUMULATED DEPRECIATION ON DISPOSAL	-	5,034	9,384	-	14,419
DEPRECIATION CHARGE	(2,519)	(13,141)	(192,178)	-	(207,838)
CLOSING NET BOOK AMOUNT	**106,762**	**21,590**	**887,105**	**78,720**	**1,094,178**
AT 31 DECEMBER 2012					
COST	123,193	62,665	1,522,549	78,720	1,787,126
ACCUMULATED DEPRECIATION	(16,430)	(41,074)	(635,443)	-	(692,948)
NET BOOK AMOUNT	**106,762**	**21,590**	**887,105**	**78,720**	**1,094,178**
31 DECEMBER 2013					
OPENING BOOK AMOUNT	106,762	21,590	887,105	78,720	1,094,178
EXCHANGE DIFFERENCE	6,464	596	25,393	2,162	34,614
OPENING NET BOOK AMOUNT	**113,226**	**22,186**	**912,498**	**80,882**	**1,128,792**
ADDITIONS	-	19,753	291,880	34,606	346,238
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)	25,707
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**
AT 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**

19. PROPERTY AND EQUIPMENT (CONTINUED)

(B) BANK

	BUILDINGS & FREEHOLD LAND	MOTOR VEHICLES	FIXTURES, FITTINGS & EQUIPMENT	WORK IN PROGRESS	TOTAL
2012	**SHS 000**	**SHS 000**	**SHS 000**	**SHS 000**	**SHS 000**
31 DECEMBER 2012					
OPENING BOOK AMOUNT	**10,650**	**8,362**	**483,558**	**24,006**	**526,576**
ADDITIONS	-	11,950	69,251	81,128	162,329
TRANSFERS	-	-	58,618	(58,618)	-
DISPOSALS	-	(5,034)	(9,596)	-	(14,630)
ACCUMULATED DEPRECIATION ON DISPOSAL	-	5,034	9,160	-	14,194
DEPRECIATION CHARGE	(180)	(7,597)	(102,166)	-	(109,943)
CLOSING NET BOOK AMOUNT	**10,470**	**12,715**	**508,825**	**46,516**	**578,526**
AT 31 DECEMBER 2012					
COST	12,000	39,369	890,417	46,516	988,302
ACCUMULATED DEPRECIATION	(1,530)	(26,654)	(381,592)	-	(409,776)
NET BOOK AMOUNT	**10,470**	**12,714**	**508,825**	**46,516**	**578,526**
2013	**SHS 000**	**SHS 000**	**SHS 000**	**SHS 000**	**SHS 000**
31 DECEMBER 2013					
OPENING BOOK AMOUNT	**10,470**	**12,714**	**508,825**	**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 DISPOSAL	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**

20. INTANGIBLE ASSETS

(a) Software

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR	129,057	104,935	66,122	72,876
EXCHANGE DIFFERENCES	4,224	466	-	-
ADDITIONS	80,989	35,976	32,638	16,204
TRANSFERS	-	30,634	-	-
AMORTISATION	(43,459)	(42,954)	(26,395)	(22,958)
AT YEAR END	**170,812**	**129,057**	**72,365**	**66,122**

AT 31 DECEMBER				
COST	420,376	338,031	232,406	200,338
ACCUMULATED AMORTISATION	(249,564)	(208,974)	(160,041)	(134,216)
NET BOOK AMOUNT	**170,812**	**129,057**	**72,365**	**66,122**

(b) Goodwill

	2013	2012
GROUP	SHS 000	SHS 000
BALANCE AT 1 JANUARY 2012, 31 DECEMBER 2012 AND 31 DECEMBER 2013	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 in 2013 are as below:

KEY ASSUMPTIONS	2013	2012
DISCOUNT RATE	13%	13%
ANNUAL GROWTH RATE	5%	5%

Based on the value in use calculations, there was no impairement of goodwill identified in 2013 (2012: Shs nil).

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	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF YEAR	108,569	109,785	4,779	4,864
AMORTISATION CHARGE FOR THE YEAR	(1,648)	(1,216)	(85)	(85)
ADDITIONS	6,922	-	-	-
DISPOSAL	(4,693)	-	(4,694)	-
AT END OF YEAR	**109,150**	**108,569**	**-**	**4,779**

22. CUSTOMER DEPOSITS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
CURRENT AND DEMAND DEPOSITS	14,878,378	15,171,235	10,677,659	11,661,936
SAVINGS ACCOUNTS	4,102,382	3,587,174	1,118,082	1,074,668
FIXED DEPOSIT ACCOUNTS	27,577,658	25,683,882	24,827,046	22,181,377
MARGIN DEPOSITS	274,800	267,956	117,298	181,565
TOTAL	**46,883,218**	**44,710,247**	**36,740,085**	**35,099,546**

23. DUE TO OTHER BANKING INSTITUTIONS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
OVERNIGHT BORROWING	518,460	293,569	518,460	293,569
CURRENT ACCOUNT BALANCES	374,489	270,651	367,582	265,780
TERM BORROWINGS DUE TO BANKS	1,030,675	3,049,062	611,717	2,507,455
TOTAL	**1,923,624**	**3,613,282**	**1,497,759**	**3,066,804**

24. OTHER LIABILITIES

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 00
ITEMS IN TRANSIT	61,896	122,817	61,896	122,817
BILLS PAYABLE	68,124	60,552	45,795	36,327
ACCRUALS	145,297	93,797	35,736	35,348
OTHER LIABILITIES	355,494	228,825	237,249	217,032
CREDITORS	69,863	71,137	67,538	4,165
TOTAL	**700,674**	**577,128**	**448,214**	**415,689**

25. SHARE CAPITAL AND SHARE PREMIUM

	NUMBER OF SHARES	ORDINARY SHARES	SHARE PREMIUM
	SHS 000	SHS 000	SHS 000
AT 1 JANUARY 2012	3,400	3,400,000	421,200
ISSUE OF SHARES	-	-	-
BALANCE AS AT 31 DECEMBER 2012	**3,400**	**3,400,000**	**421,200**
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**

The total authorised number of ordinary shares is 4,167,663 with a par value of Shs 1,000 per share.

26. REGULATORY RESERVE

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF YEAR	339,646	253,598	289,384	211,240
TRANSFER (TO)/FROM RETAINED EARNINGS	(214,760)	86,048	(197,452)	78,144
AT END OF YEAR	**124,886**	**339,646**	**91,932**	**289,384**

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 Bank 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 balance sheet.

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
ACCEPTANCES AND LETTERS OF CREDIT	1,554,140	2,368,026	1,316,519	1,422,728
GUARANTEES AND PERFORMANCE BONDS	11,165,872	6,614,217	8,936,837	4,788,413
CONTINGENCIES AND COMMITMENTS	4,020,477	3,484,817	3,345,331	2,758,245
AT END OF YEAR	**16,740,489**	**12,467,060**	**13,598,687**	**8,969,386**

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.

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. At the end of the year, the unutilised commitments amounted to Shs 3,345 million in 2013 (2012: Shs 2,325 million).

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

28. ANALYSIS OF CASH AND CASH EQUIVALENTS AS SHOWN IN THE CONSOLIDATED CASH FLOW STATEMENT

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
CASH AND BALANCES WITH CENTRAL BANKS (NOTE 13)	5,767,304	8,115,774	3,426,349	6,167,146
LESS: CASH RESERVE REQUIREMENT	(2,665,668)	(2,578,309)	(1,858,221)	(1,809,445)
INVESTMENT AND OTHER SECURITIES (NOTE 15)	3,425,785	531,803	1,574,162	-
DEPOSITS DUE FROM OTHER BANKS (NOTE 14)	5,157,625	2,013,941	4,578,874	1,203,068
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 23)	(892,949)	(564,220)	(886,042)	(559,349)
AMOUNTS DUE FROM GROUP BANKS (NET)	883,515	338,398	82,476	(325,003)
AT END OF YEAR	**11,675,612**	**7,857,387**	**6,917,598**	**4,676,417**

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.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 5.25% (2011: 4.5%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

29. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise 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 Bank 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:

29. RELATED PARTY TRANSACTIONS (CONTINUED)

(A) AMOUNTS DUE FROM GROUP BANKS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
NATEXIS BANQUES	-	33,993		33,993
BOA-TANZANIA	1,150,853	604,195	1,150,579	603,970
BOA-FRANCE	229,676	102,509	203,859	-
BOA-RDC	173,734	347,768	-	172,968
BOA-MER ROUGE	88	83	88	83
BOA-GHANA	878	878	878	878
OTHER GROUP ENTITIES	992	2,183	-	-
TOTAL	**1,556,221**	**1,091,609**	**1,355,404**	**811,892**

The weighted average effective interest rate at 31 December 2013 on amounts due from Group companies was 1.52% (2012: 2.4%) and on amounts due to Group companies was 4.7% (2012: 1.2%).

INTEREST INCOME EARNED ON THE ABOVE	23,648	25,667	21,870	11,482
LEDGER FEES EARNED ON THE ABOVE	38	20	38	20

(B) AMOUNTS DUE TO GROUP BANKS

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
BOA-MADAGASCAR	402,945	796,741	402,945	796,741
BOA-UGANDA	-	-	2,507	1,822
BOA-TANZANIA	1,151,195	474,112	1,151,127	473,984
BANQUE DE CREDIT DE BUJUMBURA	357,433	217,986	357,433	217,986
BOA COTE D'IVOIRE	380	355	380	355
BOA-RDC	812	7,593	504	768
BOA-GHANA	694,775	3,986	694,775	3,986
BOA-MER ROUGE	2,022,997	3,229,244	1,763,149	3,053,129
LA CONGOLAISE DE BANQUE	1,443	18,407	1,442	18,407
BOA-FRANCE	-	1,756	-	1,756
BMCE BANK INTERNATIONAL	170	-	-	
OTHER GROUP ENTITIES	-	128	-	-
TOTAL	**4,632,150**	**4,750,308**	**4,374,262**	**4,568,934**
INTEREST EXPENSE INCURRED ON THE ABOVE	216,269	58,905	149,335	54,959

		GROUP		BANK	
		2013	2012	2013	2012
		SHS 000	SHS 000	SHS 000	SHS 000
(C)	INVESTMENTS IN GROUP COMPANIES				
	BOA-FRANCE	81,701	50,100	81,701	50,100
(D)	EXPENSES INCURRED WITHIN THE GROUP				
	MANAGEMENT FEES PAID TO BOA GROUP S.A.	135,299	88,612	46,187	43,366

(E) LOANS TO KEY MANAGEMENT AND DIRECTORS

GROUP

Advances to customers as at 31 December 2013 includes loans to key management amounting to Shs 147 million (2012: Shs115 million). Total loans to Directors amounted to Shs 25 million as at 31 December 2013 (2012: Shs 35 million).

COMPANY

Advances to customers as at 31 December 2013 includes loans to key management amounting to Shs 138 million (2012: Shs 107 million). Total loans to Directors amounted to Shs 10 million as at 31 December 2013 (2012: Shs 20 million).

		GROUP		BANK	
		2013	2012	2013	2012
		SHS 000	SHS 000	SHS 000	SHS 000
	INTEREST INCOME EARNED ON LOANS TO KEY MANAGEMENT	8,648	6,198	7,817	5,637
(F)	KEY MANAGEMENT COMPENSATION				
	SALARIES AND OTHER SHORT-TERM EMPLOYMENT BENEFITS	251,358	193,288	151,972	101,169
(G)	DIRECTORS' REMUNERATION				
	SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	122,793	106,506	`40,132	35,785
	OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	39,283	31,673	20,962	16,516
TOTAL		162,076	138,179	61,094	52,301

30. INVESTMENT IN ASSOCIATE AND SUBSIDIARY

(A) ASSOCIATE

	GROUP		BANK	
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR	377,018	344,600	377,018	344,600
SHARE OF PROFITS	49,100	32,418	49,100	32,418
AT YEAR END	**426,118**	**377,018**	**426,118**	**377,018**

Set out below is the associate of the Group as at 31 December 2013, 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 2013 and 2012:

NAME OF ENTITY	PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	% OF OWNERSHIP INTEREST	NATURE OF THE RELATIONSHIP	MEASUREMENT METHOD
BANK OF AFRICA – TANZANIA	TANZANIA	24.05%	BANKING SERVICES	EQUITY

SUMMARISED BALANCE SHEET	2013	2012
	SHS 000	SHS 000
ASSETS		
CASH AND BALANCES WITH BANKS	5,474,253	5,088,983
GOVERNMENT SECURITIES - HELD TO MATURITY	4,258,192	2,189,127
LOANS AND ADVANCES TO CUSTOMERS	12,592,155	10,743,805
OTHER ASSETS	689,166	584,012
TOTAL ASSETS	**23,013,766**	**18,605,927**
LIABILITIES		
CUSTOMER DEPOSITS	16,068,320	14,376,215
DEPOSITS FROM OTHER BANKS	3,877,830	1,639,844
OTHER LIABILITIES	1,295,817	1,022,225
TOTAL LIABILITES	**21,241,967**	**17,038,284**
NET ASSETS	**1,771,799**	**1,567,643**

SUMMARISED INCOME STATEMENT	2013	2012
	SHS 000	SHS 000
TOTAL OPERATING INCOME	1,767,068	1,428,061
TOTAL OPERATING EXPENSES	(1,474,656)	(1,248,768)
PROFIT BEFORE INCOME TAX	292,412	179,293
INCOME TAX EXPENSE	(94,793)	(42,832)
PROFIT FOR THE YEAR	**197,619**	**136,461**

RECONCILIATION OF SUMMARISED FINANCIAL INFORMATION	2013	2012
	SHS 000	SHS 000
OPENING NET ASSETS	1,567,643	1,412,885
ISSUE OF NEW SHARES	-	16,866
PROFIT/(LOSS) FOR THE PERIOD	197,619	136,461
OTHER COMPREHENSIVE INCOME	-	-
EXCHANGE DIFFERENCES	6,536	1,431
CLOSING NET ASSETS	**1,771,799**	**1,567,643**
INTEREST IN ASSOCIATE (24.05%)	426,118	377,018
CARRYING VALUE IN ASSOCIATES	426,118	377,018
DIFFERENCE	**-**	**-**

(B) SUBSIDIARY

	GROUP			BANK
	2013	2012	2013	2012
	SHS 000	SHS 000	SHS 000	SHS 000
AT START OF THE YEAR	-	-	632,875	632,875
RIGHTS ISSUE	-	-	167,537	-
AT END OF THE YEAR	**-**	**-**	**800,412**	**632,875**

Investment in subsidiary comprises the Bank's investment in BANK OF AFRICA – UGANDA Limited (BOAU). BOAU is incorporated in Uganda. The Bank owns 50.01% (2012: 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 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.

SUMMARISED BALANCE SHEET	2013	2012
	SHS 000	SHS 000
ASSETS		
CASH AND BALANCES WITH BANKS	3,123,029	3,041,040
GOVERNMENT SECURITIES - HELD-TO-MATURITY	3,457,354	2,598,128
LOANS AND ADVANCES TO CUSTOMERS	6,847,002	7,705,555
OTHER ASSETS	1,214,606	975,580
TOTAL ASSETS	14,641,991	14,320,303
LIABILITIES		
CUSTOMER DEPOSITS	10,093,133	9,610,701
DEPOSITS FROM OTHER BANKS	686,259	729,674
OTHER LIABILITIES	2,061,788	2,198,987
TOTAL LIABILITES	12,841,180	12,539,362
NET ASSETS	1,800,811	1,780,941

SUMMARISED INCOME STATEMENT	2013	2012
	SHS 000	SHS 000
TOTAL OPERATING INCOME	1,508,950	1,673,231
TOTAL OPERATING EXPENSES	(1,781,606)	(1,407,061)
PROFIT BEFORE INCOME TAX	(272,656)	266,170
INCOME TAX EXPENSE	47,216	27,894
PROFIT FOR THE YEAR	(225,440)	294,064

SUMMARISED CASHFLOW STATEMENT	2013	2012
	SHS 000	SHS 000
NET CASH FLOW FROM OPERATING ACTIVITIES	2,030,751	333,030
NET CASH FLOW FROM INVESTING ACTIVITIES	(254,551)	(453,710)
NET CASH FLOW FROM FINANCING ACTIVITIES	(184,814)	277,803
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	1,591,386	157,123
CASH AND CASH EQUIVALENTS AT START OF YEAR	3,180,970	3,023,896
CASH AND CASH EQUIVALENTS AT END OF YEAR	4,772,356	3,181,019

31. LONG TERM LIABILITIES

		GROUP		BANK	
		2013	2012	2013	2012
		SHS 000	SHS 000	SHS 000	SHS 000
	BORROWINGS	3,856,663	1,973,914	2,307,253	187,718
	SUBORDINATED DEBT	952,503	953,048	692,587	690,704
TOTAL		**4,809,166**	**2,926,962**	**2,999,840**	**878,422**
	AT START OF YEAR	2,926,962	2,701,674	878,422	926,688
	ADDITIONS	2,140,875	697,400	2,140,875	-
	REPAYMENTS	(301,221)	(485,775)	(62,007)	(61,929)
	NET ACCRUED INTEREST	15,035	3,434	15,035	3,434
	EXCHANGE LOSS	27,515	10,229	27,515	10,229
TOTAL		**4,809,166**	**2,926,962**	**2,999,840**	**878,422**

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 from PROPARCO signed for the development of the Bank's lending business in foreign currency and bears an effective interest rate of 5.58% (2012: 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 and bears an effective interest rate of 5.41%.

- The subordinated debt is an unsecured 7 year loan of USD 8 million issued by INTERNATIONAL FINANCE CORPORATION (IFC) to enhance the Bank's 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. [This note bears an interest rate referenced to the 6 month LIBOR]. The effective interest rate on the subordinated debt as at 31 December 2013 was 6.42% (2012: 5.24%). 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.

- 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.

31. LONG TERM LIABILITIES (CONTINUED)

- FMO Term Facility, is a line of credit granted to the Bank to 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.

- 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.

- 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. PRIOR YEAR ADJUSTMENTS

The prior year adjustments relate to:

(i) corrections to recognise the prepaid staff benefits expense on initial recognition of staff loans and reversal of the discount on staff loans previously recognised in the statement of comprehensive income;
(ii) accrual of staff leave expense for days not taken; and
(iii) accrual of taxes not previously paid.

The impact of the prior year adjustments on the financial statements is detailed below:

STATEMENT OF COMPREHENSIVE INCOME

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
INCREASE OPERATING EXPENSES	73,585	29,209	65,183	29,209
INCREASE/(DECREASE) INCOME TAX CREDIT	(2,633)	-	-	-
INCREASE IN INTEREST INCOME	17,179	-	-	-
INCREASE IN CURRENCY TRANSLATION DIFFERENCES	1,426	-	-	-

STATEMENT OF FINANCIAL POSITION

	GROUP		BANK	
	2012	2011	2012	2011
	SHS 000	SHS 000	SHS 000	SHS 000
(DECREASE)/INCREASE IN LOANS AND ADVANCES	-	3,745	-	- -
(DECREASE) IN CURRENT INCOME TAXASSETS	(8,908)	(5,189)	-	- -
(DECREASE) IN DEFERRED INCOME TAXASSETS	(609)	(2,302)	-	-
INCREASE IN OTHER ASSETS	42,618	22,437	-	-
INCREASE IN OTHER LIABILITIES	105,287	30,412	94,392	29,209
(DECREASE) IN RETAINED EARNINGS	(72,186)	(11,721)	(94,392)	(29,209)

ADDRESSES

www.boakenya.com & www.bank-of-africa.net

HEAD OFFICE

BANK OF AFRICA – Reinsurance Plaza – Taifa Road – P.O. Box 69562 – 00400 Nairobi – KENYA
☎: (254) 20 327 5000 / 20 233 0512 – Mobile: (254) 703 058 000 / 733 333 015 / 016 – 📠: (254) 20 221 1477 – Swift: AFRIKENEX – @: <yoursay@boakenya.com>

BUSINESS CENTRES

SAMEER BUSINESS CENTRE Sameer Business Park, Mombasa Road – P.O. Box 69562 – 00400 Nairobi – ☎: (254) 20 327 5000 / 5340 – @: <yoursay@boakenya.com>
MOMBASA BUSINESS CENTRE Palli House, Nyerere Avenue – P.O. Box 87941 – 80100 Mombasa – ☎: (254) 20 327 5000 / 211 0896 / 232 6317 – @: <yoursay@boakenya.com>

NAIROBI BRANCHES

EMBAKASI BRANCH
Airport North Road (Next to G4S)
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5429 / 5673
@: <embakasi@boakenya.com>

GALLERIA BRANCH
Galleria Mall (Opposite Bomas of Kenya, Lang'ata)
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5315 / 5140 / 208 5366
@: <galleria@boakenya.com>

GREENSPAN BRANCH
Greenspan Mall – Donholm
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 263 6559
@: <greenspan@boakenya.com>

GIKOMBA BRANCH
Nafuumatt Building, 1st Floor – New Pumwani Road
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5336
@: <GikombaBranch@boakenya.com>

KENYATTA AVENUE BRANCH
680 Hotel Building – Kenyatta Avenue
P.O. Box 69562 00400 – Nairobi
☎: (254) 20 327 5000 / 5288
@: <kenyattaavenue@boakenya.com>

LUNGA LUNGA BRANCH
Bhogal Construction Building – Industrial Area
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5154
@: <lungalunga@boakenya.com>

MONROVIA STREET BRANCH
Within Nakumatt Lifestyle – Monrovia Street
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5281 / 316 502
@: <monrovia@boakenya.com>

NAIROBI BRANCH
Reinsurance Plaza – Taifa Road
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5319 / 5291
@: <nairobi@boakenya.com>

NGONG ROAD BRANCH
Bishop Magua Centre (Opp. Uchumi Hyper on Ngong Road) – P.O. Box 69562 – 00400 Nairobi
☎: 254 (20) 327 5000 / 5411 / 262 6152
@: <ngongroad@boakenya.com>

RIVER ROAD BRANCH
River Road (Opp. Kipepeo Restaurant)
P.O. Box 11422 – 00400 Nairobi
☎: (254) 20 327 5000 / 5298
@: <rroad@boakenya.com>

RUARAKA BRANCH
Baba Dogo House – P.O. Box 988 – 00618 Nairobi
☎: (254) 20 327 5000 / 5605 / 263 6569
@: <ruaraka@boakenya.com>

SAMEER BUSINESS PARK BRANCH
Sameer Business Park – Mombasa Road
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5342 / 5337
@: <sameerbusiness@boakenya.com>

UHURU HIGHWAY BRANCH
Highway Mall, next to Nakumatt Mega
(Opp. Nyayo Stadium) – Uhuru Highway
P.O. Box 27568 – 00506 Nairobi
☎: (254) 20 327 5000 / 5262 / 5404
@: <uhuruhighwaybranch@boakenya.com>

UPPER HILL BRANCH
Embankment Plaza – Longonot Road
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5449 / 5447
@: <upperhill@boakenya.com>

WESTLANDS BRANCH
Fedha Plaza – Mpaka Road
P.O. Box 14166 – 00800 Nairobi
☎: (254) 20 327 5000 / 5273 / 5275
@: <westlands@boakenya.com>

REGIONAL BRANCHES

BUNGOMA BRANCH
New Nyanza Hardware
P.O. Box 1066 – 50200 Bungoma
☎: (254) 20 3275 5000 / 5664 - (254) 55 203 0076
@: <bungoma@boakenya.com>

CHANGAMWE BRANCH
Magongo – Airport Road
P.O. Box 87941-80100 – Mombasa
☎: (254) 20 327 5000 / 5655 - (254) 41 343 0018
@: <changamwe@boakenya.com>

ELDORET BRANCH
Junction of Ronald Ngala and Uganda Road (Opp. Barng'etuny Plaza) – P.O. Box 9332 – 30100 Eldoret
☎: (254) 20 327 5000 / 5630 / 204 4408 / 118 474
@: <eldoret@boakenya.com>

KERICHO BRANCH
AM Plaza, along the Main Highway
P.O. Box 1322 – 20200 Kericho
☎: (254) 20 327 5000 / 5649 / 5650 / 232 7592 / 7565
@: <kericho@boakenya.com>

KISII BRANCH
Kisumu Road – Oyru Plaza
P.O. Box 2707 – 40200 Kisii
☎: (254) 20 327 5000 / 5677 / 5680
@: <kisii@boakenya.com>

KISUMU BRANCH
Anne & Agnes Building – Oginga Odinga Street
P.O. Box 750 – 40100 Kisumu
☎: (254) 20 327 5000 / 5600
@: <kisumu@boakenya.com>

KITENGELA BRANCH
Red Heron Centre, Namanga Road – Kitengela
P.O. Box 69562 – 00400 Nairobi
☎: (254) 327 5000 / 5504 / 5505 - (254) 61 231 1609
@: <kitengela@boakenya.com>

MERU BRANCH
Maua Road – P.O. Box 2086 – 60200 Meru
☎: (254) 20 327 5000 - (254) 64 32 891 / 899
@: <meru@boakenya.com>

MOI AVENUE BRANCH
Freed Building – Moi Avenue
P.O. Box 87941 – 80100 Mombasa
☎: (254) 20 327 50 00 / 5112 / 5338
@: <moiavenuebranch@boakenya.com>

NAKURU BRANCH
United Arcade – Kenyatta Avenue
P.O. Box 3976 – 20100 Nakuru
☎: (254) 20 327 5000 - 204 7041 - (254) 51 221 72 13
@: <nakuru@boakenya.com>

NANYUKI BRANCH
Kenyatta Road – Nanyuki
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5445 / 254 5011
@: <nanyuki@boakenya.com>

NYALI BRANCH
Nyali Centre, Ground Floor – Links Road – Mombasa
P.O. Box 87941 – 80100 Mombasa
☎: (254) 20 327 5000 / 5442 / 267 8957
@: <nyali@boakenya.com>

ONGATA RONGAI BRANCH
Magadi Road – P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 214 5879 / 231 9445
@: <rongai@boakenya.com>

ONGATA RONGAI II BRANCH
Nafrom Building – Magadi Road
P.O. Box 69562 – 00400 Nairobi
☎: (254) 20 327 5000 / 5344 / 5345
@: <rongaiII@boakenya.com>

THIKA BRANCH
Murang'a Motors Bldg – General Kago Road
P.O. Box 881 – 01000 Thika
☎: (254) 20 327 5000 / 5615 / 233 0512
@: <thika@boakenya.com>

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