K-REP BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

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CHAIRMAN'S STATEMENT

Dear Shareholder

On behalf of the Board of Directors, I take this opportunity to present to you the Bank's Annual Report and Financial Statements for the year ended 31st December 2014. It is my pleasure to present my first report as the Chairman of K-rep Bank Limited.

Change in Ownership Structure

In 2014, the Bank saw major changes in its ownership and the Board structure. On 20th November 2014, Centum Investment Company Limited through its wholly owned subsidiary, Bakki Holdco Limited, acquired an additional 65.88% of K-rep Bank's shares from exiting Shareholders. This brings the total shareholding of Centum in K-Rep Bank to stand at 67.54%. K-Rep Group and its associates acquired more shares and increased their shareholding to 31.7%. The acquisition was through a buyout of existing shareholders; African Development Bank, International Finance Corporation (IFC), Triodos Doen, Shorecap International and FMO of Netherlands. I am glad to report that the transaction and change in shareholding did not adversely affect the daily operations of the Bank.

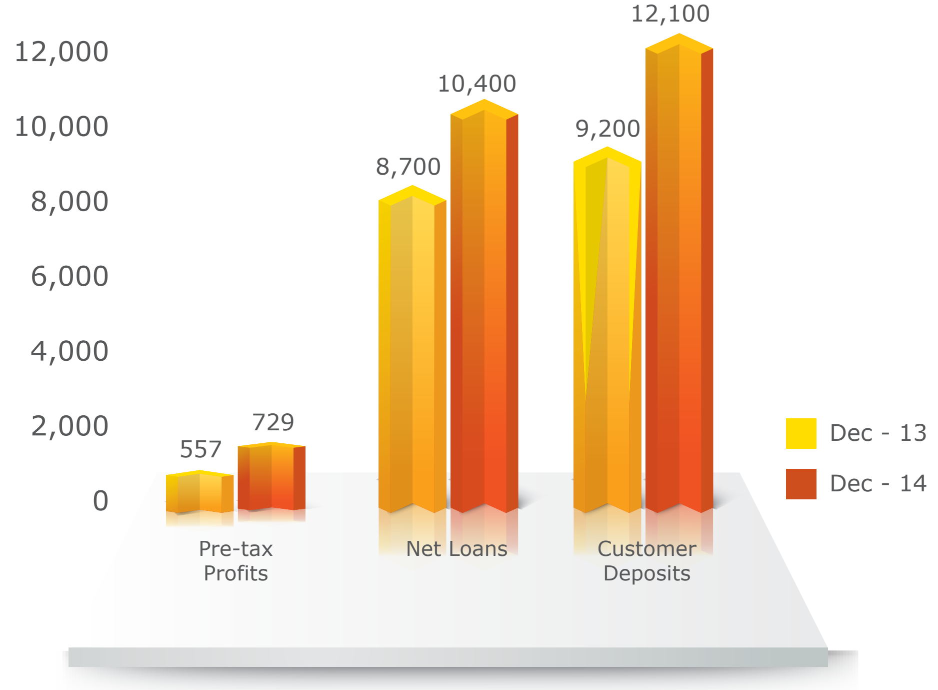
Our Performance in the Operating Environment

Kenya's economy is estimated to have grown by 5.4% in 2014 and is projected to grow by 6% in 2015. The resilience is likely to continue with the economy expanding at 6.6% in 2016 and 6.5% in 2017. Kenya is emerging as one of Africa's key growth centers and is also poised to become one of the fastest growing economies in East Africa, supported by lower energy costs, investment in infrastructure, agriculture, manufacturing and other industries.

The momentum for growth is expected to be sustained by a stable macroeconomic environment, continued investment in infrastructure, improved business environment, exports and regional integration. The government has also maintained discipline in fiscal and monetary policy, despite increasing pressure from devolution and rising public sector wage bill. Total public debt in 2013/14 fiscal year was 43% of gross domestic production (GDP) and is expected to remain below the 50% of GDP threshold. Average annual inflation was estimated at 6.9% end of 2014. Interest rates have also declined in recent months.

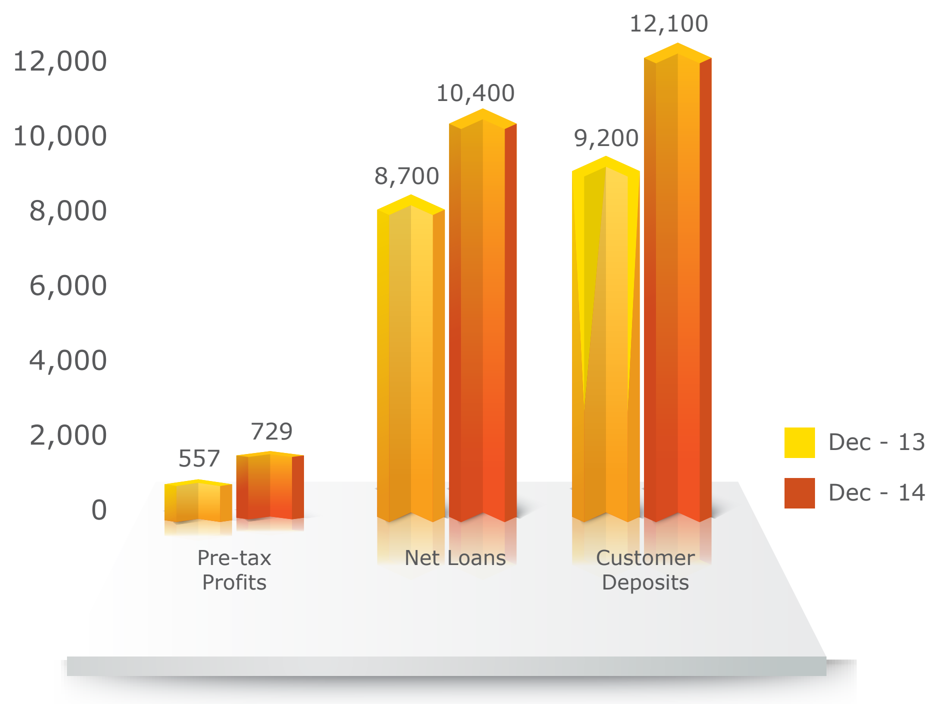
While the overall medium term outlook remains favorable, risks exist from the continued downturn of the tourism sector arising from security concerns. External demand for exports is also sluggish and low growth of production for exports is widening the current account deficit. Also, the share of the manufacturing sector to GDP has remained stagnant in recent years, with low overall productivity and large productivity differences in firms across subsectors due to lack of competition. Increased competitiveness of the manufacturing sector will be a key driver of growth, exports, and job creation.
Kenya became a lower middle income country, with its economy 25% larger than earlier estimated, following the rebasing of its GDP in September 2014.

The Bank's financial performance for the period ending 31 December 2014 was remarkable. There was growth in profit as well as Shareholder's value. The Bank exhibited growth in all major business parameters.



CHAIRMAN'S STATEMENT (CONTINUED)

Pre-tax profit grew from KShs.557 million in 2013 to KShs.729 million in 2014, representing a 31 % increase over the previous year's pre-tax profit. Net loans rose by 20.24% from KShs.8.7 billion in 2013 to KShs.10.4 billion in 2014. Similarly, customer deposits increased from KShs.9.2 billion in 2013 to KShs.12.1 billion in 2014 representing a 31.64 % growth.



The Bank's total assets grew by 21.54 % from Kshs.13.0 billion in 2013 to KShs.15.8 billion in 2014. Shareholders' funds rose by 30.21 % from KShs.1.87 billion in 2013 to KShs. 2.43 billion in 2014.

The bank's performance in the year is attributed to a strong management team coupled with good direction from the previous board and a staff team that is committed to customer satisfaction. I take this opportunity to thank the Board, the Managing Director, Albert Ruturi, the senior management and staff of the bank on continued delivery of value.

Corporate Governance

The Bank continues to observe best practice in Corporate Governance norms as per statute, prudential guidelines and global practices.

Following the change in shareholding through the exit of other shareholders, there were changes in the Board composition. On 20th November 2014, the Board of Directors who were representatives of the Companies/ Shareholders who sold off their shares, resigned as a result of the sale. A new Board was re-constituted to represent the new shareholding structure.

RETIRED BOARD MEMBERS	NEW APPOINTED BOARD MEMBERS
Kenny Nwosu (Outgoing Chairman)	James Mworia (New Chairman)
David Masika	Tom Kariuki
Rafael Jabba	Mary Ann Musangi
Mildred Owuor	Kimanthi Mutua
Willem Enklaar	Catherine Mturi-Wairi
Patricia Kiwanuka	Donald B. Kipkorir
Christine Sabwa	Polycarp Igathe
Lazarus Kimanga	Albert Ruturi – MD (Retained from Previous Board)

CHAIRMAN'S STATEMENT (CONTINUED)

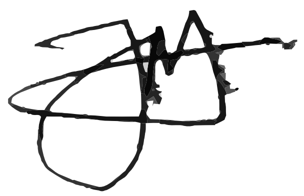
The outgoing Board was a great asset to the Bank. Their commitment has helped propel the Bank to where it is today. Join me in thanking all the outgoing Board Members for their exemplary service to this Bank.

The Central Bank of Kenya approved the appointment of new Board members on the 20th of November 2014. The new team brings in a wide industry expertise and insights from various sectors of the corporate world. Join me in congratulating the new Board Members.

Acknowledgement

My sincere gratitude goes to all our esteemed customers for their continued support and loyalty to the Bank. I also wish to thank the staff and management whose contribution has seen the Bank come this far. I urge them to roll up their sleeves as the Bank enters a new strategic period. I also extend my gratitude to our Shareholders for their unwavering support. Finally, I would like to appreciate the contribution and effort of my fellow Board members in steering the Bank into new heights. Join me as we usher in the new era and journey into the future.

Thank you



James Mworia
Chairman

MANAGING DIRECTOR'S STATEMENT

Introduction

It gives me great pleasure to report that the bank delivered yet another positive performance in 2014. Over the last five years, the bank has achieved remarkable growth in all the key parameters. The progress and performance made during this period has demonstrated the strength, resilience, and the underlying solid foundation of the bank, despite the highly competitive and difficult business environment.

Performance

We returned a pre-tax profit of Kshs.729 million compared to Kshs. 557 million reported in 2013, representing a growth of 31%. We continued to grow income while addressing costs prudently; total operating costs increased by 16.3% during the period, to close at Kshs. 1.4 billion in 2014. On the other hand, net operating income went up by 20.9% to close the year at Kshs.2.2 billion from Kshs.1.8 billion in 2013 while Interest income grew by 26.2% to settle at Kshs.2.4 billion. Return on Assets and Equity ratios equally improved from 4.2% and 29.8% in 2013 to 4.6% and 29.9% respectively during the period under review.
Loan book grew by 20.1% from Kshs.9.3 billion in 2013 to Kshs.11.1 billion in 2014. Customer deposits rose from Ksh.9.2 billion in 2013 to Kshs. 12.1 billion in 2014, representing a 31.6% increase. Total assets grew from Kshs. 13.0 billion in 2013 to Kshs.15.8 billion in 2014 accounting for a 21.5% rise. Shareholders' funds rose by 30%, from Kshs. 1.87 billion in 2013 to Kshs. 2.9 billion in 2014 while earnings per share rose by 43%.

Outlook

During the last quarter of 2014, we developed a five year strategic plan, however, in view of increasing shareholding by Centum and K –Rep Group; this has been reviewed to position the Bank to Tier 2 within the plan period 2015-2019.
We continue to seek and enhance appropriate partnerships to increase our product offerings which include facilities for education, Health Care, Clean water and renewable energy to the less advantaged in the society.
During the years ahead we aim to provide our customers with convenience Banking and products that meet their ever changing financial needs.

Technology

Over the years, we have lagged behind in implementing appropriate technology. We intend to convert our Core Banking System database which will reflect huge benefits to our customers' offerings. In addition we shall implement several ICT solutions to bring the Bank in line with competition and beyond.

Winning Team

We value our employees' diverse backgrounds and pride ourselves as an equal opportunity employer that presents the face of Kenya. Our intention is to develop a robust Management Development Program aimed at developing and retaining future visionary managers to run the bank in years to come.

Conclusion

The road ahead is clear as we are moving purposely and strategically towards our clearly mapped out goal. I am very optimistic about the future of the Bank and with the consolidation of the gains made so far, we shall reap significant returns in the future.
In conclusion I wish to extend my gratitude and appreciation to the Board, Management and staff for their unwavering support that has contributed to the success of this Bank.
I also wish to thank our Shareholders, Valued Customers and Business partners for their immeasurable support and continued patronage.

Thank you.

Albert Ruturi
Managing Director.

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE

ALBERT RUTURI

Managing Director

NON-EXECUTIVE (CONTINUED)

JAMES MWORIA (CHAIRMAN)

Appointed November 20, 2014

MARY ANN MUSANGI

Appointed November 20, 2014

KIMANTHI MUTUA

Appointed November 20, 2014

CATHERINE MTURI-WAIRI

Appointed November 20, 2014

DONALD B KIPKORIR

Appointed November 20, 2014

TOM KARIUKI

Appointed November 20, 2014

CORPORATE INFORMATION (CONTINUED)

NON-EXECUTIVE (CONTINUED)

Kenny Nwosu**	Retired November 20, 2014
David Masika	Retired November 20, 2014
Rafael Jabba ***	Retired November 20, 2014
Mildred Owuor	Retired November 20, 2014
Willem Enklaar*	Retired November 20, 2014
Patricia Kiwanuka	Retired November 20, 2014
Christine Sabwa	Retired November 20, 2014

* Dutch
** British
*** American

BOARD COMMITTEES

AUDIT COMMITTEE*

Christine Sabwa (Chairperson)	Retired November 20, 2014
Willem Enklaar	Retired November 20, 2014
Patricia Kiwanuka	Retired November 20, 2014
Mildred Owuor	Retired November 20, 2014

ENTERPRISE RISK

MANAGEMENT COMMITTEE*

Patricia Kiwanuka (Chairperson)	Retired November 20, 2014
David Masika	Retired November 20, 2014
Rafael Jabba	Retired November 20, 2014
Christine Sabwa	Retired November 20, 2014

* Board Audit Committee merged with Board Enterprise Risk Committee to be Board Audit and Risk Committee from December 11, 2014.

AUDIT AND RISK COMMITTEE*

Catherine Mturi-Wairi (Chairperson)	Appointed November 20, 2014
Donald B Kipkorir	Appointed November 20, 2014
Kimanthi Mutua	Appointed November 20, 2014
Tom Kariuki	Appointed November 20, 2014

SENIOR MANAGERS

Albert Ruturi	Managing Director
Michael Mutisya	Head of Business Development
Philemon Wachara	Head of Finance
Hellen Njenga	Head of Enterprise Risk
Peter Karichu	Head of Internal Audit
Stephen Ndirangu	Head of IT
David Ruga	Sen. Manager Operations
Daisy Ajima	Head of Legal & Company Secretary

CORPORATE INFORMATION (CONTINUED)

ASSET AND LIABILITY COMMITTEE

Willem Enklaar (Chairperson)	Retired November 20, 2014
Patricia Kiwanuka	Retired November 20, 2014
Christine Sabwa	Retired November 20, 2014
Albert Ruturi	
Kimanthi Mutua (Chairperson)	Appointed November 20, 2014
Tom Kariuki	Appointed November 20, 2014
Catherine Mturi-Wairi	Appointed November 20, 2014
Albert Ruturi	

CREDIT COMMITTEE

Mildred Owuor	Chairperson - Retired November 20, 2014
David Masika	Retired November 20, 2014
Willem Enklaar	Retired November 20, 2014
Albert Ruturi	
Tom Kariuki (Chairperson)	Appointed November 20, 2014
Kimanthi Mutua	Appointed November 20, 2014
Donald B Kipkorir	Appointed November 20, 2014
Albert Ruturi	

HUMAN RESOURCES AND NOMINATION COMMITTEE

Rafael Jabba (Chairperson)	Retired November 20, 2014
Mildred Owuor	Retired November 20, 2014
David Masika	Retired November 20, 2014
Albert Ruturi	

* Board Human Resource and Nominations Committee was by a resolution of the Board renamed Nominations and Governance Committee from December 11, 2014.

NOMINATIONS AND GOVERNANCE COMMITTEE

Donald B Kipkorir (Chairperson)	Appointed November 20, 2014
Mary Ann Musangi	Appointed November 20, 2014
Albert Ruturi	

BRAND AND STRATEGY COMMITTEE

Mary Ann Musangi (Chairperson)	Appointed November 20, 2014
Donald B Kipkorir	Appointed November 20, 2014
Catherine Mturi-Wairi	Appointed November 20, 2014

ICT COMMITTEE

Mary Ann Musangi	Interim Chair - Appointed November 20, 2014
Tom Kariuki	Appointed November 20, 2014
Kimanthi Mutua	Appointed November 20, 2014
Albert Ruturi	

CORPORATE INFORMATION (CONTINUED)

SECRETARY

Daisy Ajima
R/CPS 2003
Certified Public Secretary
P O Box 57962- 00200
Nairobi

REGISTERED OFFICE

K-Rep Centre
Wood Avenue, Kilimani
P O Box 25363 - 00603
Nairobi

AUDITOR

PricewaterhouseCoopers
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P O Box 43963 - 00100
Nairobi

LEGAL ADVISERS

Oraro & Company
P O Box 51236 – 00200
Nairobi

Waruhiu K'owade & Ng'ang'a Advocates
Taj Towers, 4th Floor, Wing B
Upperhill
P O Box 47122– 00100
Nairobi

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2014 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which disclose the state of affairs of K–Rep Bank Limited (the "Bank").

1. **PRINCIPAL ACTIVITIES**

   The Bank is engaged in the business of banking and the provision of related services.

2. **RESULTS AND DIVIDEND**

   The profit for the year of Shs 514,044,000 (2013: 359,918,000) has been added to retained earnings.
   The directors do not recommend payment of any dividend for the year (2013: Nil)

3. **DIRECTORS**

   The directors who served during the year and to the date of this report are shown on page 7.

4. **AUDITOR**

   PricewaterhouseCoopers was appointed as the Bank's auditors during the year in accordance with section 159(6) of the Kenyan Companies Act and have expressed their willingness to continue in office in accordance with section 159(2) of the Kenyan Companies Act and subject to section 24(1) of the Banking Act.

   By Order Of the Board

   Daisy Ajima
   Company Secretary

   Nairobi

   13th March 2015

STATEMENT ON CORPORATE GOVERNANCE

Compliance with Sound Corporate Governance

The Bank recognizes the place of sound corporate governance principles in ensuring accountability, fairness and transparency in its relationship with its stakeholders. In light of this, the Bank pursues and implements policies and strategies aimed at entrenching sound corporate governance practices. In doing this, the Bank benchmarks itself with respect to best practice based on statute, requirements of the Central Bank of Kenya Prudential Guidelines and world class practice.

Board of Directors

The Board of directors (the "Board") is responsible for the governance of the Bank. The Board fulfils its fiduciary responsibility to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. The Bank's Board consists of seven members currently chaired by Mr. James Mworia. It consists of six non-executive and one executive director. The Board collectively pools together vast experience in various relevant fields inter alia, banking, finance, law and marketing. To discharge its mandate effectively, the Board delegates its authority to Board Committees, which meet quarterly or whenever need arises. The authority for the day to day running of the Bank is delegated to the Managing Director.

Corporate Planning

The Board is responsible for formulating the strategic plan of the Bank. The Board has been instrumental in formulating sustainable policies and starategies to ensure that the Bank stays profitable. The Board holds an annual strategic planning workshop with the senior management at which the projections and targets are reviewed and amended as circumstances dictate.

Risk Management

The Board has set up an Audit and Risk Committee that monitors risk and assesses compliance by the Bank. The Board has also set up an independent Risk Management and Compliance function that monitors day to day risk functions.

Board Effectiveness

The Board is mainly composed of independent directors. Out of the seven directors in 2014, six are non-executive directors. The Chairman of the Board is a non-executive director. This composition entrenches the importance of independence in matters of corporate governance especially at the Board level. Conduct of the Board is regulated by the Bank's Memorandum and Articles of Association as well as a Board Charter, Terms of Reference and Directors' Code of Board Principles and Conduct. Management also ensures that the Board is well informed on the operations of the Bank at all times.

Board Committees

The Board has established Board Committees to assist in discharging its duties and responsibilities. The Board committees have formally determined terms of reference, which define their role, function, reporting procedures and scope of authority. The existing committees are Audit and Risk Committee, Asset and Liability Committee, Credit Committee, Brand and Strategy Committee, Nominations and Governance Committee and ICT Committee. The Board also ensures that effective communication with shareholders is upheld. This is done through holding of the Annual General Meeting and also provision of annual report and financial statements in full compliance with the requirements of the Kenyan Companies Act and the International Financial Reporting Standards (IFRSs).

Audit and Risk Committee

This committee is a merger of two previous committees; the Audit Committee and the Enterprise Risk Management Committee. The purpose of this committee is to review the financial condition of the banking institution, its internal controls, performance and findings of the internal auditors, and to recommend appropriate remedial action regularly, preferably at least once in three months. It also assists the Board of directors in fulfilling its oversight responsibilities for managing and reducing the various risks that the Bank faces to ensure the fulfilment of objectives of the different stakeholders; the committee has the responsibility of establishing, compiling and prioritizing the risks to the Bank. The committee is also responsible for ensuring that the Bank operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Asset and Liability Committee (ALCO)

The objective of ALCO is to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of interest rate movements, liquidity constraints and foreign exchange exposure and capital adequacy. The committee ensures that all strategies conform to the banking institution's risk appetite and levels of exposure as determined by the Board.

Brand and Strategy Committee

The purpose of the Brand and Strategy Committee is to oversee the development of the brand of the Bank. The committee is also responsible for ensuring the Bank's products are in line with customer appetite and competitive.

Nominations and Governance Committee

The purpose of the Nominations and Governance Committee is to ensure that the Board fulfils its legal, ethical and functional responsibilities through adequate governance policy development, recruitment strategies, training programs, monitoring of Board activities, and evaluation of Board members' performance.

ICT Committee

The ICT Steering Committee will oversee the development and implementation of an action plan for the IT Strategy whose vision is to improve service outcomes/experience for the Bank's customers.

Credit Committee

This committee oversees the establishing and implementing of the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy and effective follow up of all credit-related matters. The Committee is also responsible for formulating the credit policies of the Bank.

Board Meetings

The Board scheduled four quarterly Board and quarterly committee meetings during the year and one Special Board meeting.

Board meeting membership and attendance for the year ended 31 December 2014

	January	April	July	October	December	Percentage attendance
Christine Sabwa**	√	X	√	√	N/A	75%
Albert Ruturi	√	√	√	√	N/A	100%
David Masika**	√	√	√	√	N/A	100%
Kenny Nwosu**	√	√	√	√	N/A	100%
Willem Enklaar**	√	√	√	√	N/A	100%
Rafael Jabba**	√	√	X	X	N/A	50%
Mildred Owuor**	√	√	√	√	N/A	100%
Patricia Kiwanuka**	√	X	√	√	N/A	75%
James Mworia*	N/A	N/A	N/A	N/A	√	100%
Mary Ann Musangi*	N/A	N/A	N/A	N/A	√	100%
Kimanthi Mutua*	N/A	N/A	N/A	N/A	√	100%
Tom Kariuki*	N/A	N/A	N/A	N/A	√	100%
Donald B Kipkorir*	N/A	N/A	N/A	N/A	√	100%
Catherine Mturi-Wairi*	N/A	N/A	N/A	N/A	√	100%

* Appointed on 20 November 2014
** Resigned on 20 November 2014

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Evaluation

No Board evaluation was conducted in 2014 as the full Board changed in November 2014. An evaluation of the new Board will be conducted in 2015. In 2014, both the outgoing and incoming Board performed as per the required standards and effectively.

Compliance

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

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the Bank's profit or loss for that year. It is also requires the directors to ensure that the Bank maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank.

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 Bank at 31 December 2014 and of the Bank's 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 Bank 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 13th March 2015 and signed on its behalf by:

....

Director Director

Report on the financial statements

We have audited the accompanying financial statements of K–Rep Bank Limited (the "Bank") set out on pages 18 to 68. These financial statements comprise the statement of financial position at 31 December 2014, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan 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 financial position of the Bank at 31 December 2014 and of the financial performance and cash flows of the Bank for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

pwc

Report on other legal requirements

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

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

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

(iii) the Bank's statement of financial position 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 FCPA Richard Njoroge – P/No 1244.

PricewaterhouseCoopers

Certified Public Accountants 19th March 2015

Nairobi

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2014 Shs '000	2013 Shs '000
Interest income	5	2,413,764	1,913,418
Interest expense	6	(753,312)	(515,280)
Net interest income		1,660,452	1,398,138
Credit impairment charge	12	(93,480)	(128,482)
Net interest income after credit impairment charge		1,566,972	1,269,656
Net fees and commission income	7	554,667	489,716
Gains on foreign exchange dealings	8	27,477	12,494
Other income	9	3,956	9,109
Non funded income		586,100	511,319
Net operating income		2,153,072	1,780,975
Operating expenses	10	(1,424,011)	(1,224,187)
Profit before income tax		729,061	556,788
Income tax expense	13	(215,017)	(196,870)
Profit for the year		514,044	359,918
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Revaluation surplus on property, net of deferred income tax	28	50,039	-
Other comprehensive income		50,039	-
Total comprehensive income		564,083	359,918
EARNINGS PER SHARE			
Basic and diluted	14	225.56	157.66

The notes on pages 18 to 68 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	2014 Shs'000	2013 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	1,720,273	1,076,357
Deposits and balances due from banking institutions	16	948,550	255,070
Investments	17	1,829,938	2,109,619
Loans and advances to customers	18 (a)	10,453,714	8,693,764
Other assets	19	333,310	376,332
Property and equipment	20	364,540	357,918
Intangible assets	21	106,466	92,478
Deferred income tax	22	44,648	39,380
TOTAL ASSETS		15,801,439	13,000,918
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits	23 (a)	12,065,178	9,164,983
Deposits due to banking Institutions	23 (b)	-	550,000
Borrowings	24	992,207	1,080,154
Other liabilities	25	277,449	249,483
Current income tax	13 (a)	34,830	88,706
		13,369,664	11,133,326
EQUITY			
Share capital	26	1,139,612	1,139,612
Retained earnings	27	1,197,733	678,309
Revaluation reserve	28	70,613	20,807
Regulatory reserve	29	23,817	28,864
TOTAL EQUITY		2,431,775	1,867,592
TOTAL EQUITY AND LIABILITIES		15,801,439	13,000,918

The financial statements were approved by the Board of directors on 13th March 2015 and were signed on its behalf by:

....) Director

....) Director

....) Director

....) Secretary

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Regulatory reserve Shs'000	Total Shs'000
Year ended 31 December 2013						
At start of year		1,139,612	21,040	299,451	67,072	1,527,175
Profit and total comprehensive income for the year		-	-	359,918	-	359,918
Transfer of excess depreciation		-	(333)	333	-	-
Deferred tax on transfer of excess depreciation		-	100	-	-	100
Transfer to statutory reserve	29	-	-	38,208	(38,208)	-
Transactions with owners:						
2012 dividend paid		-	-	(19,601)	-	(19,601)
At end of year		1,139,612	20,807	678,309	28,864	1,867,592
Year ended 31 December 2014						
At start of year		1,139,612	20,807	678,309	28,864	1,867,592
Total comprehensive income for the year:						
Profit for the year		-	-	514,044	-	514,044
Other comprehensive income		-	50,039	-	-	50,039
		-	50,039	514,044	-	564,083
Transfer of excess depreciation		-	(333)	333	-	-
Deferred tax on transfer of excess depreciation		-	100	-	-	100
Transfer to regulatory reserve	29	-	-	5,047	(5,047)	-
At end of year		1,139,612	70,613	1,197,733	23,817	2,431,775

The notes on pages 22 to 68 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

	Notes	2014 Shs '000	2013 Shs '000
OPERATING ACTIVITIES			
Cash generated from operating activities	30 (a)	1,576,815	1,627,964
Tax paid		(295,506)	(148,945)
Net cash flows from operating activities		1,281,309	1,479,019
INVESTING ACTIVITIES			
Purchase of investments	17	-	(4,633,318)
Proceeds on disposal of investments	17	303,619	2,760,222
Purchase of property and equipment	20 (a)	(33,032)	(99,262)
Purchase of intangible assets	21	(45,437)	(45,796)
Proceeds on sale of property and equipment		-	990
Net cash flows from /(used in) investing activities		225,150	(2,017,164)
FINANCING ACTIVITIES			
Loan received		300,000	563,700
Loan repaid		(469,063)	(533,513)
Dividend paid		-	(19,601)
Net cash (used in) / generated from financing activities		(169,063)	10,586
Net increase /(decrease) in cash and cash equivalents		1,337,396	(527,559)
Cash and cash equivalents at start of year		1,331,427	1,858,986
Cash and cash equivalents at end of year	30 (b)	2,668,823	1,331,427

The notes on pages 22 to 68 are an integral part of these financial statements.

1. CORPORATE INFORMATION

K-Rep Bank Limited (the "Bank") is incorporated and domiciled in Kenya. The address of the Bank's registered office is:

K-Rep Centre,
Wood Avenue, Kilimani
P O Box 25363 - 00603
Nairobi.

The Bank is licensed under the Kenyan Banking Act (Chapter 488), and continues to offer retail banking and related services with focus on micro, small and medium enterprises.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(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 Bank 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 included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(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 Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(c) Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Bank

The following standards have been adopted by the Bank for the first time for the financial year beginning on or after 1 January 2014:

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

- Amendments to IAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under IAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing of hedge accounting when novation of a hedging instrument meets specified criteria. The Bank has applied the amendment and there has been no significant impact on the Bank financial statements.

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

New and revised standards and interpretations not yet adopted

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued on July 2014. It replaces the guidance in IAS 30 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(c) Changes in accounting policies and disclosures (continued)

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

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess the full impact of IFRS 9.

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

2.2 Foreign currency translation

(a) Functional and presentation currency

The accounting records are maintained in the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which is the Bank's presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand.

(b) Transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

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 profit or loss.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified 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 amounts due to Central Bank of Kenya, due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased from Central Bank of Kenya under agreements to resell ('reverse repos') are disclosed separately as they are purchased and are not negotiable/discounted during their tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets and liabilities

2.4.1 Financial assets

The Bank 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 and when recording financial asset transactions.

(a) 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets (continued)

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

The Bank 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 consists of debt host and an embedded derivatives that must be separated.

Financial assets at fair value through profit or loss are carried at fair value. Purchases and sales of financial assets at fair value through profit or loss are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in the statement of profit or loss in the year in which they arise.

The Bank did not have any financial assets in this class at 31 December 2014 (2013: Nil).

(b) 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:

(a) those that the Bank 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;
(b) those that the Bank upon initial recognition designates as available–for–sale; or
(c) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial assets and liabilities (continued)

2.4.1 Financial assets (continued)

(c) Held to maturity investments

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

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank designates as available for sale; and
(c) 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.

(d) 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, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of profit or loss. 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 the statement of profit or loss.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortised costs.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets 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 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. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial assets and liabilities (continued)

2.4.3 Determination of fair value (continued)

The Bank uses widely recognised valuation models for determining fair values of government securities. For these financial instruments, inputs into models are generally market-observable.

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates. 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 company at the reporting date.

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 correspond to their carrying amounts.

2.4.4 Derecognition

Financial assets are derecognized 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 Bank 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial assets and liabilities (continued)

2.4.5 Classes of financial instruments

The Bank 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 Bank)		Subclasses
Financial assets and liabilities	Loans and receivables	Deposits and balances due from banking institutions		
		Loans and advances to customers	Loans to individuals (retail – micro and SME	Overdrafts
				Term loans
			Loans to corporate customers	Large corporate customers
		Items in the course of collection		
	Available for sale investments	Investments	Debt securities	Listed
			Other securities	Not listed
	Held to maturity investments	Investments	Government securities	Treasury bills
				Treasury bonds
	Financial liabilities at amortised cost	Deposits and balances due to banking institutions		
		Deposits from customers	Individual(retail-micro and SME) customers	
			Corporate customers	
		Items in the course of collection		
Off- balance sheet financial Instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Impairment of financial assets

(a) Assets carried at amortised cost

The Bank 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 Bank 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 local management for each identified portfolio. In general, the periods used vary between 1 and 6 months; in exceptional cases, longer periods are warranted.

The Bank 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 Bank 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.
If there is objective evidence that an impairment loss on loans carried at amortised cost has been incurred, 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 instrument'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 the statement of profit or loss. If a loan 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 Bank 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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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 Bank'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.
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 customers are included in credit impairment charges. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit or loss.

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 the statement of profit or loss.

(b) Assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. 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 the statement of profit or loss. Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of 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 the statement of profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Offsetting of 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.

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank of Kenya, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya.

2.8 Property and equipment

Property and equipment are stated at historical cost less depreciation.

Depreciation is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

• Office premises	50 years
• Office improvements	8 years
• Furniture, fittings and equipment	8 years
• Motor vehicles	4 years
• Computer equipment	3-4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. 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).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

2.9 Intangible assets - software

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 over their estimated useful lives of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 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.

2.11 Employee benefits

(a) Retirement benefit obligations

The Bank and all its employees contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank's contribution to the defined contribution scheme is charged to profit or loss in the year in which it falls due. The Bank has no further obligations once the contribution is paid.

2.12 Income tax

(a) Current income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the 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 substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.13 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Property and equipment

Directors make estimates in determining the useful lives and residual values of property and equipment and intangible assets. The depreciation rates used are set out in the accounting policy for property and equipment (note 2.8). These estimates 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 prevailing circumstances.

The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Judgements:

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment losses on loans and advances

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in profit or loss. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and may result to future changes in impairment charge.

In addition to specific allowances against individual significant loans and advances, the bank makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Impairment of non-financial assets

The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4 FINANCIAL RISK MANAGEMENT

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

a) Credit risk
b) Liquidity risk
c) Market risk

RISK MANAGEMENT POLICIES

Risk is an integral part of the banking business and the Bank aims at the delivery of superior shareholder value by achieving an appropriate trade-off between risk and returns. The Bank's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the industry best practices. The risk management function at the Bank is supported by a Board Audit and Risk Committee using a comprehensive range of quantitative tools. The Board Audit and Risk Committee is responsible for the assessment, management and mitigation of risk in the Bank. This committee is accountable to the Board of directors. The Internal Audit department independently reviews the risk on a Periodic basis and reports to the Board of Directors.

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return, and minimise potential adverse effects on its financial performance.

Risk management is carried out by the compliance department under policies approved by the Board of Directors. The compliance department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and derivative and non-derivative financial instruments.

a) Credit risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender, leading to the lender's financial loss. The Bank measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank has a standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating. The Bank has developed internal credit rating methodologies for rating obligors as well as for products and facilities. The credit risk attached to every borrower is reviewed at least annually and for higher risk credits and large exposures at shorter intervals.

Sector knowledge has been institutionalised across the Bank through the availability of sector-specific information from the various publications of the Central Bank of Kenya and of the Ministry of Finance and is included in the Credit Risk Policy. Industry knowledge is constantly updated through field visits, interactions with clients, regulatory bodies and industry experts. In respect of the retail credit business, the Bank has a system of centralised approval of all products and policies and monitoring of the retail portfolio.

The Bank's credit risk is primarily attributable to its loans and advances. The Bank structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by region are approved quarterly by the Board of directors.

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

The financial risk management objectives and policies are as outlined below:

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Credit risks are spread over a diversity of microfinance, personal and commercial customers. However, a significant portion of the loans and advances are under microfinance where group guarantees are applicable.

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is an important risk for the Bank's business. Management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in financial instruments not recognised in the statement of financial position, such as loan commitments and letters of credit.

The exposure to any one borrower is further restricted by sub-limits covering exposures recognised and not recognised in the statement of financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by cash collateral and the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitment to extend credit represents unused portions of authorisation to extend credit in the form of loans guarantees or letters of credit. With respect to credit risk on commitments to extend credit the Bank 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. The Bank monitors the term to maturity of credit commitment because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Maximum exposure to credit risk before collateral held

	Note	2014 Shs '000	%	2013 Shs '000	%
Credit exposures					
Items recognised in the statement of financial position					
Balances with Central Bank of Kenya	15	1,198,909	8	453,408	4
Other assets	19	249,688	2	295,808	2
Placements with other banks	16	948,550	6	255,070	2
Loans and advances to customers	18(a)	10,453,714	71	8,693,764	72
Investments held to maturity	17	1,829,938	12	2,109,619	18
		14,680,799		11,807,669	
Items not recognised in the statement of financial position:					
Letters of credit, guarantees and performance bonds		138,707	1	203,270	2
		14,819,506	100	12,010,939	100

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2014 and 31 December 2013 without taking account of any collateral held or other credit enhancement attached. For assets recognised in the statement of financial position, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 71% of the total maximum exposure is derived from loans and advances to customers (2013: 72%). 6% represents placement with other banks (2013: 2%), while investments in debt securities was at 12% (2013: 18%).

Loans and advances to customers are secured by collateral in the form of charges over cash, land and building and/or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

The Bank's internal risk ratings scale is as follows:

Grade 1 - Normal
Grade 2 - Watch
Grade 3 - Sub-standard
Grade 4 - Doubtful
Grade 5 - Loss

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit related commitments (continued)

Impairment and provisioning policies

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired. The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom three grades.

The table below summarise the Bank's loans and advances and the associated impairment provision for each internal rating category:

	2014 Shs '000	2013 Shs '000
Grade 1- Normal	10,043,646	8,342,504
Grade 2- Watch	324,881	198,487
Grade 3- Substandard	116,582	105,726
Grade 4- Doubtful	153,835	132,198
Grade 5- Loss	506,006	504,206
	11,144,950	9,283,121
Less: allowance for impairment	(691,236)	(589,357)
Net	10,453,714	8,693,764

Grade 1 - Normal

All loans are performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by the current sound net worth and paying capacity of the borrower.

Grade 2 - Watch

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:

	2014 Shs '000	2013 Shs '000
Past due up to 30 days	141,541	71,177
Past due 31- 60 days	95,716	73,508
Past due 61 - 90 days	84,654	46,642
Renegotiated 1 - 90 days	2,970	7,160
	324,881	198,487

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Credit related commitments (continued)

Grade 3, 4 & 5-Substandard, Doubtful risk and loss

	2014 Shs '000	2013 Shs '000
Grade 3 - Substandard	116,582	105,726
Grade 4 - Doubtful	153,835	132,198
Grade 5 - Loss	506,006	504,206
Total	776,423	742,130
Individually assessed impaired loans and advances		
Micro	183,976	225,112
SME	592,447	517,018
	776,423	742,130
Fair value of collateral held	395,354	325,224

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Collateral on Loans and Advances

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

i. Categorised by Loans and Advances

Analysis of gross loans and advances by performance	2014 Shs '000	2013 Shs '000
Doubtful and loss categories	146,899	206,375
Substandard category	88,382	118,849
Normal and watch categories	9,059,873	7,174,316
Sub total	9,295,154	7,499,540

i. Categorised by nature of collateral

Analysis of gross loans and advances by performance	2014 Shs '000	2013 Shs '000
Land and Building	5,787,586	4,730,324
Cash and other pledges	1,633,253	1,259,573
Motor Vehicle	465,662	547,955
Debenture and Guarantees	578,759	327,894
Other Chattels	829,894	633,794
Sub total	9,295,154	7,499,540

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Collateral on Loans and Advances (continued)

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

Analysis of gross loans and advances by performance	2014 Shs '000	2013 Shs '000
Current	10,043,646	8,342,504
1-30 days	141,541	71,177
31-60 days	95,716	73,508
61-90 days	84,654	46,642
91-180 days	113,705	91,317
181-360 days	134,914	146,607
Over 360 days	396,380	290,962
Sub total	11,010,556	9,062,717
Renegotiated/rescheduled loans		
1-90 days	2,970	7,160
Over 90 days	131,424	213,243
Sub total	134,394	220,403
Grand total (note 18 (b))	11,144,950	9,283,121

According to Central Bank of Kenya prudential guidelines, loans and advances overdue by above 90 days are considered non-performing.

The provisions made amount to 6.2% (2013: 6.3%) of gross advances. These provisions are considered adequate in view of the realizable value of securities held.

4 FINANCIAL RISK MANAGEMENT (continued)

a) Credit risk (continued)

Collateral on Loans and Advances (continued)

Renegotiated/rescheduled loans are tracked and monitored the same way classified loans are, whether they are performing normally or not.

b) Liquidity risk

The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments as they fall due and to replace funds when they are withdrawn. Liquidity risk is addressed through the following measures:

- The Bank enters into lending contracts subject to availability of funds.
- The Bank has an aggressive strategy aimed at increasing the customer deposit base.
- The Bank borrows from the market through interbank transactions with other banks for short term liquidity requirements.
- The Bank invests in short term liquid instruments, which can easily be sold in the market when the need arises.

The Asset and Liability Committee (ALCO) role in liquidity is to manage the day to day treasury operations, ascertain adequacy of funds to meet the bank's obligations, advises on pricing of assets and liabilities, prepares cash flow projections to ensure the bank's liquidity is within set limits by CBK, monitors maturities of assets and liabilities and finally advises on placements and liquidations as appropriate. The bank also ensures the CBK cash and liquidity ratios are maintained. The table below represents cash flows payable by the bank under non-derivative financial liabilities by remaining periods to maturity at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (continued)

a) Liquidity risk (continued) Expected maturity dates	1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2014								
Financial assets								
Cash and balances with Central Bank of Kenya	1,720,273	-	-	-	-	-	-	1,720,273
Investments	-	-	-	-	-	300,000	1,529,938	1,829,938
Deposits and balances due from banking institutions	948,550	-	-	-	-	-	-	948,550
Loans and advances to customers	902,840	144,736	332,341	1,226,273	3,833,992	2,822,074	1,191,458	10,453,714
Other assets	2,002	27,874	72,208	66,673	76,016	21,949	66,588	333,310
Total financial assets	3,573,665	172,610	404,549	1,292,946	3,910,008	3,144,023	2,787,984	15,285,785
Financial liabilities								
Customer deposits	4,648,507	3,257,369	903,466	491,493	635,876	2,127,585	882	12,065,178
Borrowings	-	-	100,604	264,601	627,002	-	-	992,207
Other liabilities	26,017	93,039	26,626	16,737	115,030	-	-	277,449
Total financial liabilities	4,674,524	3,350,408	1,030,696	772,831	1,377,908	2,127,585	882	13,334,834
Net liquidity gap	(1,100,859)	(3,177,798)	(626,147)	520,115	2,532,100	1,016,438	2,787,102	1,950,951
Financial guarantees	3,986	29,881	32,180	72,660	-	-	-	138,707

4 FINANCIAL RISK MANAGEMENT (continued)

a) Liquidity risk (continued)

Expected maturity dates	1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2013								
Financial assets								
Cash and balances with Central Bank of Kenya	1,076,357	-	-	-	-	-	-	11,076,357
Investments	-	-	303,619	-	-	300,000	1,506,000	2,109,619
Deposits and balances due from banking institutions	255,070	-	-	-	-	-	-	255,070
Loans and advances to customers	591,906	121,368	284,528	1,159,699	3,085,915	1,907,726	1,542,622	8,693,764
Other assets	15,376	26,841	70,524	73,444	83,994	38,167	67,986	376,332
Total financial assets	1,938,709	148,209	658,671	1,233,143	3,169,909	2,245,893	3,116,608	12,511,142
Financial liabilities								
Deposits due to Banking institutions	550,000							550,000
Customer deposits	4,427,133	2,086,035	462,527	38,107	4,155	2,146,021	1,005	9,164,983
Borrowings	-	56,439	137,948	139,414	511,989	234,364	-	1,080,154
Other liabilities	23,298	111,751	27,988	7,926	78,520	-	-	249,483
Total financial liabilities	5,000,431	2,254,225	628,463	185,447	594,664	2,380,385	1,005	11,044,620
Net liquidity gap	(3,061,722)	(2,106,016)	30,208	1,047,696	2,575,245	(134,492)	3,115,603	1,466,522
Financial guarantees	3,697	24,505	74,898	95,170	5,000	-	-	203,270

4 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the bank's mission.

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the Bank's income or capital. A principal part of the Bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. The Bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital. The Bank monitors foreign exposure positions, ensures there is adequate foreign currency to meet obligations as well as takes corrective action if the exposure exceeds the set limits.

For simulation modelling, the Bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital. The overall responsibility for managing market risk rests with the Asset and Liability Committee (ALCO). The compliance department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO).

The major market risk sensitivity analysis measurements techniques used to measure and control market risks are outlined below:

i) Currency risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank participates in the foreign currency market as a market maker and a market user.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2014 and 31 December 2013.

At 31 December 2014

	USD balances Shs '000	Euro balances Shs '000	GBP balances Shs '000	UGX balances Shs '000	Total balances Shs '000
Financial assets					
Cash and balances with CBK	13,478	1,015	2,796	23	17,312
Deposits and balances due from banking institutions	270,577	942	16,263	-	287,782
	284,055	1,957	19,059	23	305,094
Financial liabilities					
Customers deposits	299,443	273	8,916	-	308,632
	299,443	273	8,916	-	308,632
Net exposure	(15,388)	1,684	10,143	23	(3,538)

4 FINANCIAL RISK MANAGEMENT (continued)

c) Market risks (continued)

i) Currency risk (continued)

At 31 December 2013

	USD balances Shs '000	Euro balances Shs '000	GBP balances Shs '000	UGX balances Shs '000	Total balances Shs '000
Cash and balances with CBK	30,006	4,021	306	-	34,333
Deposits and balances due from banking institutions	168,847	2,646	3,296	-	174,789
	198,853	6,667	3,602	-	209,122
Financial liabilities					
Customers deposits	198,916	1,486	226	-	200,628
	198,916	1,486	226	-	200,628
Net exposure	(63)	5,181	3,376	-	8,494

The bank has assets and liabilities in three major currencies. The most significant exposure arises from assets denominated in US dollar and the EURO. The following table demonstrates the sensitivity to reasonably possible change in the KShs/US dollar and KShs / Euro, with all other variables held constant, of the banks profit before tax.

Shs/ US dollar	**2014 Shs'000**	**2013 Shs'000**
Effect on profit before tax of a +/-5% change in exchange rates	769	3.2
Effect on equity of a +/-5% change in exchange rates	538	2.2
Shs / Euro		
Effect on profit before tax of a +/-5% change in exchange rates	84	259
Effect on equity of a +/-5% change in exchange rates	59	181

ii) Interest rate risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances are either pegged to the Bank's base lending rate or Treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed and variable interest rate instruments issued by the Central Bank of Kenya. Interest rates on customer deposits are negotiated between the Bank and the customer. The Bank has the discretion to change the rates in line with changes in market trends.

These measures minimise the Bank's exposure to interest rate risk.

4 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments:

- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The projections make other assumptions including that all positions run to maturity.

Sensitivity Analysis

The sensitivity analysis on the income statement is the effect of the assumed changes in interest rates on loans and advances on the Bank's profit before income tax and for the year and equity.

	2014 Shs'000	2013 Shs'000
Effect on profit before tax of a +/-2% change in interest rates	33,209	27,963
Effect on profit before tax (%)	+/- 4.71%	+/- 4.8%
Effect on equity of a +/-2% change in interest rates	23,246	16,082
Effect on equity	+/- 0.95%	+/- 1.04%

4 FINANCIAL RISK MANAGEMENT (continued)

b) Market risk (continued)

ii) Interest rate risk (continued)

The table below analysis the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank's assets and liabilities are included at carrying amount categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that the financial assets maintain a constant rate of return from one year to the next. The bank bases its sensitivity analysis on the interest sensitivity gap.

2014	Upto 1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	1,720,273	1,720,273
Government securities	-	-	-	-	-	300,000	1,529,938	-	1,829,938
Deposits and balances due from banking institutions	826,500	-	-	-	-	-	-	122,050	948,550
Loans advances to customers	-	10,453,714	-	-	-	-	-	-	10,453,714
	826,500	10,453,714	-	-	-	300,000	1,529,938	1,842,323	14,952,475
Financial liabilities:									
Customer deposits	2,087,662	3,257,369	903,466	491,493	635,876	2,127,585	882	2,560,845	12,065,178
Borrowings	-	-	100,604	264,601	627,002	-	-	-	992,207
	2,087,662	3,257,369	1,004,070	756,094	1,262,878	2,127,585	882	2,560,845	13,057,385
Total interest sensitivity gap	(1,261,162)	7,196,345	(1,004,070)	(756,094	(1,262,878)	(1,827,585)	1,529,056	(718,522)	1,895,090

4 FINANCIAL RISK MANAGEMENT (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

2013	Upto 1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	1,076,357	1,076,357
Government securities	-	-	303,619	-	-	300,000	1,506,000	-	2,109,619
Deposits and balances due from banking institutions	96,309	-	-	-	-	-	-	158,761	255,070
Loans and advances to customers	-	8,693,764	-	-	-	-	-	-	8,693,764
	96,309	8,693,764	303,619	-	-	300,000	1,506,000	1,235,118	12,134,810
Financial liabilities:									
Balances due to banks	550,000	-	-	-	-	-	-	-	550,000
Customer deposits	2,332,164	2,086,035	462,527	38,107	4,155	2,146,021	1,005	2,094,969	9,164,983
Borrowings	-	56,439	137,948	139,414	511,989	234,364	-	-	1,080,154
	2,882,164	2,142,474	600,475	177,521	516,144	2,380,385	1,005	2,094,969	10,795,137
Total interest sensitivity gap	(2,785,855)	6,551,290	(296,856)	(177,521)	(516,144)	(2,080,385)	1,504,995	(859,851)	1,339,673

4 FINANCIAL RISK MANAGEMENT (continued)

d) Capital Adequacy and Management

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya. The ratios measure capital adequacy by comparing the bank's eligible capital with its assets in the statement of financial position, commitments not recognised in the statement of financial position, market and other risk positions at a weighted amount to reflect their relative risk.

The Bank manages its capital to ensure that it is a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the bank consists of debt which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Bank's Enterprise Risk Management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the bank will balance its overall capital structure.

The Bank has 3 main capital objectives:

- To comply with the capital requirements set by the Central Bank of Kenya
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits of other stakeholders
- Maintain a strong capital base to support the developments of the business

Capital adequacy and use of regulatory capital are monitored regularly by management, employing techniques based on the guidelines developed 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 do the following:

- Hold the minimum level of regulatory capital of Shs 1billion
- Maintain a ratio of total regulatory capital to the risk weighted assets plus risk weighted assets not recognized in the statement of financial position at or above the required minimum of 8%.
- Maintain core capital of not less than 10.5% (2013: 8%) of total deposit liabilities
- Maintain total capital of not less than 14.5% (2013: 12%) of risk-weighted assets plus risk-weighted items not recognised in the statement of financial position.

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 is limited to 100% of Tier 1 Capital.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

4 FINANCIAL RISK MANAGEMENT (continued)

d) Capital Adequacy and Management (continued)

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighted according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 70% and 100%) are applied. Tier 1 capital consists of shareholders equity while Tier 2 capital consists of the bank's eligible long-term debt and general provisions.

	2014 Shs '000	2013 Shs '000
Tier I Capital		
Share capital	1,139,612	1,139,612
Retained earnings	1,197,733	678,309
At 31 December	2,337,345	1,817,921
Tier II Capital		
Revaluation reserve	17,712	5,202
Regulatory reserve	23,817	28,864
Total regulatory capital	2,378,874	1,851,987
Risk Weighted Assets	11,571,533	8,653,563
Core capital to risk assets	20.2%	21.7%
Total capital to risk assets	20.6%	21.8%
Minimum total capital to risk assets ratio	14.5%	12%
Minimum core capital to risk assets ratio	10.5%	8%

5 INTEREST INCOME

	2014 Shs '000	2013 Shs '000
Loans and advances	2,181,490	1,701,879
Government securities	222,708	195,955
Placements and overnight lending	9,566	15,584
	2,413,764	1,913,418
Portfolio analysis		
Interest on financial liability held at amortised cost	2,413,764	1,913,419

6 INTEREST EXPENSE

	2014 Shs '000	2013 Shs '000
Term deposits	663,144	417,772
Savings accounts	9,052	2,285
Borrowed funds	81,116	95,223
	753,312	515,280
Portfolio analysis		
Interest on financial liability held at amortised cost	753,312	515,280

	2014 Shs '000	2013 Shs '000

7 FEES AND COMMISSION INCOME

	2014 Shs '000	2013 Shs '000
Ledger related fees and commissions	131,177	124,377
Credit related fees and commissions	274,314	220,697
Transaction related fees	149,176	144,642
	554,667	489,716

8 GAIN ON FOREIGN EXCHANGE

	2014 Shs '000	2013 Shs '000
Gain on foreign exchange dealings	27,477	12,494

Gains on foreign currency dealings arose from trading in foreign currency transactions and translation of foreign currency assets and liabilities to Kenya Shillings at year-end

9 OTHER INCOME

	2014 Shs '000	2013 Shs '000
Gain on sale of bonds	-	7,735
Gain on disposal of property and equipment	-	990
Other miscellaneous income	3,956	384
	3,956	9,109

Recoup of loan insurance fee relates to amounts charged to customers on account of insurance over and above the rates offered by the insurers.

10 OPERATING EXPENSES

	2014 Shs '000	2013 Shs '000
Employee benefits (Note 11)	617,698	501,943
Directors' emoluments - Non-executive	11,196	6,040
- Executive	28,442	26,642
Auditors' remuneration	3,938	3,790
Depreciation on property and equipment (Note 20)	97,894	94,697
Amortisation of intangible assets (Note 21)	31,449	28,249
Deposit Protection Fund contributions	11,958	9,777
Rent	110,798	99,534
Telephone and postage	56,790	55,523
Printing and stationery	44,867	44,128
Electricity and water	36,588	28,169
Marketing, promotion and public relations	36,079	56,138
Travelling expenses	26,529	18,392
Cleaning, repairs and maintenance	115,812	86,015
Security	70,951	65,506
Professional fees	46,046	25,829
Subscriptions	4,542	3,430
Licences	55,587	55,489
Other operating expenses	16,847	14,896
	1,424,011	1,224,187

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

11 EMPLOYEE BENEFITS

	2014 Shs '000	2013 Shs '000
Salaries and allowances	500,902	410,906
Pension contributions - Defined contribution	31,509	27,722
- National Social Security Fund	1,320	1,175
Staff medical expenses	36,427	36,056
Staff welfare and training expenses	47,540	26,084
	617,698	501,943

12 PROVISION FOR IMPAIRED LOANS AND ADVANCES

	2014 Shs '000	2013 Shs '000
Profit or loss:		
Provisions in the year	167,708	149,743
Bad debt recovery	(74,228)	(21,261)
	93,480	128,482
Statement of financial position:		
At start of year	506,435	434,681
Provisions in the year	167,708	149,743
Write - off in the year	(52,013)	(77,989)
Net provision	622,130	506,435
Suspended interest	69,106	82,922
At end of year	691,236	589,357

Suspended interest relates to unrecognised interest on non-performing loans. Interest income is not recognised for loans deemed non-performing.

13 TAXATION

a) Statement of financial position:

	2014 Shs '000	2013 Shs '000
Current income tax:		
At start of year	(88,706)	(50,689)
Income tax expense	(241,630)	(186,962)
Paid during the year	295,506	148,945
At end of year	(34,830)	(88,706)

b) Profit or loss:

	2014 Shs '000	2013 Shs '000
Current income tax	(241,630)	(186,962)
Deferred income tax charge (Note 22)	(1,181)	(9,908)
Under provision of deferred income tax in prior year	27,794	-
	(215,017)	(196,870)

13 TAXATION (continued)

c) Reconciliation of tax expense to tax based on profit before income tax

	2014 Shs '000	2013 Shs '000
Profit before income tax	729,061	556,788
Tax at the applicable rate of 30%	218,718	167,036
Tax effect of expenses not deductible for tax	24,093	29,834
Under provision of deferred income tax in prior year	(27,794)	-
Tax charge for the year	215,017	196,870

14 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to equity holders of the bank by the weighted average number of ordinary shares in issue during the year.

	2014 Shs '000	2013 Shs '000
Profit for purposes of basic and diluted earnings per share (in Shs'000)	514,044	359,918
Number of shares		
Number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	2,279	2,279
Earnings per share - basic and diluted (Shs)	225.56	157.66

There were no potentially dilutive shares outstanding as at 31 December 2014 or 31 December 2013. Therefore, diluted earnings per share is the same as the basic earnings per share.

15 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2014 Shs '000	2013 Shs '000
Cash in hand	521,364	622,949
Balances with Central Bank of Kenya	1,198,909	453,408
	1,720,273	1,076,357

Cash balances at Central Bank does earn interest at floating rates based on daily deposit rates and are available for use by the bank. No balances have been pledged as security.

16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

Maturing within 30 days of the reporting date:

	2014 Shs '000	2013 Shs '000
Local currency	287,782	80,281
Foreign currency	660,768	174,789
	948,550	255,070

The weighted average effective interest rate for deposits due from banking institutions as at 31 December 2013 was 10% (2013 – 10%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

17 INVESTMENTS

	2014 Shs '000	2013 Shs '000
At amortised cost		
Held-to-maturity		
Treasury bills and bonds:		
- maturing within one year	-	303,615
- maturing after 1 year	1,829,938	1,806,004
	1,829,938	2,109,619

The movement in investments was as summarised below:

	2014 Shs '000	2013 Shs '000
At start of year	2,109,619	32,833
Additions	-	4,633,318
Interest income (accrued)	23,938	195,955
Disposal of investments on maturity	(303,619)	(2,752,487)
At end of year	1,829,938	2,109,619

The weighted average effective interest rate for treasury bonds at 31 December 2014 was 11.42% (2013: 8%).

18 LOANS AND ADVANCES TO CUSTOMERS

	2014 Shs '000	2013 Shs '000
(a) Term loans	10,325,815	8,872,131
Overdrafts	819,135	410,990
Gross loans and advances	11,144,950	9,283,121
Provision for impaired loans and advances – (note 12)	(691,236)	(589,357)
	10,453,714	8,693,764

(b) Analysis of gross loans and advances by maturity

	2014 Shs '000	2013 Shs '000
Maturing within one year	2,778,520	2,775,722
Between two and three years	4,087,509	3,085,915
Over three years	4,278,921	3,421,484
	11,144,950	9,283,121

The aggregate amount of non-performing advances was Shs 776,423,000 (2013: Shs 742,130,000) against which specific provisions of Shs 609,979,000 (2013: Shs 507,334,000) have been made leaving a net balance of Shs 166,444,000 (2013: Shs 234,796,000) which is included in the statement of financial position in the loans and advances line item.

The weighted average effective interest rate on loans and advances as at 31 December 2014 was 21% (2013: 21%)

The collateral held against these loans includes mortgages, motor vehicles, land and building, chattels, share certificates among other assets.

19 OTHER ASSETS

	2014 Shs '000	2013 Shs '000
Prepaid expenses	83,622	80,524
Travel and other advances	2,002	15,376
Rent and utility deposits	16,336	13,683
Balances with ATM agents	11,203	810
Unpaid insurance claims	5,647	17,795
Bond premium	38,167	44,543
Other receivables	176,333	203,601
	333,310	376,332

Other assets are non-interest bearing and are generally on 30-90 day terms. Other receivables includes staff benefit derived from valuation of staff loans marked to market at a rate of 12%.

20 (a) PROPERTY AND EQUIPMENT

Year ended 31 December 2014	Freehold land & buildings Shs'000	Furniture & fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Renovations & refurbishment Shs'000	Total Shs'000
COST /VALUATION						
At start of year	90,500	76,939	6,177	409,419	389,708	972,743
Additions	-	3,753	-	12,682	16,597	33,032
Revaluation surplus	59,500	-	-	-	-	59,500
At end of year	150,000	80,692	6,177	422,101	406,305	1,065,275
DEPRECIATION						
At start of year	9,772	61,140	2,542	306,878	234,493	614,825
Charge for the year	2,212	5,902	1,003	49,293	39,484	97,894
Reversal on revaluation	(11,984)	-	-	-	-	(11,984)
At end of year	-	67,042	3,545	356,171	273,977	700,735
NET CARRYING AMOUNT						
At end of year	150,000	13,650	2,632	65,930	132,328	364,540

The freehold land and building were revalued by Acumen Valuers Limited, registered valuers, as at 25th August 2014, on an open market value basis.
There are no restrictions on the use on the use of property and equipment.

20 (b) PROPERTY AND EQUIPMENT

Year ended 31 December 2013

	Freehold land & buildings Shs'000	Furniture & fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Renovations & refurbishment Shs'000	Total Shs'000
COST /VALUATION						
At start of year	90,500	73,831	4,805	327,370	379,528	876,034
Additions	-	3,108	3,925	82,049	10,180	99,262
Disposals	-	-	(2,553)	-	-	(2,553)
At end of year	90,500	76,939	6,177	409,419	389,708	972,743
DEPRECIATION						
At start of year	7,560	54,523	4,548	259,857	196,193	522,681
Charge for the year	2,212	6,617	547	47,021	38,300	94,697
Disposal	-	-	(2,553)	-	-	(2,553)
At end of year	9,772	61,140	2,542	306,878	234,493	614,825
NET CARRYING AMOUNT						
At end of year	80,728	15,799	3,635	102,541	155,215	357,918

The freehold land and building were revalued by Acumen Valuers Limited, registered valuers, as at 25th August 2014, on an open market value basis. There are no restrictions on the use on the use of property and equipment.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

20 (c) PROPERTY AND EQUIPMENT (continued)

If the revalued freehold land and building were measured using the cost model, the carrying amounts would be as follows:

	2014 Shs '000	2013 Shs '000
Cost	77,151	77,151
Accumulated depreciation	(27,887)	(26,008)
Net carrying amount	49,264	51,143

21 INTANGIBLE ASSETS

Computer software

	2014 Shs '000	2013 Shs '000
COST		
At start of year	302,879	257,083
Additions	45,437	45,796
At end of year	348,316	302,879
AMORTISATION		
At start of year	210,401	182,152
Charge for the year	31,449	28,249
At end of year	241,850	210,401
NET CARRYING AMOUNT		
At end of year	106,466	92,478

22 DEFERRED INCOME TAX

The net deferred income tax asset computed at the enacted rate of 30% is attributable to the following:

	Balance at 01/01/2014 Shs '000	Profit or loss Shs '000	Other comprehensive income Shs '000	Balance at 31/12/2014 Shs '000
Property and equipment	(41,122)	(735)	-	(41,857)
Revaluation reserve	8,918	-	21,345	30,263
Unrealised exchange gain	1,701	(1,701)	-	-
General provisions	(8,877)	(24,177)	-	(33,054)
Net deferred income tax (asset) / liability	(39,380)	(26,613)	21,345	(44,648)

22 DEFERRED INCOME TAX (continued)	Balance at 01/01/2013 Shs '000	Profit or loss Shs '000	Other comprehensive income Shs '000	Balance at 31/12/2013 Shs '000
Property and equipment	(41,850)	728	-	(41,122)
Revaluation reserve	9,018	-	(100)	8,918
Tax losses	-	-	-	-
General provisions	(18,057)	9,180	-	(8,877)
Unrealised exchange gain	1,701	-	-	1,701
Net deferred income tax (asset) / liability	(49,188)	9,908	(100)	(39,380)

23 CUSTOMER DEPOSITS

	2013 Shs'000
a)	
Call and fixed deposits	4,597,429
Current and demand accounts	2,295,598
Savings accounts - micro savers	2,095,871
- other	176,085
Analysis of customer deposits by maturity:	
Payable within one year	7,013,802
Between one year and three years	2,151,181
	9,164,983
b) Deposit due to Banking Institutions	550,000

Included in 'Customer deposits' were deposits of Shs 559,584,000 (2013: Shs 256,965,000) that have been pledged to the Bank by the customers as securities for loans and advances.

The weighted average effective interest rate on interest bearing customer deposits for the year ended 31 December 2014 was 6.79 % (2013: 7%). The deposits due to banking institutions relate to overnight borrowings from other commercial banks. The weighted average interest rate on the deposits for the year ended 31 December 2014 was 8.86% (2013 13.42%).

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

24 BORROWINGS

	2014 Shs '000	2013 Shs '000
Terms loans:		
European Investment Bank	551,574	735,432
Oiko Credit	308,135	-
Government of Kenya – SME	132,498	195,061
PTA Bank	-	115,537
Government of Kenya – AFD	-	34,124
	992,207	1,080,154
The borrowings are payable as follows		
Payable within one year	365,205	333,801
Payable after one year- three years	627,002	511,989
Payable after three – five years	-	234,364
	992,207	1,080,154

The weighted average effective interest rate on the borrowings as at 31 December 2014 was 7.79% (2013: 8.13%). The borrowings are measured at amortised cost and are all unsecured.

The European Investment Bank (EIB) loan of Shs 220 million was received in October 2012 at a fixed rate of 9.35% p.a. The total loan amount signed with EIB is 7 million Euros denominated in local currency. The principal of the first tranche is payable semi-annually after a grace period of 1 year over a period of 5 years. The second tranche of Shs 564 million was received in June 2013 at a fixed rate of 9.19% p.a. The second tranche principal and interest are repayable semi-annually over a period of 5 years.
Oiko Credit loan of Shs 300 million was received on 22 September 2014. It accrues interest at a rate of 11.07% for the first six months. Thereafter, the net interest rate will be reviewed by Oiko Credit and adjusted semi-annually based on the 182 day T bill rate plus a margin of 1.25% subject to a minimum rate of 10% p.a. The interest rate is repayable semi-annually. The loan will be paid in 3 equal instalments of Kshs 100 million after 12 months from the date of disbursement.
The Small and Medium Enterprises (SME) loan of Shs 250 million was received in June 2011. It is repayable in 4 annual instalments with a grace period of 1 year. The loan attracts an interest rate of 4%.
The PTA Bank loan of Shs 650 million was received in two tranches of Shs 350 and Shs 300 million in May 2011 and August 2011 respectively. It accrued interest at a rate of 5% above the 91-day Treasury bill rate and was repayable in 12 quarterly instalments with the last instalment being paid off in February 2014.

25 OTHER LIABILITIES

	2014 Shs '000	2013 Shs '000
Bills payable	955	1,857
Loan insurance fund	5,071	8,351
Special project fund	115,030	78,520
Accrued expenses	59,506	57,142
Bank draft	28,462	46,258
Stale cheque	16,737	7,926
Statutory deductions	25,062	21,441
Other payables	26,626	27,988
	277,449	249,483

25 OTHER LIABILITIES (continued)

Other liabilities are non-interest bearing and have a repayment period of between 30 and 60 days.

26 SHARE CAPITAL

	2014 Shs '000	2013 Shs '000
Authorised share capital: 4,000,000 ordinary shares of Shs 500 each	2,000,000	2,000,000
Issued and fully paid 2,279,225 (2010 – 2,279,225) ordinary shares of Shs 500 each	1,139,612	1,139,612

27 RETAINED EARNINGS

At start of year	678,309	299,451
Profit for the year	514,044	359,918
Excess depreciation transfer	333	333
Less dividends paid out	-	(19,601)
Transfer from regulatory reserve	5,047	38,208
At end of year	1,197,733	678,309

28 REVALUATION RESERVE

The revaluation reserve is used to record increases in the fair value of land and buildings and decreases are in line with depreciation to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

29 REGULATORY RESERVE

	2014 Shs '000	2013 Shs '000
At start of year	28,864	67,072
Transfer to retained earnings	(5,047)	(38,208)
At end of year	23,817	28,864

Central Bank of Kenya prudential guidelines requires the Bank to make an appropriation to a regulatory reserve for unforeseeable risks and future losses.

The amount transferred is the excess of loan provision computed in accordance with the Central Bank of Kenya prudential guidelines over the provision for impairment of loans and advances computed in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The regulatory reserve is not distributable.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

30 NOTES TO THE STATEMENT OF CASH FLOWS

	2014 Shs '000	2013 Shs '000
(a) Cash flows from operating activities		
These have been derived as follows:		
Profit before income tax	729,061	556,788
Adjustments for:		
Depreciation on property and equipment (Note 20)	97,894	94,697
Interest on borrowings	81,116	95,223
Accrued interest income on investments (Note 17)	(23,938)	(195,955)
Amortisation of intangible assets (Note 21)	31,449	28,249
Gain on sale of bonds	-	(7,735)
Gain on sale of property and equipment	-	(990)
Operating profit before working capital changes	915,582	570,277
Changes in working capital:		
Increase in loans and advances to customers	(1,759,950)	(1,639,944)
Increase in other assets	43,022	(193,246)
Increase in customer deposits	2,900,195	2,515,340
Increase in balances due to banking institutions	(550,000)	550,000
Increase in other liabilities	27,966	(174,463)
Cash generated from operations	1,576,815	1,627,964

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

Cash in hand (Note 15)	521,364	622,949
Balance with Central Bank of Kenya (Note 15)	1,198,909	453,408
Balances due from banking institutions (Note 16)	948,550	255,070
	2,668,823	1,331,427

31 CONTINGENT LIABILITIES

Letters of guarantees and performance bonds	138,707	203,270
Pending legal suits	84,005	31,395

In the ordinary course of business, the Bank conducts business involving letters of credit, performance bonds and guarantees. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by a customer to third parties. The Bank holds cash collateral to the extent of the guarantee that is realised in the events of default by customers (Note 23b).

Even though these obligations are not recognised on the statement of financial position, they contain credit risk and are part of the overall risk of the Bank (Note 4).

The Bank is a defendant in various legal suits. In the opinion of the directors, after taking appropriate legal advice, the outcome of such suits are unlikely to result in any significant loss. The legal suits are claims against various issues including claims for general and specific damages, injunctions to stop the bank from selling the customers' pledged assets and suits challenging the bank's actions on customers' accounts.

32 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 other party controls both.

On 20 November 2014, Bakki Holdco Limited acquired 65.88% of K-Rep Bank. Bakki Holdco Limited is a wholly owned subsidiary of Centum Investment Company Limited ("Centum"), which owns 99% of Bakki Holdco Limited. Centum is listed on the Nairobi Securities Exchange and owns a further 1.7% of the Bank. The acquisition of the shares of the Bank by Bakki Holdco Limited was in exercise of Centum's pre-emptive rights as provided in the Bank's memorandum and articles of association. The Bank's shareholding is disclosed in note 39.

The Bank's parent is, therefore, Bakki Holdco Limited and the ultimate parent is Centum.

There are other companies which are related to the Bank through common shareholdings or common directorships.

In the normal course of business, a number of banking transactions are entered into with related parties. These are staff, directors, their associates and companies associated with directors. They include loans, deposits and foreign currency transactions.

Included in customers' deposits and advances to customers at 31 December 2014 were the following related party balances:

	2014 Shs '000	2013 Shs '000
Advances to customers:		
Staff loans		
At start of year	552,644	547,457
Advanced during the year	95,328	34,170
Interest charged	31,056	30,971
Repayments	(161,411)	(59,954)
At end of year	517,617	552,644
Key management staff		
At start of year	257	1,749
Advances during the year	5,038	-
Interest charged	416	300
Repayments	(695)	(1,792)
At end of year	5,016	257

The loans to senior key management are personal loans, car loans and mortgages. All the loans are charged at an interest rate of 6%. Personal and car loans have a maximum period of 5 years and are secured by land and cars respectively. Mortgages have a maximum of 25 years. There are no provisions for bad debts on the balance.

32 RELATED PARTY TRANSACTIONS (continued)

Related companies

	1 January 2014 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2014 Shs '000
KWA Multipurpose Co-operative Society	40,472	-	5,677	(17,372)	28,777
Directors and their associates	5,147	6,523	1,121	(5,789)	7,002
Kings Beverage	-	20,778	268	(82)	20,964
Makao Mashinani	2,556	25,000	2,311	(4,434)	25,433
	48,175	52,301	9,377	(27,677)	82,176

	1 January 2013 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2013 Shs '000
KWA Multipurpose Co-operative Society	52,192	-	104	(11,824)	40,472
Directors and their associates	7,697	4,368	33	(6,951)	5,147
K-Rep Development Agency	7,976	-	-	(7,976)	-
K-Rep Group	3,149	1,000	28	(1,621)	2,556
	71,014	5,368	165	(28,372)	48,175

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year end. Advances to staff members are at an average interest rate of 6 percent whereas other advances are at commercial rates. The total value of securities held for the above loans was Shs 362 million (2013: Shs 386 million) with the loans running for an average period of 12 years (2013: 13 years).

	2014 Shs '000	2013 Shs '000
Customer deposits		
Makao Mashinani	29,620	29,638
K-Rep Development Agency	22,121	21,922
KWA Multipurpose Co-operative Society	1,091	7,057
K-Rep Group Limited	352	15,542
Centum	167,692	-
	220,876	74,159
Rental expenses:		
K-Rep Group Limited	7,578	9,792

32 RELATED PARTY TRANSACTIONS (continued)

Deposits received from related parties attract interest rates at bank's floating interest rates.

K-Rep Development Agency, Juhudi Kilimo Company Limited, Makao Mashinani and K-Rep Fedha Limited are related to the Bank by virtue of the significant influence and control exercised by their common holding company, K-Rep Group Limited. On the other hand, KWA Multipurpose Co-operative Society is a shareholder of the Bank.

Key management personnel include all the Directors and Senior Management who are referred to as Heads of Department. The remuneration of directors and other members of key management during the year were as follows:

	2014 Shs '000	2013 Shs '000
Short term benefits	67,223	58,162
Termination benefits	6,499	7,656
Medical costs	4,737	4,746
	78,459	70,564
Directors' remuneration		
Fees for services as directors – Non-executive	11,196	6,040
Termination benefits - Executive	3,268	3,268
Salary - Executive	28,442	22,152
	42,906	31,460

33 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The future lease payments in respect of obligations under operating leases are as follows:

	2014 Shs '000	2013 Shs '000
Within one year	116,337	93,857
Between two and five years	366,461	280,661
After five years	90,435	111,402
	573,233	485,920

The Bank has entered into commercial property leases for its office space. These non-cancellable leases have remaining terms of between 3 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

34 OPERATING LEASE RENTALS

Operating lease rentals disclosed in note 11 relates to amounts paid out for rent for premises.

35 DISTRIBUTIONS MADE AND PROPOSES

	2014 Shs '000	2013 Shs '000
Cash dividends on ordinary shares declared and paid:		
Final dividend for 2013: Shs Nil per share	-	19,601
Proposed dividends on ordinary shares Final cash dividend for 2014: Shs Nil per share (2013: Shs Nil per share)	-	-

Dividend per share is arrived at by dividing the total dividends by the weighted average number of shares in issue during the year.

36 CAPITAL COMMITMENTS

There were no capital commitments in existence at year end (2013: Nil).

37 ASSETS PLEDGED AS SECURITY

No assets were pledged to secure any facilities (2013 – Nil).

38 EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the accounting date and the date of this report.

39 SHAREHOLDERS OF THE BANK

At 31 December 2014

	Shareholders	Number of shares	Percentage shareholding
1	Bakki Holdco Limited	1,501,630	65.88%
2	K-Rep Group Limited	501,430	22.00%
3	KWA Multi Purpose Coop Limited	143,376	6.29%
4	Centum Investment Company Limited	37,801	1.66%
5	Kimanthi Mutua	21,040	0.92%
6	Sarah Godana	15,495	0.68%
7	Kabiru Kinyanjui	12,222	0.54%
8	Anthony Wainaina	8,887	0.39%
9	Francis Kihiko	8,871	0.39%
10	Bethuel Kiplangat	8,242	0.36%
11	Mwenda Thiribi	8,241	0.36%
12	Aleke Dondo	6,495	0.28%
13	Judith Behemuka	4,995	0.22%
14	Francis Kimunyu	500	0.02%
	Total	2,279,225	100%

At 31 December 2013

	Shareholders	Number of shares	Percentage shareholding
1	African Development Bank	501,000	21.98%
2	K-Rep Group	450,000	19.74%
3	IFC	346,000	15.18%
4	Triodos Doen	330,000	14.48%
5	Shorecap	247,447	10.86%
6	FMO	150,283	6.59%
7	KWA Multipurpose Co-op	140,000	6.14%
8	Centum Investments	37,801	1.66%
9	Kimanthi Mutua	16,989	0.75%
10	Estate of Bonaya Godana	15,495	0.68%
11	Bethuel Kiplagat	8,242	0.36%
12	MwendaThiribi	8,241	0.36%
13	Kabiru Kinyajui	7,495	0.33%
14	Aleke Dondo	6,495	0.28%
15	Francis Kihiko	5,495	0.24%
16	Judith Behamuka	4,995	0.22%
17	Tony Wainaina	2,747	0.12%
18	Francis Kimunyu	500	0.02%
	Total	2,279,225	100%

NGONG FOREST TREE PLANTING & TEAM BUILDING 2014




















NGONG FOREST TREE PLANTING & TEAM BUILDING 2014








SPINAL INJURY WALK 2014




SPINAL INJURY WALK 2014

PROXY FORM

k-rep bank

PROXY FORM

I…………………………………………………………………………of…………………………………………………………………………………… …….being a member of the K-Rep Bank Limited hereby appoint …………………………………………… ……………………………………………..of…………………………………………………………………………………. as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on ________________________________2015 and at any adjournment thereof.

Provided that if the above mentioned fail to make an appearance the Chairman of the Meeting of the Company may act as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on ____________ 2015 and at any adjournment thereof.

Signed/Sealed this ………………… day of ……………….. 2015

Important Notes:

i) If you are unable to attend this meeting personally, this form of proxy should be completed and returned to:

Daisy Ajima
The Company Secretary
K-Rep Bank Limited P.O. Box 25363-00603 Nairobi,
email dajima@k-repbank.com, to reach not later than 48 hours before the time appointed for holding the meeting or at any adjourned meeting thereof.

ii) Any person appointed to act as a proxy need not be a member of the Company.

iii) If the appointer is a corporation, the form of proxy must be under seal, witnessed by two directors or one director and the Company Secretary or under the hand of any officer or attorney duly authorised in writing.

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 16th Annual General Meeting of K-Rep Bank Limited will be held on July 16th 2015, at The Capital Club, Westlands, commencing 3.30 pm.

Agenda

1) To read the Notice convening the meeting.
2) To confirm the minutes of the previous AGM held on July 24th 2014.
3) To receive and consider the audited Financial Statements for the year ended December 31st 2014.
4) To approve nil dividend payment for the year ended December 31st 2014.
5) To note the appointment or removal of directors or company secretary, if any, pursuant to the provisions of Article 77 of the Company's Articles of Association.
6) To authorise the Board to fix the remuneration of directors.
7) To reappoint M/S Price WaterhouseCoopers as auditors, who have expressed their wiliness to continue as auditors until the conclusion of the next AGM and to authorise the directors to fix their remuneration.
8) To transact the following business and considering, if deem fit, passing of the following resolutions which will be proposed as a special resolution;

   THAT with effect from the time of passing of the resolution, the Board of Directors be unconditionally authorised pursuant to the company Articles of Association raise an additional Kenya Shillings One Billion Seven hundred Million only (Kes.1,700,000,000/=), by way of a rights issue(s) and to fix the price of the rights to be subscribed pursuant to a subscription time-table to be prescribed by the board of directors and from the date hereof.

9) To transact any other business of which due notice has been forwarded to the Chairman.

By order of the Board

Daisy Ajima
Secretary

Dated at Nairobi this 17th day of June 2015.

Notes:

1. A member entitled to attend and vote at the above meeting and any adjourned meeting thereof is entitled to appoint one or more proxies to attend and vote on his stead. Such proxy need not be a member.
2. A proxy form is available at:-

HEAD OFFICE

K-Rep Center Wood Avenue Kilimani
P.O.Box 25363-00603 Nairobi
M: 0711058000-7 / 0732158000-7
T: 020 3906000-7

BRANCH NETWORK

Naivasha Road Branch
Riruta opposite precious blood-Nairobi
P.O.Box 25363-00603 Nairobi
Mob: 724253352
Tel: 050-2020590/1/2/3

Moi Avenue Branch-Mombasa
Austin House Moi Avenue, Mombasa
P.O.Box 90297-80100 Mombasa
Mob: 0721-786446 / 0733-717202
Tel: 041 2221938 / 65 / 72

Kenyatta Avenue Branch
Standard Building Kenyatta Avenue Nairobi
P.O.Box 4890-0200 Nairobi
Mob: 0722-205905 / 0734333096
Tel: 2210758 / 2210728 / 2210749

Nakuru Branch
Gusii Road off Kenyatta Avenue Nakuru
P.O.Box 15222 Nakuru
Tel: 512216211 / 66208 / 0891 / 6198

Nyeri Branch
Caledonia Hse Nyeri next to Telcom Kenya
P.O.Box 870 Nyeri
Mob: 724253347
Tel: 061 203-1500 /1/2

Buruburu Branch
Vision Plaza, Buruburu
P.O.Box 853-00515 Buruburu
Mob: 0724-253341
Tel: 784373 / 223 / 518 /214

Embu Branch
Mumaka building, Embu Kiritiri Road
opp. Uchumi supermaket
P.O.Box 1167 Embu
Mob: 724253345 /0734319582
Tel: 068 30587/31014/5/6

Eldoret Branch
Kirem Arcade, Nairobi Rd.
P.O Box 1362 Eldoret
Mob: 0724-253360 / 0733-600109
Tel: 053 20-60539 /20-62835

Naivasha Branch
Naivasha town Kenyatta Avenue Next to Silver
Hotel Opposite Sera center
P.O.Box 558 Naivasha
Mob: 724253352
Tel: 050-2020590/1/2/3

Nyahururu Branch
Kenyatta Road
P.O.Box 1098 Nyahururu.
Mob: 724253346
Tel: 065-2022285

Isiolo Branch
Isilolo Town Along Isiolo Marsabit Road
P.O.Box 188 Isiolo
Mob: 0734-312895
Tel: 06452410/52230/2/9

Meru Branch
Ghana Road, Opposite Uchumi
P.O.Box 3066 Meru
Mob: 724253352 / 0734319584
Tel: 064 31483 /31144

Kitale Branch
Swam House
P.O.Box 314 Kitale
Mob: 0724-255143 / 0734-312892
Tel: 054 30737 /30352 /4

Kisumu Branch
Kenya Re-Insurance Plaza Oginga Odinga Road
P.O.Box 3558 Kisumu
Mob: 0724-255186 / 0734-312894
Tel: 057-2026082/3/4/5

Bungoma Branch
Moi Avenue opposite KCB
P.O.Box 288 Bungoma
Mob: 0724-255150 / 0734-312893
Tel: 055 30032 / 30822 / 30108

Kajiado Branch
Kajiado Township Market Road
P.O.Box 377 Kajiado
Mob: 0724-255190 / 0734-312891
Tel: 045 21205 / 21406

Naivasha Road Branch
Kibwezi Branch
Manna HouseOpposite Post Office
P.O.Box 390 Kibwezi
Mob: 0724-255151 / 0734-312890
Tel: 044 3500056/74

Mtwapa Branch
Malindi Road – North coast Next to
Safaricom Ltd Ground floor
P.O.Box 513-80109 Mtwapa
Mob: 0724-257109
Tel: 041 5480348

Kericho Branch
Kuriot House Moi Highway opposite police
station next to Shell Petrol station
P.O.Box 1455-20200 Kericho
Mob: 0734-383007
Tel: 052 21409

BRANCH NETWORK (CONTINUED)

HEAD OFFICE

K-Rep Center Wood Avenue Kilimani
P.O.Box 25363-00603 Nairobi
M: 0711058000-7 / 0732158000-7
T: 020 3906000-7

BRANCH NETWORK

Machakos Branch
Mbolu Malu Rd. off Syokimau Rd.
P.O.Box 1932-90100 Machakos
Mob: 0734-634444
Tel: 044-21982/20169

Moi Avenue Branch
Guilders Building next to text book centre
P.O.Box 49248-00100
Mob: 0728-970613 / 0734-614444
Tel: 343025 / 343032

Kisii Branch
Ouru superstore Hse.
P.O.Box 4110 Kisii
Mob: 728970737 / 0733590057
Tel: 058-31456/9/61-31506

Mwea Branch
Nairobi Meru highway Opposite Merica
Petrol
P.O.Box 352 Wanguru
Mob: 0710-642764
Tel: 060-48460/1/2

Nanyuki Branch
Lumumba Rd.
P.O.Box 1359 Nanyuki
Mob: 711311929
Tel: 062-31902/6 062-38104

Kenyatta Market Branch
Phikago houseOff Mbagathi road
P.O.Box 252862-00603 Lavington
Mob: 0725-049700 /0734-63072
Tel: 8007490

Kilimani Branch
K-Rep Centre, Kilimani Wood avenue
P.O.Box 25363-00603 Lavington
Mob: 0711-058000-7/ 0732-158000-7
Tel: 3906000/1-7

Kitui Branch
Kitui
P.O.Box 408 Kitui
Mob: 0716-295224 / 0737-776026
Tel: 4422241

Kengeleni Branch
Kongowea Market Mombasa
P.O.Box 95615-80106 Mombasa
Mob: 0724-995959 / 0735-285010
Tel: 041 472974 /42 / 472971

Thika Branch
Harry Thuku road Off Uhuru highway
P.O.Box 6043-01000 Thika
Mob: 0733 286 460
Tel: 067-30845 067-22576

Kangemi
Opp Three Way Supermarket next to Co-operative Bank
P.O.Box 25363-00603 Nairobi
Tel: 020-2425145

Chuka
Captain House, Meru/Nairobi Highway
P.O.Box 2544-60400 Chuka
Tel: 064 630302

Emali
Next to Kenya Power Lighting offices, Nairobi
Mombasa Highway
Nairobi/Mombasa Highway

Nkubu
Nkubu centre, along Embu Meru road
P.O.Box 3066 Meru
Tel: 512216211 / 66208

Kerugoya
Kerugoya Kagumo Road, oppite Total station
P.O.Box 1041-10300 Kerugoya
Tel: 060 021601 / 060 21453 060

Busia
Minicipal council building
P.O.Box 288 Bungoma
Tel: 055 22193

Mlolongo
Merchant chopping arcade
P.o Box 239 00519 Mlolongo
Tel: 705411996