Annual Report & Financial Statement 2013

Trans National Bank

Transnational Bank is regulated by the Central Bank of Kenya

Trans National Bank

Our Vision:

An enterprising people

Our Mission

Always seeking to turn opportunities into successes

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DIRECTORS	M. Cherwon	Chairman
	P. Kemei	
	J. K. Kenduiwo	
	A. DeSimone*	
	Prof. D. Rotich	
	H. Cheserem (Mrs)	
	Sammy Lang'at	
	* American	
CHIEF EXECUTIVE OFFICER	Sammy Lang'at	
AUDIT COMMITTEE	P. Kemei	Chairman
	A. DeSimone	
	J. K. Kenduiwo	
	I. Muiruri	
CREDIT COMMITTEE	Prof. D. Rotich	Chairman
	H. Cheserem	
	J. K. Kenduiwo	
	Sammy Lang'at	
	A. Kiplangat	
STRATEGY COMMITTEE	J. K. Kenduiwo	Chairman
	P. Kemei	
	Prof. D. Rotich	
	Sammy Lang'at	
	L. Molonko	
RISK AND COMPLIANCE COMMITTEE	A. DeSimone	Chairman
	P. Kemei	
	H. Cheserem	
	J. Makawuondo	
NOMINATION AND RENUMENERATION COMMITTEE	H. Cheserem	Chairperson
	J. K. Kenduiwo	
	Prof. D. Rotich	
	Sammy Lang'at	
	D. Namwendwa	
ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)	Sammy Lang'at	Chairman
	F. Sheikh	
	J. Makawuondo	
	L. Molonko	
	W. Ruto	
	M. Orubia	
	M. Mwinga	
	A. Kiplangat	

SECRETARY
Jacqueline Onsando
Certified Public Secretary (Kenya)
P O Box 72133 - 00200
Nairobi

REGISTERED OFFICE
Trans National Plaza
City Hall Way
P O Box 75840 - 00200
Nairobi

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

ADVOCATES

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Karimbux - Effendy & Company
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Nairobi

Mukite Musangi & Co Advocates
P O Box 149 - 20100
Nairobi

It gives me great pleasure to present, on behalf of the board of Directors, the Transnational Bank Annual Report and financial statements for the year ended 31st December, 2013.

2013 OPERATING ENVIRONMENT

Kenya has maintained economic stability and fiscal discipline on the face of fiscal pressure from the March 2013 elections, a new devolved system of governance, public sector pay pressure and rising security costs.

The economy grew 5.9% in the year. This was a significant improvement over 4.6% growth rate recorded in 2012. Headline Inflation closed at 7.2% compared to 3.2% in 2012 on account of a relatively stable currency that reduced pressure normally witnessed on 'imported inflation'.

During the year, the Monetary Policy Committee progressively cut the Central Bank Rate from 11.0% at the beginning of 2013 to 8.5% at the end of the year. This, coupled with decline in energy and food prices continued to support the downward trend in inflation.

DEVELOPMENT IN THE BANKING SECTOR

The banking sector's aggregate balance sheet size expanded from Kshs. 2.1 trillion in September 2012 to Kshs. 2.6 trillion in September, 2013, 24% growth on the back of 11% growth in customer deposits mainly supported by branch expansion, remittances and receipt from customers. Loans and advances were up 23% from Kshs. 1.3trillion in September, 2012 to Kshs. 1.6 trillion in September 2013.

Profit before tax of the sector increased by 15% to Kshs. 92.5bn as at September 2013 compared to Kshs. 80.8billion registered in September 2012.

BANK'S PERFORMANCE

I am delighted to report that the Bank recorded significant growth during the year.

The total assets of the Bank grew to Kshs 9.7billion from Kshs 8.8 billion during the year which represents 10% growth.

Customers' deposits grew from Kshs 6.5billion to Kshs 7.1billion (by 10%), while the credit portfolio increased 21% to Kshs 5.1billion compared to Kshs 4.2billion as at December 2012.

Profit before tax was at Kshs. 225.2m compared to Kshs. 322.1m in 2012. Reflecting on this growth and our strong confidence in the future, the Board of Directors recommends dividend payment of Kshs. 40 cents per share amounting to Kshs. 80,000,000. During the year, Kshs. 385.6m worth of shares were allotted to the Shareholders from retained earnings.

FUTURE OUTLOOK

Following the improved and stable macroeconomic conditions in the year, we believe this has set pace for higher economic growth in 2014.

As a Board, we are committed to working with the Management and Staff in all efforts to serve our customers' needs, grow the Bank and our shareholder value. Our faith in Management and Staff, which has in the last year delivered good results, continues to underpin our commitment to support them fully in their innovation and development of the Bank.

We will however remain resolute in our focus on targeted growth, prudent risk management and sound corporate governance.

APPRECIATION

The Bank has achieved significant progress during the year and I am confident that this will continue in the coming year and beyond. I wish to sincerely thank all our customers, shareholders, directors, staff members, Central Bank of Kenya, our external auditors and correspondent banks for their support, invaluable guidance and confidence in us, which made it possible to have a successful year in 2013.

Thank You.

Michael K. Cherwon
Chairman Board of Directors

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

1. BOARD OF DIRECTORS

The names of the directors who held office at the date of this report are set out on page 2.

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

The Board comprises six non-executive directors and one executive director. The directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and the Board committees are non-executive directors.

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

The Bank's Secretary is always available to the Board of Directors.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year is disclosed in Note 35(e) to the financial statements for the year ended 31 December 2013. The Bank advances loans to directors and their associated companies as disclosed in Note 35(b).

b) Related Party Transactions

There have been no related party transactions, pecuniary transactions or relationships between the Bank and its directors or management, except those disclosed in Note 35 to the financial statements for the year ended 31 December 2013.

2. BOARD COMMITTEES

The Board has in place five main committees, namely the Risk and Compliance, Credit, Audit, Nomination and Remuneration and Strategy. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structures are in place to achieve the Bank's objectives and obligations to its stakeholders.

All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary.

a) Risk and Compliance Committee

The committee is Chaired by a non-executive director and meets quarterly. It is responsible for overseeing the implementation of the Bank's risk management framework and policies to ensure that all current and potential significant risks are identified and effectively managed. The Committee considers both internal and external sources of information regarding risk to keep abreast with new developments and their potential impact on the Bank's business. The committee receives periodic reports from the risk and compliance function relating to the Bank's strategic risk, credit risk, market risk (interest rate risk, price risk and foreign exchange risk), operational risk, regulatory risk, reputational risk and liquidity risk.

b) Credit Committee

The committee is chaired by a non-executive director and meets at least once per quarter to review the overall lending policy. It also meets at least once in a month to consider and approve loan applications beyond the credit management approval limits, to review and consider all issues that may materially impact on the present and future quality of the institution's credit management and ensuring that the credit policy and risk lending limits of the Bank are reviewed where appropriate.

c) Nomination and Remuneration Committee

The committee is responsible for providing policy guidelines on Human Resources (HR) practices of recruitment, training, remuneration and compensation, disciplinary actions and manpower quality across the Bank.It is responsible for approval of candidates for appointment to the Board. The committee also reviews and approves recommendations from the Bank's management for appointment of the Bank's senior managers.

d) Audit Committee

The Audit Committee is chaired by a non-executive director. The other members are non-executive appointees of the Board. The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the Bank are properly established, monitored and reported on. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. The Audit committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank.

e) Strategy Committee

The committee comprises two directors, the Chief Executive Officer and the Head of Finance. The Strategy Committee's roles and responsibilities include an analysis of the Bank's strategy and more specifically; Oversight of the implementation of the strategy approved by the Board and review of progress on a regular basis, design of action plans per business unit to ensure that objectives are met while factoring in organisational, human, technical and financial aspects, analysis of any investment/capital expenditure programme prior to its submission to the Board.

3. RISK MANAGEMENT AND INTERNAL CONTROL

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

4. BUSINESS ETHICS

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

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

6. SHAREHOLDERS

The list of shareholders and their individual holdings as at 31 December, 2013 was as follows:

	No. of Shares	%
Archers and Wilcock Limited	47,492,155	23.75%
Sovereign Trust Limited	46,056,845	23.03%
Duggan Limited	31,069,078	15.53%
Pyramid Trustee Limited	30,237,545	15.12%
November Nominees Limited	14,552,587	7.28%
Simbi Investors	8,217,059	4.11%
Losupuk Limited	5,579,844	2.79%
Kenyerere Limited	4,291,381	2.15%
Lohan Investments Limited	2,899,916	1.45%
Others	9,603,590	4.79%
TOTAL	**200,000,000**	**100%**

During the year an amount of Sh 385,568,455 was allotted to existing shareholders from retained earnings. This resulted in 77,113,691 new shares of Sh 5 each.

7. BOARD PERFORMANCE EVALUATION

The chairman conducts evaluations of the performance of the Board, individual directors and Board Committee's annually. In addition the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board. The results of this evaluation are submitted to Central Bank of Kenya as required under the Prudential Guidelines for institutions licensed under the Banking Act.

8. BOARD AND COMMITTEE MEETINGS ATTENDANCE

a) Board Meetings

During the year under review, the Board held eight meetings excluding the working committee meetings. The Board members attendance for 2013 is as follows;

Name	Number of attendance	Percentage attendance
Mr. Michael Cherwon	8 out of 8	100%
Mr. Peter Kemei	8 out of 8	100%
Mr. Andre DeSimone	8 out of 8	100%
Mr. John Kenduiwo	8 out of 8	100%
Mrs. Hellena Cheserem	7 out of 8	87.5%
Mr. Hilary Tororey*	3 out of 8	37.5%
Prof. Daniel Rotich**	4 out of 8	50%
Mr. Sammy Lang'at	7out of 8	87.5%

b) Committee Meetings

i) Audit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Hilary Tororey*	2out of 4	50%
Mr. Peter Kemei	4 out of 4	100%
Mr. John Kenduiwo	4 out of 4	100%
Mr. Isaac Muiruri	4 out of 4	100%

ii) Risk and Compliance Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Andre DeSimone	3 out of 3	100%
Mr. Peter Kemei	3 out of 3	100%
Mrs. Hellena Cheserem	2 out of 3	67%
Prof. Daniel Rotich**	1out of 3	33%
Mr. Jeremiah Makawuondo	3 out of 3	100%

iii) Credit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Peter Kemei	5 out of 6	100%
Mr. Hilary Tororey*	2 out of 6	100%
Prof. Daniel Rotich**	1 out of 6	16.6%
Mr. Sammy Lang'at	5 out of 6	83.3%
Ms. Alphina Kiplangat	3 out of 6	50%

* Mr. Hilary Tororey resigned as a director on 8 May 2013

** Prof. Daniel Rotich appointed as a director on 15 July 2013

i) ALCO Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Sammy Lang'at	6 out of 7	86%
Mr. Farid Sheikh	6 out of 7	86%
Mr. Jeremiah Makawuondo	7 out of 7	100%
Mr. Laban Molonko	6 out of 7	86%
Mr Wilson Ruto	7 out of 7	100%
Mrs Margaret Mwinga	6 out of 7	86%
Mr Mark Orubia	7 out of 7	100%

9. DIRECTORS' EXTERNAL ACTIVITIES AND CONFLICTS OF INTEREST

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Bank.

Business transactions with all parties, directors or their related parties are carried out at arms' length. In 2013 the directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to the attention of a director that a matter concerning the Bank may result in a conflict of interest, they are obliged to declare the same and will exclude themself from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the bank, the director will be obliged to offer their resignation.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 35.

10. 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) and the requirements of the Kenyan Companies Act.

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Director Director

28th March 2014

The directors present their annual report together with the audited financial statements of Transnational Bank Limited (the "Bank") for the year ended 31 December 2013, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Bank.

PRINCIPAL ACTIVITIES

The principal activities of the Bank are the provision of banking, financial and related services.

BANK RESULTS	Sh'000
Profit before taxation	225,212
Taxation charge	(67,094)
Profit for the year	158,118
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DIVIDENDS

The directors recommend the payment of Sh 80,000,000 as dividend for the year ended 31 December 2013 (2012: Sh 122,886,309).

DIRECTORS

The current directors are listed on page 2. H. Tororey resigned as a director effective 8 May 2013. Prof D Rotich was appointed a director effective 15 July 2013.

COMPANY SECRETARY

Ms Jacqueline Onsando was appointed the Company Secretary effective 4 July 2013.

AUDITORS

The auditors, Deloitte & Touche, have indicated their willingness to continue in office in accordance with Section 159 (2) of the Companies Act and subject to approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

SECRETARY
28th March 2014
Nairobi

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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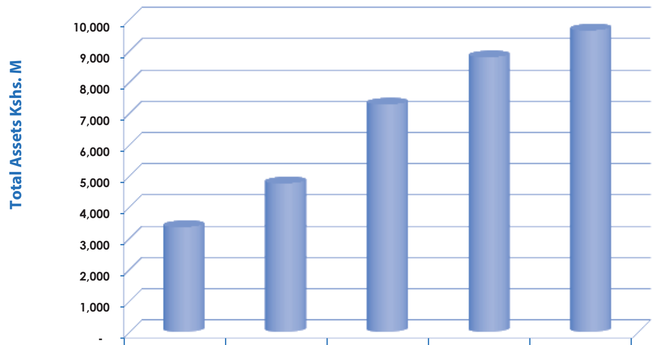
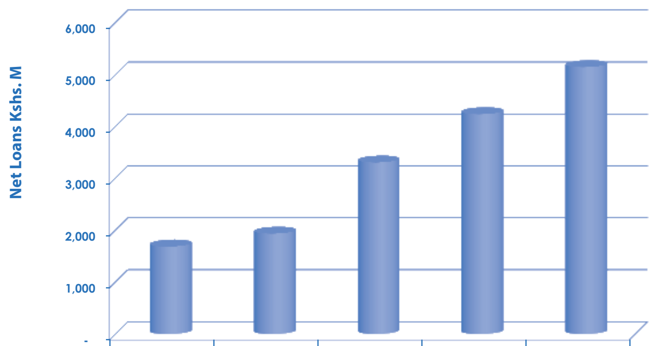
Director Director

28th March, 2014



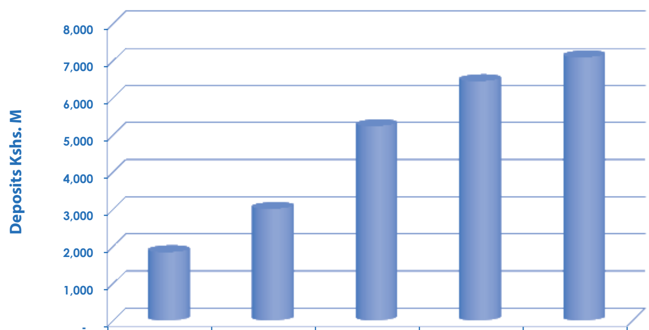
	2009	2010	2011	2012	2013
Total Assets (Kshs. M')	3,364	4,762	7,287	8,801	9,658

Growth in Total Assets



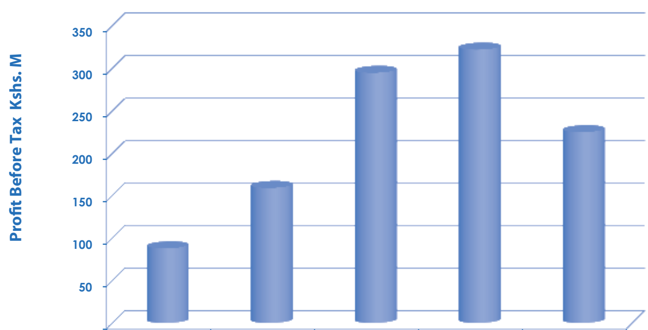
	2009	2010	2011	2012	2013
Net Loans (Kshs M')	1,689	1,938	3,308	4,239	5,145

Growth in Net Loans



	2009	2010	2011	2012	2013
Deposits (Kshs M')	1,845	3,010	5,242	6,452	7,097

Growth in Deposits



	2009	2010	2011	2012	2013
P B Tax (Kshs M')	88	159	295	322	225

Growth in Profit Before Tax

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANS NATIONAL BANK LIMITED

Report on financial statements

We have audited the accompanying financial statements of Transnational Bank Limited, set out on pages 15 to 68 which comprise the statement of financial position as at 31 December 2013, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the Bank as at 31 December 2013 and of its profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

The engagement partner responsible for the audit resulting in this independent auditors' report is R. Mwaura - P/No 1954.

Deloitte & Touche

Certified Public Accountants (Kenya)

Nairobi, Kenya
28th March 2014

	Notes	2013 Sh'000	2012 Sh'000
INTEREST INCOME	7	1,092,515	984,968
INTEREST EXPENSE	8	(394,024)	(433,240)
NET INTEREST INCOME		698,491	551,728
Fees and commission income	9	158,661	160,859
Gains on foreign exchange dealings	10	57,109	108,756
Other (expense)/income - net	11	(79)	145,326
OPERATING INCOME		914,182	966,669
Other operating expenses	12	(601,545)	(593,952)
Impairment losses on loans and advances	21	(87,425)	(50,663)
PROFIT BEFORE TAXATION		225,212	322,054
TAXATION CHARGE	14(a)	(67,094)	(108,661)
PROFIT FOR THE YEAR		158,118	213,393
OTHER COMPREHENSIVE INCOME		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		158,118	213,393
		=======	=======
		Sh	Sh
EARNINGS PER SHARE			
- Basic and diluted	15	0.79	1.07
		========	=======

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2013

	Notes	2013 Sh'000	2012 Sh'000
ASSETS			
Cash balances	16	342,414	299,550
Bank balances with Central Bank of Kenya	16	599,738	549,529
Deposits and balances due from banking institutions	17	767,746	967,044
Government securities	18	2,237,852	2,439,189
Commercial Paper	19	150,497	-
Loans and advances to customers	20	5,144,709	4,238,908
Other assets	22	265,518	179,815
Tax recoverable	14(c)	9,351	-
Property and equipment	23	84,236	91,066
Intangible assets	24	28,170	9,255
Deferred tax asset	25	27,636	27,026
TOTAL ASSETS		9,657,867	8,801,382
LIABILITIES			
Customer deposits	26	7,096,825	6,451,636
Due to banking institutions	27	331,453	172,000
Other liabilities	28	360,042	308,650
Financial liability - derivatives	29	500	124
Tax payable	14(c)	-	35,157
TOTAL LIABILITIES		7,788,820	6,967,567
SHAREHOLDERS' FUNDS			
Share capital	30	1,000,000	614,432
Share premium		42,236	42,236
Retained earnings		764,494	1,142,128
Statutory reserve	31	62,317	35,019
TOTAL SHAREHOLDERS' FUNDS		1,869,047	1,833,815
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		9,657,867	8,801,382

The financial statements on pages 15 to 68 were approved and authorised for issue by the board of directors on 28th March, 2014 and were signed on its behalf by:

Director

Chief Executive Officer

Director

Company Secretary

	Note	Share Capital	Share premium	Retained earnings	Statutory reserve	Total
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2012		614,432	42,236	1,060,253	26,387	1,743,308
Transfer to statutory reserve	31	-	-	(8,632)	8,632	-
Dividends declared - 2011		-	-	(122,886)	-	(122,886)
Total comprehensive income for the year		-	-	213,393	-	213,393
At 31 December 2012		614,432	42,236	1,142,128	35,019	1,833,815
		=======	=======	=======	=======	=======
At 1 January 2013		614,432	42,236	1,142,128	35,019	1,833,815
Bonus issue	30	385,568	-	(385,568)	-	-
Transfer to statutory reserve	31	-	-	(27,298)	27,298	-
Dividends declared – 2012		-	-	(122,886)	-	(122,886)
Total comprehensive income for the year		-	-	158,118	-	158,118
At 31 December 2013		1,000,000	42,236	764,494	62,317	1,869,047
		=======	=======	=======	=======	=======

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

	Notes	2013 Sh'000	2012 Sh'000
Cash flows from operating activities			
Net cash (used in)/generated from operating activities	32(a)	(268,068)	690,093
Tax paid	14(c)	(112,212)	(140,205)
Cash (used in)/generated from operating activities		(380,280)	549,888
Cash flows from investing activities			
Purchase of equipment	23	(28,488)	(51,169)
Purchase of intangible assets	24	(23,297)	(10,543)
Proceeds from disposal of equipment		2,622	-
Net cash used in investing activities		(49,163)	(61,712)
Cash flow from financing activities			
Dividends paid	33	(122,727)	(122,154)
(Decrease)/increase in cash and cash equivalents		**(552,170)**	**366,022**
Cash and cash equivalents at 1 January		**1,529,513**	**1,163,491**
Cash and cash equivalents at 31 December	**32(b)**	**977,343**	**1,529,513**

1 REPORTING ENTITY

Transnational Bank Limited (the "Bank") provides commercial banking services. The Bank is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The address of its registered office is as follows:

Trans-National Plaza
City Hall Way
P O Box 75840 - 00200
Nairobi

2 STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2013

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

Amendments to IFRS 7 Disclosures - Offsetting Financial Assets and Financial Liabilities

The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The application of the amendment had no effect on the Bank's financial statements as the Bank did not have any offsetting arrangements in place.

New and revised standards on consolidation joint arrangements, associates and disclosures

In May 2011, a package of five standards in consolidation joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IASs 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain guidance on first application of the standards.

Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the Bank does not have subsidiaries, joint arrangements and associates.

IFRS 13 Fair Value Measurement

The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of IFRS 2 Share-based Payment, leasing transactions that are within the scope of IAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

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

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

Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Bank has applied the amendments to IAS 1, Presentation of Items of Other Comprehensive Income, for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income' (and the 'income statement' is renamed as the 'statement of profit or loss'). The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified

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

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

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

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

IAS 19 Employee Benefits (as revised in 2011)	IAS 19 (as revised in 2011) changes the accounting for defined benefit plans and termination benefits. The most significant change relates to the accounting for changes in defined benefit obligations and plan assets. The amendments require the recognition of changes in defined benefit obligations and in the fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs. All actuarial gains and losses are recognised immediately through other comprehensive income in order for the net pension asset or liability recognised in the consolidated statement of financial position to reflect the full value of the plan deficit or surplus. Furthermore, the interest cost and expected return on plan assets used in the previous version of IAS 19 are replaced with a 'net interest' amount under IAS 19 (as revised in 2011), which is calculated by applying the discount rate to the net defined benefit liability or asset. The application of the amendment had no effect on the Bank's financial statements as the Bank does not have a defined benefit obligations plan.

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

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
Amendments to IFRS 9 and IFRS 7	1 January 2015
Amendments to IFRS 10, IFRS 12 and IAS 27	1 January 2014
Amendments to IAS 32	1 January 2014

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

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss. The application of this standard is likely to have an impact on amounts reported in these financial statements. However it is not practicable to provide a reasonable estimate on the effects of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

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

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

The amendments will not have any effect on the Bank's financial statements as the Bank is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The directors of the Bank anticipate that the application of these amendments to IAS 32 will have a significant impact on the Bank's financial statements as the Bank has financial assets and financial liabilities that qualify for offset. However it is not practicable to provide a reasonable estimate on the effects of IAS 32 until a detailed review has been completed.

(iv) Early adoption of standards

The Bank did not early-adopt new or amended standards in 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting except for the following financial instruments:

- Derivative financial instruments
- Financial instruments at fair value through profit or loss
- Financial instruments held to maturity.

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission income

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

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

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses where applicable.

Depreciation

Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of the property and equipment over their expected useful lives. The rates generally in use are:

Leasehold improvements	20%
Motor vehicles	25%
Computer hardware and software	30%
Equipment, furniture, fixtures and fittings	12.5%

Intangible assets

Computer software costs are stated at cost less amortisation and impairment losses where applicable. The costs are amortised over their expected useful lives on a straight line basis. Currently, software costs are amortised over three years.

Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount. Previously recognised impairment losses may be reversed to the extent of the assets carrying amount.

Foreign currencies

i) Functional and presentation currency

The financial statements of the Bank are measured using the currency of the primary economic environment in which it operates (the "functional currency"). The financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

ii) Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 through profit or loss.

Offsetting

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

Financial instruments

A financial asset or liability is recognised when the Bank becomes party to the contractual provisions of the instrument.

Financial assets

a) Classification and measurement

The Bank classifies its financial assets into the following IAS 39 categories: financial assets at fair value through profit or loss; loans, advances and receivables and held-to- maturity investments. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets classified as held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if:

a) it has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or

b) on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and for which there is evidence of a recent actual pattern of short-term profit taking; or;

c) it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

b) the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy and information about the grouping is provided internally on that basis; or

c) it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in the profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

ii) Due from banks and loans and advances to customers

Due from banks and loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

After initial recognition, these amounts are subsequently measured at amortised cost using the effective interest rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in profit and loss. The losses arising from impairment are recognised in profit or loss.

iii) Held-to-maturity financial assets

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

Held-to-maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss.

Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

b) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired.
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- the Bank has transferred substantially all the risks and rewards of the asset, or
- the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Bank's continuing involvement in the asset. In that case, the Bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Bank could be required to repay.

c) Impairment and uncollectability of financial assets

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 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 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:

- Deliquency in contractual payments of principal and interest;
- Cashflow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Downgrading below investment grade level.

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

i) Assets carried at amortised cost

The Bank assesses whether objective evidence of impairment exist individually for assets that are individually significant and individually or collectively for 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 financial assets 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 the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instruments effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

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 types, 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 exist currently.

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit and loss.

ii) Renegotiated loans

Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Financial liabilities and equity instruments issued by the Bank

a) Classification and measurement

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

i) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

a) it has been acquired or incurred principally for the purpose of repurchasing it in the near term; or
b) on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c) it is a derivative that is not designated and effective as a hedging instrument.

A financial liability (other than a financial liability held for trading) may also be designated as at fair value through profit or loss upon initial recognition if:

a) such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.
Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given.

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight line basis over the life of the guarantee.

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Derivative financial instruments

Derivatives, which comprise solely forward exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and subsequently measured at fair value. The fair value is determined using forward exchange market rates at the statement of financial position date or appropriate pricing models. The derivatives do not qualify for hedge accounting. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Changes in the fair value of derivatives are recognised immediately in profit or loss.

Statutory reserve

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

Leasing

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

The Bank as lessor

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates that have been enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred taxes are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognised in other comprehensive income.

Retirement benefits

The Bank operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Bank. The Bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Sh 200 per month per employee. The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

Contingent liabilities

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

Comparatives

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

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

In the process of applying the Bank's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. These are dealt with below:

(i) Critical judgements in applying the Bank's accounting policies

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as discussed below:

Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held-to-maturity investments

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire class as fair value through profit and loss. The investments would therefore be measured at fair value not amortised cost.

(ii) Key sources of estimation uncertainty

Property and equipment and intangible assets

Critical estimates are made by the directors in determining depreciation/amortisation rates for property and equipment and intangible assets.

5 RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and the Credit and Risk and Compliance committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Board has set up an independent compliance function reporting to the Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The audit committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The audit committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Bank's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

i) Non-Financial Risk Management disclosures:

a) Strategic risk

Strategic risk is the potential for loss arising from ineffective business strategies, improper implementation of strategies, sudden unexpected changes in the Bank's environment, or from lack of adequate responsiveness to changes in the business environment.

The Bank faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

Who manages strategic risk

The Board of Directors is responsible for the overall direction and implementation of the Bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Chief Executive Officer (CEO) and the Senior Management team who execute strategy.

Additionally, the Board of Directors, with support from CEO and Senior Management, develops and implements a new strategic cycle every 3 years to cater for the next plan period for the Bank.

Managing strategic risk

The CEO supported by Senior Management executes the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Bank's Strategy Committee for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Bank and how they are being managed.

The Bank's CEO co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions and key business risks.

Each head of department is responsible for directing strategies in their respective departments and ensure such strategies are aligned to the overall strategy of the Bank. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their departmental strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their departments and that mitigating actions are taken where appropriate.

The Bank's financial and non-financial performance, including its key risks, is reported to the Board of Directors on a quarterly basis for review and action, where necessary.

b) Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The operational risks faced by the Bank and in line with Basel II recommendations, the Bank categorizes its operational risk into the following seven loss event categories.

- **Internal frauds**-Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, excluding diversity and discrimination events, which involves at least one internal party.
- **External risks**-Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.
- **Employment Practices and workplace safety**-Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity and discrimination events.
- **Clients, products and business practices**- Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from improper business or market practices, from product flaws, or from disputes over performance of advisory activities
- **Damage to physical assets** -Losses arising from loss or damage to physical assets from natural disaster or external events such as terrorism or vandalism.
- **Business disruptions and system failures**- Losses arising from disruption of business or system failures (i.e. hardware, software, network, telecommunication)
- **Execution, delivery and process management**- Losses from failed transaction processing or process management.

Who manages operational risk

The Board of Directors and the CEO have direct responsibility for the management and control of operational risk throughout the Bank. Bank Management and the Risk and Compliance Committee of the Board coordinate, facilitate, and oversee the effectiveness and integrity of the Bank's operational risk management framework while Internal Audit and the Bank's external auditors provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of this framework.

The staff and management working within or managing operational branch are responsible for the day-to-day management and control of operational risk within their businesses.

The Bank's structure is designed with operational risk in mind. As an example, the Bank maintains specialised functions that manage business continuity, human resources, compliance, administration and procurement, security services and organisational change management.

Senior Management in turn reports to the Risk and Compliance Committee on all the key risks detailing corrective action initiatives to address the risks.

How the Bank manages operational risk

The Bank's operational risk management framework is designed to ensure key risk exposures are proactively managed within acceptable levels. It incorporates best practice and meets regulatory guidelines through:

i) Governance and Policy: Management reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk and Compliance Committee and Senior Management's expectations are guided by the Bank's policies.

ii) Risk and Control Self Assessment: Through quarterly comprehensive assessments of the Bank's key operational risk exposures and internal control environments, Senior Management is able to evaluate its effectiveness and implement appropriate additional corrective actions where needed, to offset or reduce unacceptable risks.

iii) Operational Risk Event Monitoring: The Bank's policies require that internal and industry-wide operational risk events are identified, tracked, and reported to the right levels to ensure they are analysed appropriately and corrective action taken in a timely manner.

iv) Risk Reporting: Significant operational risk issues together with measures to address them are tracked, assessed and reported to Senior Management and the Board of Directors to ensure accountability is maintained over current and emerging risks.

v) Insurance: A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met. This includes identifying opportunities for transferring our risks to third parties where appropriate.

vi) Technology and Information: The key risks here revolve around our reliance on technology and information and their impact on operational availability, integrity and security of our information data and systems / infrastructure. Our risk framework and programs use best practice and include robust threat and vulnerability assessments, as well as security and change management practices.

vii) Business Continuity Management: Business Continuity Management supports the ability of Senior Management to continue to operate their businesses, and provide customer access to products and services in times of disruptions. This program includes formal crisis management protocols and continuity strategies. All key functions of the Bank are regularly tested to confirm their contingency plan designs are able to respond to a broad range of potentially disruptive scenarios.

viii) Project Management: We have a disciplined project management program to ensure projects are implemented successfully in a planned and systematic manner and are monitored by Senior Management.

ix) Financial Crime: Safeguarding customers, employees, assets, information, and preventing plus detecting fraud as well as other forms of financial crime.

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

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

The Bank strives for high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions. As a result of high financial business regulation the Bank is exposed to regulatory and legal risks in virtually all our activities including those from the regulator (Central Bank of Kenya). Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks. Financial penalties and costs related to litigation may also substantially erode the Bank's earnings.

Who manages regulatory and legal risk

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

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

How the Bank manages regulatory and legal risks

The Board of Directors and Senior Management through the Bank's Code of Conduct sets the "tone at the top" for a culture of integrity beginning with concern for what is right (including compliance to policy and the law) in all our business considerations, decisions and actions. All employees are required to attest to this Code when they join the Bank and thereafter periodically, indicating that they have understood it and that they have complied with its provisions.

Departmental Heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal and Risk and Compliance departments assist them by:

i) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.

ii) Implementing or assisting with reviews of policies, procedures and training. They do this by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.

iii) Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.

iv) Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

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

The Bank has developed robust policies, programs and systems designed to manage the Know Your Customer (KYC) and Anti-Money Laundering (AML) risks as envisaged in the Proceeds of Crime & Anti-Money Laundering Act and Regulation (CBK). The Bank have upgraded account opening requirements and customer transaction screening procedures to meet the stringent requirements stipulated therein. Reporting of suspicious and other transactions is done as required by the law and policy standards. Appropriate periodic due diligence is carried out on correspondent banking counterparties, and KYC / AML obligations to them are met continuously. All staff are trained when they join the Bank and periodically certified as such in line with the law.

d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Bank's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.The Bank's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Bank's good reputation is always maintained or enhanced.

Who manages reputational risk

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Bank's reputational risk as part of their regular mandate. Their purpose is to ensure that all products, services, and activities meet the Bank's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Bank has a responsibility to contribute positively to our reputation. Senior Management and the Board of Directors receive periodic reports on the assessment of the Group's reputational risk exposures that arise from its business (including sales and service) activities so as to form a view on associated risks and implement corrective actions.

How the Bank manages reputational risk

Every employee and representative of the Bank has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and the Bank complies with applicable policies, legislation, and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance the Bank's reputation.

ii) Financial Risk Management disclosures:

The Bank has exposure to the following risks from its use of financial instruments composed of credit risk, liquidity risk and market risks

(a) Credit risk

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

i) Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Managers. Larger facilities require approval by head office credit committee or the Board of Directors as appropriate.
- Reviewing and assessing credit risk. Credit risk function assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of loans and advances to counterparties, geographies and business sectors and by issuer, credit rating band, market liquidity and country (for investment securities).
- Developing and maintaining the Bank's risk gradings in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive/committee as appropriate. Risk grades are subject to regular reviews by credit risk management department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Bank in the management of credit risk.

The Bank monitors concentration of risk by economic sector in line with the Bank's set limits per the sector. An analysis of concentrations within the loans and advances to customers, customer deposits and off balance sheet items is as follows:

(a) Loans and advances to customers - net

	2013 Sh'000	%	2012 Sh'000	%
Agriculture	941,366	18	672,013	16
Manufacturing	105,928	2	76,521	2
Wholesale and retail	783,102	15	646,439	15
Transport and communication	501,269	10	687,459	16
Real estate	430,546	8	355,409	8
Social community and personal services	635,594	12	524,673	13
Business services	506,546	10	376,367	9
Other	1,240,358	24	900,027	21
	5,144,709	100	4,238,908	100

(b) Customer deposits

	2013 Sh'000	%	2012 Sh'000	%
Building societies	47	-	43	-
Co-operative societies	351,242	5	319,309	5
Insurance companies	176,644	2	160,585	-
Private enterprises	3,933,281	55	3,575,691	58
Non profit institutions and individuals	2,635,611	38	2,396,008	37
	7,096,825	100	6,451,636	100

(c) Items not reported in statement of financial position (letters of credit and guarantees)

	2013 Sh'000	%	2012 Sh'000	%
Agriculture	12,164	2	20,169	3
Manufacturing	10,901	2	15,127	2
Wholesale and retail	3,634	1	5,043	1
Transport and communication	120,502	19	155,199	24
Real estate	10,901	2	10,085	2
Social community and personal services	14,534	2	20,169	3
Business services	251,311	40	131,103	20
Other	209,913	33	291,297	45
	633,860	100	648,192	100

	2013 Sh'000	%	2012 Sh'000	%
(ii) Maximum exposure to credit risk before collateral held				
Credit exposures:				
Items reported in the statement of financial position:				
Deposits and balances due from banking institutions	767,746	9	967,044	12
Loans and advances to customers	5,144,709	57	4,238,908	51
Government securities held to maturity	2,237,852	25	2,252,091	27
Commercial paper	150,497	2		
Government securities at fair value	-	.	187,098	2
	8,300,804	93	7,645,141	92
Items not reported in the statement of financial position:				
Letters of credit	48,228	1	143,953	2
Letters of guarantees and performance bonds	418,868	5	155,199	2
Foreign exchange forward contracts	166,764	2	349,040	4
	633,860	7	648,192	8
	8,934,664	100	8,293,333	100

(iii) Classification of loans and advances

	2013 Sh'000	2012 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	202,772	193,316
Grade 3 & 4: Impaired (doubtful)	469,752	318,745
Gross amount	672,524	512,061
Suspended interest	(49,956)	(51,867)
Allowance for impairment (note 21)	(301,137)	(230,716)
Carrying amount	321,431	229,478
Past due but not impaired		
Watch (30-90 days)	613,728	644,201
Allowance for impairment (note 21)	(18,721)	(19,326)
	595,007	624,875
Neither past due nor impaired		
Grade 1: Normal	4,228,271	3,384,555
Total carrying amount	5,144,709	4,238,908

Impaired loans and advances

Impaired loans and securities are loans and advances for which the Bank determines that it is probable that it will be unable to collect a part/whole of principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 3, 4 and 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and or the stage of collection of amounts owed to the Bank. These exposures are categorised as watch accounts in line with Central Bank of Kenya prudential guidelines and a general provision at 3% is made and appropriated under statutory reserves.

Loans and advances that are neither past due nor impaired.

The Bank classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a general provision at 1% is made and appropriated under statutory reserves.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Bank has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

	2013 Sh'000	2012 Sh'000
Renegotiated loans	46,290	52,411
	=======	======

(iv) Allowances for impairment

The Bank sets aside from its income an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to each defaulting borrower, and a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

(v) Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the credit committee determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
	Gross Sh'000	Net Sh'000
31 December 2013		
Grade 5: Individually impaired	202,772	44,443
Grade 3 & 4: Individually impaired	469,752	276,988
Total	672,524	321,431
31 December 2012		
Grade 5: Individually impaired	193,316	120,655
Grade 3 & 4: Individually impaired	318,745	108,823
Total	512,061	229,478

(vi) Collateral held

The Bank holds collateral against loans and advances to customers, non-insiders as well as insiders 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. Collateral generally is not held over loans and advances to Banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013.

An estimate of the fair value of collateral and other security enhancements held against past due and impaired loans and advances is shown below:

	2013 Sh'000	2012 Sh'000
Against individually impaired		
Property	257,154	395,400
Equities	150	230
Other	62,554	98,400
	319,858	494,030
Against past due but not impaired		
Property	651,071	586,550
Other	174,793	157,471
	825,864	744,021
Total	1,145,722	1,238,051

(vii) Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a Bank to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the Bank mitigates this risk by conducting settlements through a Settlement/clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval/limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Bank's board of directors.

b) Liquidity risk

The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

(i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. The Asset and Liability Committee (ALCO), a management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties in meeting financial liabilities as they fall due are encountered.

The Bank's Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

(ii) Source of funding

The Bank has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base comprising retail and corporate customers. The Bank also borrows from the interbank market through transactions with other Banks and from the wholesale market through transactions with pension funds and insurance companies for short term liquidity requirements.

(iii) Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from Banks, debt securities issued, other borrowings and commitments maturing within the next month.

Details of the reported Bank ratio of net liquid assets to customer deposits at the reporting date and during the reporting period were as follows:

	2013	2012
At 31 December	48.01%	60.40%
Average for the period	52.12%	58.65%
Maximum for the period	58.10%	66.90%
Minimum for the period	48.03%	51.80%
Statutory Minimum requirement	20.0%	20.00%

Liquidity risk based on undiscounted cash flows

The table below represents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, since the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

At 31 December 2013	Upto 3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
FINANCIAL LIABILITIES	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Customer deposits	6,554,585	395,094	218,637	3,716	-	-	7,172,032
Financial guarantee contracts	418,868	-	-	-	-	-	418,868
Due to banking institutions	331,453	-	-	-	-	-	331,453
	7,304,906	395,094	218,637	3,716	-	-	7,922,353
FINANCIAL ASSETS							
Cash balances	342,414	-	-	-	-	-	342,414
Bank balances with the Central Bank of Kenya	599,738	-	-	-	-	-	599,738
Deposits and balances due from banking institutions	767,746	-	-	-	-	-	767,746
Commercial paper	150,497	-	-	-	-	-	150,497
Loans and advances to customers	1,893,482	315,332	1,168,138	1,068,280	606,515	92,962	5,144,709
Government securities	-	-	78,254	372,887	-	1,786,711	2,237,852
	3,753,877	315,332	1,246,392	1,441,167	606,515	1,879,673	9,242,956
Net liquidity gap	3,551,029	79,762	(1,027,755)	(1,437,451)	(606,515)	(1,879,673)	(1,320,603)
At 31 December 2012							
Total financial liabilities	6,329,058	465,958	241,619	3,235	-	-	7,039,870
Total financial assets	3,829,114	222,296	444,514	995,139	566,957	2,905,433	8,963,453
Net liquidity gap	2,499,944	243,662	(202,895)	(991,904)	(566,957)	(2,905,433)	(1,923,583)

c) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Bank's open Foreign Exchange Position is the net investment in its foreign operations. The amount of market risk on the net foreign exchange position is estimated at 7% of the amount of net exchange position.

Overall authority for market risk is vested in ALCO. The senior management is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The assets and liability committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the reporting date. The Bank maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the Bank's base lending rate or Treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

Interest rates on customer deposits are negotiated between the Bank and the customer with the Bank retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the Bank. It is unusual for a Bank's assets and liabilities to be completely matched due to the nature of business terms and types.

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows.

Interest rate risks

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the reporting date whereby financial assets and liabilities at carrying amounts are categorized by the earlier of contractual re-pricing or maturity dates.

AT 31 December 2013 FINANCIAL ASSETS	Upto 3 months Sh'000	3-6 months Sh'000	6-12 Months Sh'000	1-3 years Sh'000	Over 3 years Sh'000	Non-interest bearing Sh'000	Total Sh'000
Cash balances	-	-	-	-	-	342,414	342,414
Bank balances with the Central Bank of Kenya	-	-	-	-	-	599,738	599,738
Deposits and balances due from banking institutions	-	-	-	-	-	767,746	767,746
Loans and advances to customers	1,829,732	304,716	1,128,809	1,032,313	586,095	263,044	5,144,709
Government securities	-	-	78,254	368,354	1,791,244	-	2,237,852
Commercial paper	150,497	-	-	-	-	-	150,497
Total financial assets	1,980,229	304,716	1,207,063	1,400,667	2,377,339	1,972,942	9,242,956
FINANCIAL LIABILITIES							
Customer deposits	6,493,510	380,974	218,637	3,704	-	-	7,096,825
Due to banking institutions	331,453	-	-	-	-	-	331,453
Total financial liabilities	6,824,963	380,974	218,637	3,704	-	-	7,428,278
Interest sensitivity gap	(4,844,734)	(76,258)	988,426	1,396,963	2,377,339	1,972,942	(1,814,678)
Total assets	1,747,331	500,077	432,168	969,565	2,559,780	2,535,341	8,744,262
Total liabilities	5,919,733	461,155	239,547	3,201	-	-	6,623,636
Interest sensitivity gap	(4,172,402)	38,922	192,621	966,364	2,559,780	2,535,341	2,120,626

Interest rate risk stress test - Increase/decrease of 8% in Net Interest Margin

Interest rate risk sensitivity analysis is based on the following assumptions

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

The table below sets out the impact on the net interest income of an incremental 8% parallel fall or rise in net interest margin for the twelve months from 1 January 2013 to 31 December 2013.

31 December 2013	Amount Sh'000	Scenario 1 8% increase in net interest margin Sh'000	Scenario 2 8% decrease in net interest margin Sh'000
Profit before tax	225,212	243,229	207,195
Adjusted core capital	1,869,047	2,018,571	1,719,523
Risk weighted assets (RWA)	6,010,597	6,491,455	5,529,750
Adjusted core capital to RWA	31.10%	31.10%	31.10%
Adjusted total capital to RWA	31.21%	33.71%	28.71%

Overall non-trading interest rate risk positions are managed by treasury, which uses investment securities, advances to Banks, deposits from Banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Currency risk

The Bank operates wholly in Kenya and its assets and liabilities are reported in the local currency. The Bank's currency risk is managed within the Central Bank of Kenya exposure guideline of 20% of core capital. The Bank's management monitors foreign currency exposure on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table below are the Bank's financial instruments at carrying amounts categorised by currency.

At 31 December 2013	KSH Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	Others Sh'000	Total Sh'000
FINANCIAL ASSETS						
Cash balances	316,288	16,382	1,386	5,539	2,819	342,414
Bank balances with Central Bank of Kenya	504,789	84,571	7,990	2,388	-	599,738
Deposits and balances due from banking institutions	592,834	92,981	35,526	44,527	1,878	767,746
Loans and advances	4,778,012	295,370	-	71,327	-	5,144,709
Government securities	2,237,852	-	-	-	-	2,237,852
Commercial paper	150,497	-	-	-	-	150,497
Total financial assets	8,580,272	489,304	44,902	123,781	4,697	9,242,956
FINANCIAL LIABILITIES						
Customer deposits	6,904,993	169,344	1,229	20,518	741	7,096,825
Due to banking institutions	139,239	146,880	14,239	59,573	-	359,931
Total financial liabilities	7,044,232	316,224	15,468	80,091	741	7,456,756
Net on balance sheet position	1,536,040	173,080	29,434	43,690	3,956	1,786,200
Off balance sheet position	559,636	46,425	214	-	27,585	633,860
At 31 December 2012						
Total financial assets	8,204,101	495,279	5,980	30,797	8,105	8,744,262
Total financial liabilities	6,179,924	426,390	4,614	10,981	1,727	6,623,636
Net items reported in statement of financial position	2,024,177	68,889	1,366	19,816	6,378	2,120,626
Items not reported in statement of financial position	247,256	156,728	208	22,721	41,279	468,192

Foreign currency risk stress test-appreciation/depreciation of Kenya shilling by 10%

The foreign exchange risks sensitivity analysis is based on the following assumptions:

- Foreign exchange exposures represent net currency positions of all currencies other than the Kenya shilling
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which Trans-National Bank's business is transacted is Kenya shilling.

The table below summarises the estimated impact of a 10% decline/appreciation of the Kenya Shilling.

31 December 2013	Amount Sh'000	Scenario 1 10% appreciation of Kenya shilling Sh'000	Scenario 2 10% depreciation of Kenya shilling Sh'000
Profit before tax	225,212	247,733	202,691
Adjusted core capital	1,869,047	2,055,952	1,682,142
Risk weighted assets (RWA)	6,010,597	6,611,657	5,409,538
Adjusted core capital to RWA	31.10%	31.10%	31.10%
Adjusted total capital to RWA	31.21%	34.33%	30.90%

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by treasury and equity price risk is subject to regular monitoring by ALCO but is not currently significant in relation to the overall results and financial position of the Bank.

d) Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

Disclosures of fair value of financial instruments not measured at fair value have not been made because the financial instruments carrying amounts is a reasonable approximation of their fair values.

(ii) Fair value hierarchy

The Bank specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi stock exchange.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.
- Level 3 – inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

Fair value of the Bank's financial assets and liabilities that are measured at fair value on a recurrent basis

Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial assets/liabilities	Fair value as at		Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
	31/12/13 Sh	31/12/12 Sh				
Government securities	-	187,098	Level 1	Quoted bid prices in an active market	N/A	N/A
Financial derivative	500	124	Level 1	Exchange rates in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2012: none).

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

31 December 2013	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Fair value - Financial derivative	29	500	-	-	500
31 December 2012					
Government securities		187,098	-	-	187,098
Fair value - Financial derivative	29	(124)	-	-	(124)
		186,974	-	-	186,974

Reconciliation of level 3 fair value measurements

There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement (2012: none)

(iii) Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

6 CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates requirements for operations risk and market risk for internal monitoring purposes.

The Bank's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings and translation reserve after deductions for intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-balance sheet exposures.

The Bank's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

In implementing current capital requirements, the Central Bank of Kenya requires each Bank to maintain;

- A minimum level of regulatory capital of Shs 1 billion as at 31 December 2013.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities.
- Total capital of not less than 12% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank has complied with all externally imposed capital requirements throughout the year. There have been no material changes in the Bank's management of capital during the year. The Bank's regulatory capital position at 31 December was as follows:

	2013 Sh'000	2012 Sh'000
Tier 1 capital		
Total share capital	1,000,000	614,432
Share premium	42,236	42,236
Retained earnings	764,494	1,142,128
Total	1,806,730	1,798,796
Tier 2 capital		
Statutory reserve	62,317	35,019
Total regulatory capital	1,869,047	1,833,815
Risk-weighted assets		
Retail bank, corporate bank and central treasury	6,010,597	4,717,588
Total risk weighted assets	6,010,597	4,717,588
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	31.10%	38.8%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	30.06%	38.1%

7 INTEREST INCOME

	2013 Sh'000	2012 Sh'000
Loans and advances	839,662	774,528
Government securities held to maturity	230,008	198,134
Deposits and balances due from banking institutions	22,845	12,306
	1,092,515	984,968

	2013 Sh'000	2012 Sh'000

8 INTEREST EXPENSE

	2013 Sh'000	2012 Sh'000
Interest on customer deposits	385,439	408,676
Interest on deposits due to banking institutions	8,585	24,564
	______	______
	394,024	433,240
	======	======

9 FEES AND COMMISSION INCOME

	2013 Sh'000	2012 Sh'000
Commissions	135,486	143,142
Ledger related fees	23,175	17,717
	______	______
	158,661	160,859
	======	======

10 GAINS ON FOREIGN EXCHANGE DEALINGS

Gains on foreign currency dealings arose from trading in foreign currency transactions and also on the translation of foreign currency monetary assets and liabilities.

11 OTHER (EXPENSE)/INCOME

	2013 Sh'000	2012 Sh'000
(Loss)/gain on sale of treasury bonds	(1,435)	111,839
Gain on disposal of equipment	356	-
Miscellaneous income	1,000	33,487
	______	______
	(79)	145,326
	======	======

12 OTHER OPERATING EXPENSES

	2013 Sh'000	2012 Sh'000
Staff costs (note 13)	331,295	309,135
Directors' emoluments - fees	6,614	6,686
- other emoluments	12,637	15,425
Other expenses	54,368	58,279
Rent and parking	50,742	46,307
Depreciation (note 23)	33,052	32,685
Computer maintenance	13,794	11,924
Security services	28,931	25,850
Amortisation (note 24)	4,382	7,076
Telephone, data and postage	22,098	21,950
Insurance	14,498	12,822
Advertising and marketing	11,854	18,617
Stationery and supplies	5,925	6,936
Auditors' remuneration	2,943	2,943
Contribution to Deposit Protection Fund	8,412	6,343
Fair value loss on government securities	-	10,974
	______	______
	601,545	593,952
	=======	======

13 STAFF COSTS

	2013 Sh'000	2012 Sh'000
Salaries and wages	269,884	245,796
Pension costs - defined contribution plan	19,427	16,445
Provision for leave pay	13,877	12,519
Medical expenses	7,984	5,488
National Social Security Fund contributions	441	425
Other staff costs	15,440	24,411
Refreshments and entertainment	4,242	4,051
	331,295	309,135

14 TAXATION

(a) Taxation charge

	2013 Sh'000	2012 Sh'000
Current taxation based on the taxable profit for the year at 30%		
Current tax charge	67,704	108,599
Deferred taxation (credit)/ charge (note 25)	(987)	62
Deferred taxation prior year under provision (note 25)	377	-
Taxation charge	67,094	108,661

(b) Reconciliation of taxation charge to the expected taxation based on profit before tax

	2013 Sh'000	2012 Sh'000
Accounting profit before taxation	225,212	322,054
Tax at the applicable rate of 30%	67,563	96,616
Tax effect of expenses not deductible for tax purposes	5,961	12,045
Tax effect of income not taxable	(6,807)	-
Prior year deferred tax under provision	377	-
Taxation charge for the year	67,094	108,661

	2013 Sh'000	2012 Sh'000
(c) Tax payable		
At the beginning of the year	35,157	66,763
Charge for the year	67,704	108,599
Payments during the year	(112,212)	(140,205)
	(9,351)	35,157

15 EARNINGS PER SHARE

	2013 Sh'000	2012 Sh'000
Profit attributable to owners of the Bank – Sh'000	158,118	213,393
Weighted average number of ordinary shares		
At 1 January	122,886,309	122,886,309
Weighted average additional shares issued	77,113,691	77,113,691
At 31 December	200,000,000	200,000,000
Weighted average number of shares during the year	200,000,000	200,000,000
Basic earnings per share – Sh	0.79	1.07

The basic earnings per share is the same as the diluted earnings per share as there were no potentially dilutive shares as at 31 December 2013 and 31 December 2012, respectively.

During the year, the Bank issued bonus shares in the ratio of 0.67 bonus share for every share held. These were approved by a shareholders' resolution at the Bank's Annual General Meeting held on 8 May 2013. Because the bonus issue was without consideration, it is treated as if it had occurred before the beginning of 2012, the earliest period presented.

16 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2013 Sh'000	2012 Sh'000
Cash on hand	342,414	299,550
Balances with Central Bank of Kenya:		
- Cash ratio requirement	391,642	306,500
- Cash held under lien	9,460	9,460
- Other (available for use by the Bank)	198,636	233,569
	599,738	549,529
	942,152	849,079

The cash ratio requirement balance is non-interest earning and is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2013, the cash ratio requirement was 5.5% (2012 – 4.75%) of all customer deposits. These funds are not available to finance the Bank's day to day operations. The cash held under lien comprises USD 110,000 (2012 – USD 110,000). This amount is held by the Central Bank of Kenya for domestic and foreign currency clearing and thus is not available for the Bank's use (note 36).

17 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2013 Sh'000	2012 Sh'000
Held to maturity: At amortised cost		
Current accounts due on demand	767,746	967,044

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2013 was 9.3% (2012 – 8.9%) and nil for current account balances.

18 GOVERNMENT SECURITIES

	2013 Sh'000	2012 Sh'000
Treasury bonds - at fair value through profit or loss		
Cost	-	198,072
Fair value loss	-	(10,974)
	-	187,098
Treasury bonds – Held to maturity		
- maturing within 90 days	-	201,350
- maturing between 90 days to 1 year	77,887	-
- maturing between 1 - 2 years	209,424	74,338
- maturing after 2 years but within 5 years	474,835	159,357
- maturing after 5 years	1,475,706	1,817,046
	2,237,852	2,252,091
	2,237,852	2,439,189
The weighted average effective interest rate as at year end was:	%	%
Treasury bonds held to maturity	8.8	8.5

19 COMMERCIAL PAPER

	2013 Sh'000	2012 Sh'000
Maturing within 90 days	150,497	-

The weighted average effective interest rate for commercial paper as at 31 December 2013 was 12.96% per annum. The commercial paper is held with Kenol Kobil Limited.

20 LOANS AND ADVANCES TO CUSTOMERS

		2013 Sh'000	2012 Sh'000
(a)	Loans and advances to customers	4,547,223	3,786,371
	Staff loans	314,212	244,144
	Finance lease receivables (note 20(b))	755,601	573,413
		5,617,036	4,603,928
	Less: unearned finance charges (note 20(b))	(152,469)	(114,978)
		5,464,567	4,488,950
	Impairment loss on loans and advances (note 21)	(319,858)	(250,042)
		5,144,709	4,238,908

(b) Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2013 Sh'000	2012 Sh'000	2013 Sh'000	2012 Sh'000
Amounts receivable under finance leases:				
Within one year	380,825	288,963	282,527	209,625
In the second to fifth year inclusive	374,776	284,450	320,605	248,810
	755,601	573,413	603,132	458,435
Less: unearned finance income	(152,469)	(114,978)	-	-
Present value of minimum lease payments receivable	603,132	458,435	603,132	458,435

The Bank enters into finance leasing arrangements for certain equipment and motor vehicles. The average term of finance leases entered into is 3 years. Unguaranteed residual values of assets leased under finance leases are estimated at Sh Nil (2012: Sh Nil). The interest rate inherent in the leases is variable at the contract date for all of the lease term.

The weighted average effective interest rate on loans and advances as at 31 December 2013 was 19.6% (2012 – 16.5%).

The weighted average effective interest rate on finance lease receivables at 31 December 2013 was 15.8 % (2012 - 15.5%).

(c) Non performing loans and advances to customers

Included in net loans and advances of Sh. 5,144,709,000 (2012 - Sh 4,238,908,000) are loans and advances amounting to Sh 321,431,000 (2012 - Sh 229,478,000), net of specific provisions, which have been classified as non-performing.

(d) MATURITY OF GROSS LOANS AND ADVANCES (NET OF FINANCE CHARGES)

	2013 Sh'000	2012 Sh'000
Maturing:		
Up to one month	1,243,725	1,005,121
1-3 months	718,128	593,846
3-6 months	322,014	266,285
6-12 months	1,192,890	986,444
1-3 years	1,090,916	902,118
3-5 years	619,367	512,177
Over 5 years	277,527	222,959
Loans and advances to customers (gross)	5,464,567	4,488,950
	=======	=======
GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)		
Overdrafts	1,179,414	1,406,673
Term loans	4,285,153	3,082,277
Loans and advances to customers (gross)	5,464,567	4,488,950
	=======	=======

The related party transactions and balances are covered under note 35 and concentration of advances to customers is covered under note (5a) (i) on financial risk management objectives and policies.

21 IMPAIRMENT LOSS ON LOANS AND ADVANCES

	2013 Sh'000	2012 Sh'000
At 1 January	250,042	254,274
Provisions in the year	88,268	50,858
Recoveries in the year	(843)	(195)
	87,425	50,663
Written off in the year	(17,609)	(54,895)
At 31 December	319,858	250,042
Make up:		
Individually impaired	301,137	230,716
Past due and not impaired	18,721	19,326
	319,858	250,042

22 OTHER ASSETS

	2013	2012
Clearing and transit items	29,694	22,870
Deposits and prepayments	7,184	5,945
Interest receivable	152,469	114,978
Sundry debtors	17,185	6,444
Deposits	13,578	11,347
Other assets	45,408	18,231
	265,518	179,815

23 PROPERTY AND EQUIPMENT

	Leasehold improvements Sh'000	Furniture, fittings and equipment, computer, hardware Sh'000	Motor vehicles Sh'000	Work in progress Sh'000	Total Sh'000
COST					
At 1 January 2012	93,204	160,995	9,713	-	263,912
Disposals	18,944	32,225	-	-	51,169
At 31 December 2012	112,148	193,220	9,713	-	315,081
At 1 January 2013	112,148	193,220	9,713	-	315,081
Additions	4,232	13,617	-	10,639	28,488
Disposal	(711)	(7,301)	-	-	(8,013)
At 31 December 2013	115,669	199,536	9,713	10,639	335,556
DEPRECIATION					
At 1 January 2012	66,450	121,644	3,236	-	191,330
Charge for the year	12,755	17,697	2,233	-	32,685
At 31 December 2012	79,205	139,341	5,469	-	224,015
At 1 January 2013	79,205	139,341	5,469	-	224,015
Charge for the year	13,950	16,870	2,232	-	33,052
Eliminated on disposal	(636)	(5,111)	-	-	(5,747)
At 31 December 2013	92,519	151,100	7,701	-	251,320
NET BOOK VALUE					
At 31 December 2013	23,150	48,435	2012	10,639	84,236
At 31 December 2012	32,943	53,879	4,244	-	91,066

Property and equipment with a cost of Sh 152,962,713 (2012 - Sh 132,599,000) were fully depreciated as at 31 December 2013. The nominal annual depreciation charge on these assets would have been Sh 33,204,309 (2012 - Sh 28,784,000).

Work in progress as at 31 December 2013 represents costs incurred towards refurbishment of branches that was ongoing as at year end and costs incurred towards installation of ATM machines at JKIA and Nandi Hills branches.

24 INTANGIBLE ASSETS (Computer Software)

	Software Sh'000	Work in progress Sh'000	Total Sh'000
COST			
At 1 January 2012	50,148	-	50,148
Additions	10,543	-	10,543
At 1 January 2013	60,691	-	60,691
Additions	1,503	21,794	23,297
At 31 December 2013	62,194	21,794	83,988
AMORTISATION			
At 1 January 2012	44,360	-	44,360
Amortisation for the year	7,076	-	7,076
At 1 January 2013	51,436	-	51,436
Amortisation for the year	4,382	-	4,382
At 31 December 2013	55,818	-	55,818
NET BOOK VALUE			
At 31 December 2013	6,376	21,794	28,170
At 31 December 2012	9,255	-	9,255

Intangible assets with a cost of Sh 49,333,712 (2012 - Sh 32,599,000) were fully amortised as at 31 December 2013. The nominal annual amortisation charge on these assets would have been Sh 14,814,274 (2012 - Sh 9,789,489).

Work in progress as at 31 December 2013 represented costs incurred for the core banking and Human Resources Information System software upgrades that were ongoing at year end.

	2013	2012
	Sh'000	Sh'000

25 DEFERRED TAX ASSET

The deferred tax asset is attributable to the following items:

	2013 Sh'000	2012 Sh'000
Accelerated capital allowances	12,283	11,155
Provisions		
- Leave pay	2,407	3,067
- Legal fees	3,910	3,778
- Gratuity and union salary increment	170	747
- Other provisions	8,866	8,279
	27,636	27,026
	======	======

	2013 Sh'000	2012 Sh'000
Movement in deferred tax asset is as follows:		
At 1 January	27,026	27,088
Profit and loss credit/(charge):		
- Current year credit	987	(62)
- Prior year under provision	(377)	-
Profit and loss credit/(charge) - Note 14(a)	610	(62)
At 31 December 27,636	27,026	
	======	======

26 CUSTOMER DEPOSITS

	2013 Sh'000	2012 Sh'000
Current and demand accounts	1,822,175	1,371,068
Savings accounts	713,324	621,490
Fixed and call deposit accounts	4,561,326	4,459,078
	7,096,825	6,451,636
	========	=======

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	2013 Sh'000	2012 Sh'000
Repayable:		
Within one month	2,988,587	2,716,893
Within 1 - 3 months	3,333,941	3,030,840
Within 3 - 6 months	507,273	461,155
Within 6-12 months	263,503	239,547
Within 1-3 years	3,521	3,201
	7,096,825	6,451,636
	=======	========

The weighted effective interest rate on interest bearing customer deposits at 31 December 2013 was 9.6% (2012 – 13.6%).

The related party transactions and balances are disclosed under note 35 and concentration of customer deposits is covered under note 5(a)(i) on financial risk management objectives and policies.

27 DUE TO BANKING INSTITUTIONS

	2013 Sh'000	2012 Sh'000
Demand accounts	331,453	172,000
	======	======

The effective interest rate on deposits and balances due to banking institutions at 31 December 2013 was 6.4% (2012: 4%).

28 OTHER LIABILITIES

	2013 Sh'000	2012 Sh'000
Bankers cheques outstanding	60,914	53,566
Deposits for letters of credit and letters of guarantee	8,760	10,734
Provision for leave pay	8,022	10,222
Legal fees provision	13,033	12,594
Bonus	2,716	3,575
Dividends payable	891	732
Other liabilities and accruals	265,706	217,227
	360,042	308,650
	======	======

29 FINANCIAL LIABILITY DERIVATIVE

At 31 December 2013

Maturing within 3 months	Contract exchange rate 2013	Foreign currency 2013 $'000	Contract value 2013 Sh'000	Fair value liability 2013 Sh'000
Sell Dollars	87.02	500	43,510	310
Sell Dollars	86.80	750	65,100	300
Sell GPB	141.52	200	28,304	(173)
Sell Euros	119.40	250	29,850	63
				500
				=====

At 31 December 2012

Maturing within 3 months	Contract exchange rate 2012	Foreign currency 2012 $'000	Contract value 2012 Sh'000	Fair value liability 2012 Sh'000
Buy Dollars	86.20	300	25,860	(60)
Sell Dollars	86.17	1,200	103,404	204
Sell Euros	113.45	130	14,749	(20)
				124
				=====

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency. The fair value is the difference between the contract value and the foreign currency at the closing rate of Sh 86.00 to US Dollar 1 and Sh 113.60 to Euro 1 in 2013 (2012- Sh 80.68 to US Dollar 1 and Sh 109.73 to Euro 1).

30 SHARE CAPITAL

	2013 Sh'000	2012 Sh'000
Authorised		
230,000,000 Ordinary shares of Sh 5 each	1,150,000	1,150,000
	========	========
Issued and fully paid:		
200,000,000 (2012- 122,886,309) Ordinary shares of Sh 5 each	1,000,000	614,432
	========	========

Movement of shares is as follows:

	No of shares	No of Shares
At 1 January	122,886,309	122,886,309
Bonus issue	77,113,691	-
At 31 December	200,000,000	122,886,309
	=========	=========

31 STATUTORY RESERVE

	2013 Sh'000	2012 Sh'000
At 1 January 2013	35,019	26,387
Transfer from retained earnings	27,298	8,632
At 31 December 2013	62,317	35,019
	=======	======

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provision as computed in accordance with the Central Bank of Kenya prudential guidelines over the impairment of loans and receivables as computed per IAS 39. The statutory reserve is not distributable.

32 NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit before taxation to cash generated from operating activities

	2013 Sh'000	2012 Sh'000
Profit before taxation	225,212	322,054
Depreciation (note 23)	33,052	32,685
Amortisation of intangible assets (note 24)	4,382	7,076
Gain on disposal of equipment	(356)	-
Working capital changes;		
Balances with Central Bank of Kenya		
- Cash ratio requirement (note 16)	(85,142)	(60,124)
- Cash held under lien (note 16)	-	(132)
Government securities maturing after 90 days	(187,111)	216,387
Government securities held at fair value	187,098	(187,098)
Loans and advances to customers	(905,801)	(930,840)
Commercial paper	(150,497)	-
Other assets	(85,862)	7,242
Customer deposits	645,189	1,209,895
Other liabilities	51,392	72,848
Financial liability – derivatives	376	100
Cash (used in)/generated from operating activities	(268,068)	690,093

(b) Analysis of the balances of cash and cash equivalents

	2013 Sh'000	2012 Sh'000
Cash on hand (note 16)	342,414	299,550
Balances with Central Bank of Kenya – other (note 16)	198,636	233,569
Placements and balances due from banking institutions (note 17)	767,746	967,044
Government securities maturing within 90 days (note 18)	-	201,350
Deposits due to banking institutions (note 27)	(331,453)	(172,000)
	977,343	1,529,513

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from Banks repayable within three months from the date of the advance.

33 DIVIDENDS

a) Dividends payable

	2013 Sh'000	2012 Sh'000
At 1 January	732	-
Dividends declared	122,886	122,886
Dividends paid	(122,727)	(122,154)
At 31 December	891	732

Dividends payable relate to dividends declared in the current and previous year by the Bank but not collected by the shareholders or their representatives. The dividends payable have been included in other liabilities.

b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. A first and final dividend for the year ended 31 December 2013 has been proposed as follows:-

Dividend per share Sh	Total dividend Sh
0.4	80,000,000

The financial statements for the year ended 31 December 2013 do not reflect this resolution which will be accounted for in the shareholders' equity as an appropriation of retained profits in the year ending 31 December 2014.

Payment of dividends is subject to withholding tax at a rate of 5% for resident shareholders.

34 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2013 Sh'000	2012 Sh'000
(a) Contingent liabilities		
Letters of credit	48,228	155,199
Letters of guarantee and performance bonds	418,868	349,040
Forward exchange contracts	166,764	143,953
	633,860	648,192

Letters of credit commit the Bank to make payments to third parties, on production of documents, and the amounts are subsequently reimbursed by customers.

Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency.

The related party transactions and balances are covered under note 35 and concentration of contingent liabilities is covered under note 5(a)(i) on financial risk management objectives and policies.

	2013	2012
	Sh'000	Sh'000
(b) Capital commitments		
Authorised but not contracted for	60,425	128,427
Authorised and contracted for	65,400	19,400
	125,825	147,827

(c) Operating lease arrangements

The Bank leases its branches premises under operating leases. During the year ended 31 December 2013, Shs 50,604,000 (2012: Shs 46,307,000) was recognised as an expense in the profit or loss account in respect of operating leases.

The Bank as a lessee

At the reporting date, the Bank had outstanding commitments under operating leases which fall due as follows:

	2013	2012
	Sh'000	Sh'000
Within one year	32,400	29,935
In the second to fifth year inclusive	75,783	70,783
	108,183	100,718

Operating lease payments represent rentals payable by the Bank for its office premises. Leases are negotiated for an average term of 6 years.

35 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 operational decisions.

Placings are made in the Bank by directors, their associates and companies associated to directors. Advances to customers at 31 December 2013 include advances and loans to companies associated with directors. Contingent liabilities at 31 December 2013 include guarantees and letters of credit for companies associated with directors.

(a) The Bank leases office and parking space from Autosilo (Queensway) Ltd, a company with common directorship. Payments during the year amounted to Sh 25,508,565 (2012 - Sh 20,981,053).

(b) Loans and advances:

	Directors' associated companies		Employees	
	2013	2012	2013	2012
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	610,671	499,896	244,143	150,912
Net movement during the year	208,927	110,775	70,069	93,232
At 31 December	819,598	610,671	314,212	244,144

These loans and advances are performing and are adequately secured.

Interest earned on advances to directors and associated companies amounted to Sh 45,439,290 (2012 - Sh 34,167,453).

(c) Deposits:

	Directors' associated companies		Employees	
	2013	2012	2013	2012
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	2,018,523	1,455,566	42,500	36,384
Net movement during the year	(312,105)	562,957	(3,401)	6,116
At 31 December	1,706,418	2,018,523	39,099	42,500

Interest paid on deposits from directors and associated companies amounted to Sh 49,761,717 (2012 – Shs 58,756,256) and Sh 1,920,200 (2012 - Sh 2,620,764) on staff deposits.

	2013	2012
	Sh'000	Sh'000
(d) Guarantees and letters of credit to companies associated to directors	75,026	45,114

(e) Key management compensation

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

	2013 Sh'000	2012 Sh'000
Salaries and other benefits	75,026	61,485
	=======	=======
Directors' remuneration:		
Fees for services as directors	6,614	6,686
Allowances	12,637	15,425
	19,251	21,111
	======	=======

36 ASSET PLEDGED AS SECURITY

As at 31 December 2013, assets pledged as security comprised balances with Central Bank of Kenya under lien for the Domestic Foreign Currency clearing amounting to USD 110,000 (2012: USD 110,000).

37 POST BALANCE SHEET EVENTS

No significant post balance sheet events have come to the attention of the Directors.

38 COUNTRY OF INCORPORATION

The Bank is incorporated under the Kenyan Companies Act and domiciled in Kenya.

39 CURRENCY

The financial statements are presented in Kenya shillings thousands (Sh'000), the Bank's functional currency.

		2013 Sh'000	2012 Sh'000
INCOME			
Interest on loans and advances		839,662	774,528
Interest on government securities		230,008	198,134
Interest on placements		22,845	12,306
		1,092,515	984,968
		=======	=======
INTEREST EXPENSE			
Interest on customer deposits		385,439	408,676
Interest on deposits due to banking institutions		8,585	24,564
		394,024	433,240
NET INTEREST INCOME		698,491	551,728
FEES AND COMMISSIONS INCOME		158,661	160,859
OTHER OPERATING INCOME	II	57,030	254,082
OPERATING EXPENSES	II	(601,545)	(593,952)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES		(87,425)	(50,663)
PROFIT BEFORE TAXATION		225,212	322,054
TAXATION CHARGE		(67,094)	(108,661)
		158,118	213,393
		=======	=======

	2013 Sh'000	2012 Sh'000
OTHER OPERATING INCOME		
Gain on foreign exchange dealings	57,109	108,756
Gain on disposal of equipment and furniture	103	-
Bad debts recovered	843	195
Miscellaneous income	410	33,292
(Loss)/gain on sale of treasury bonds	(1,435)	111,839
	57,030	254,082
	======	======
ADMINISTRATION		
Staff costs	331,295	309,135
Directors' emoluments - fees	6,614	6,686
- other emoluments	12,637	15,425
Other expenses		
	20,523	21,160
Rent and parking fees	50,742	46,307
Depreciation	33,054	32,685
Computer maintenance	13,794	11,924
Security services	28,931	25,850
Amortisation	4,382	7,076
Telephone, data and postage	22,098	21,950
Insurance	14,498	12,822
Advertising and marketing	11,852	18,617
Stationery and supplies	5,925	6,936
Auditors' remuneration	2,943	2,943
Electricity and water	4,816	5,028
Licenses	4,408	3,974
Contribution to Deposit Protection Fund	8,412	6,343
Subscriptions and donations	3,900	4,518
Maintenance costs	4,178	6,248
Car running expenses	2,216	1,684
Legal and professional fees	2,942	4,209
ATM expenses	6,795	5,870
Fair value loss on government securities	-	10,974
Travel and accommodation	4,590	5,588
	601,545	593,952
	=======	=======

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON 23RD OF APRIL 2014, AT 10.00 AM, AT THE HILTON HOTEL, NAIROBI, TO CONDUCT THE FOLLOWING BUSINESS:-

1. To read the notice convening the meeting, which is issued in accordance with Article 38 of the Articles of the Company.

2. Ordinary Business

2.1 To confirm minutes of the last Annual General Meeting held on 8th May 2013.
2.2 Matters arising there from
2.3 To receive the Directors' Report and Auditor's Report and approve the audited Accounts for the year ended 31st December 2013.
2.4 To declare and approve a final dividend of Kenya Shillings Forty Cents {0.40} per share for the financial year ended 31st December 2013 payable to shareholders on the Register of Members as at 31st December 2013.
2.5 To elect Directors. In accordance with section 24 of the Company's Articles of Association, Mr. Michael Cherwon hereby retires, and being eligible, offers himself for re-election. Mrs. Helena Cheserem hereby retires, and being eligible, offers herself for re-election.
2.6 To approve the Directors' remuneration for the year ended 31st December 2013.
2.7 To note that the Auditors, Deloitte & Touche, have expressed their willingness to continue in office under section 159(2) of the Company's Act (Cap 486), and to authorize the Directors to fix their remuneration.
2.9 Any other transaction of the ordinary business of the Company for which appropriate notice has been issued and received

3. Special Business

3.1 To consider and if approved, pass the following Special Resolution:
"That the Articles of Association of the Company be amended as follows:

Article 99

By inserting the following proviso as Article 99(c):
"The accounts and notices may be sent or otherwise made available by electronic means and not by post. This Article shall not require a copy of the Accounts and notice to be sent or otherwise made available by electronic means to any person of whose electronic or postal address the Company is not aware, nor to more than the first named of any joint holders of any shares. The Company may also send the Accounts and notice to all persons entitled thereto by publishing the Accounts and notice on the Company's official website provided that the Company shall send to every Member or publish a summary of the financial statements and Auditors Report and notice in two daily newspapers with national circulation for two consecutive days drawing attention to the website on which the Accounts and notice in full may be read, and the address to which a request for a printed copy of the Accounts may be submitted to the Company Secretary and upon any such publication the Accounts and notice shall be deemed to have been sent to every Member or other person entitled to receive a copy of the Accounts.

Article 99

By inserting the following proviso as Article 99(d):
"Such notice may also be given by publishing a notice in at least two local daily newspapers with national circulation for at least two consecutive days."

Article 99

By inserting the following proviso as Article 99(d)(i):
"Where a notice is published in a daily newspaper, it shall be deemed to be served on the day on which it is first published."

By Order of the Board

Jacqueline Onsando
COMPANY SECRETARY
DATED 24TH MARCH 2014

Note:

1. A member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote in his stead. If the member is a corporation, the proxy shall be appointed in accordance with the Articles of the Company, or be represented in accordance with the Articles. Such a proxy need not be a member.

   A proxy form is attached herewith, and if used, shall be deposited with the Secretary of the Company no later than 48 hours before the time appointed for holding the meeting.

2. Any member may, by written notice duly signed by him or her and delivered to the Secretary not less than 14 days or not more than 35 days before the date appointed for the Annual General Meeting, nominate a person for appointment as a director, and must include a statement signed by the person nominated indicating that person's willingness to be appointed a director.

TRANSNATIONAL BANK LIMITED

I/WE…………………………………………………………………………………..

Of…………………………………………………………………………………….

being a member of the above named Company, hereby appoint

…………………………………………………………………….

Of……………………………………………………………….

……………………………………………………………………

Whom failing
…………………………………………………………………….

Of
…………………………………………………………………….

or failing him, the Chairman of the meeting, as our/my proxy; to vote for us/me and on our/my behalf at the Annual General Meeting of the Company to be held in Nairobi on Wednesday 23rd, April 2014, At 10.00 am and at any adjournment thereof.

As witness under our/my hand this …………….. day of……………..2014

Signed

…………………………………………………………………………………..

Note:

1. A member entitled to attend and vote is entitled to appoint a proxy to attend and vote in his stead and a proxy need not be a member of the company.

2. In case of a member being a corporation, this form must be completed under its common seal, or under the hand of an officer or attorney duly authorised in writing.

Our Branch Network

International Airport
JKIA Branch
Arrival Terminal
P.O. Box 75840-00200
Tel. 254 - 2-824502, 822684
Nairobi

MIA Branch
Moi International Airport
P.O. Box 85384t - 80100
Tel. 254 - 041- 3432877
Mombasa

Nairobi County

City Hall Way Branch
Trans National Plaza
P.O. Box 34353-00100
Tel. 254 -2-2224235/6, 252188-91
Nairobi

Kirinyaga Road Branch
TNB Building
P.O. Box 69963-00400
Tel. 254 - 2-240009,
252188-91
Nairobi

Sheikh Karume Branch
Pramukh Plaza
P.O. Box 60377 00100
Tel. 254 - 020-2216060, 2216061
Nairobi

Baringo County

Kabarnet Branch
Matetai Building,
Philemon Road
P.O Box 385 30400,
Tel. 254 - 053-22028/29
Kabarnet

Bomet County

Bomet Branch
Sigor House,
Kipchamba Street,
P.O. Box 324 - 20400
Telephone: 254 -20 23 2119 / 2362120

Kericho County

Kericho Branch
USMA Plaza, Ground Floor,
Temple Road
P.O Box 2157
Tel. 254 - 052 20950/1
Kericho

Machakos County

EPZ Branch
EPZ Zone
P.O Box 75840 00200
Tel. 254 - 045 - 6626367,
045 - 6626361
Athi River

Mombasa County

Mombasa Branch
Maganjo Building
Nyerere Avenue
P.O. Box 85384
Tel. 254 - 041-2315404, 2315366,
2315394
Mombasa

Nakuru County

Nakuru Branch
Seguton Building
Kenyatta Avenue
P.O. Box 148
Tel. 254 - 051-2211915-7
Nakuru

Kabarak Branch
Kabarak University
Students Centre
P.O. Box 148 - 20100
Tel. 254 - 051-343162/3
Nakuru

Olenguruone Branch
Bidii House
P.O Box 44-20152
Tel. 254 - 051 641008,
051 641009
Olenguruone

Nandi County

Nandi Hills Branch
Trans National House,
Market Street
P.O Box 384 30301
Tel. 254 - 020 2488655,
053-643262
Nandi Hills

Narok County

Narok Branch
Mara House
P.O. Box 852 20500
Tel: 254 - 05023033/6
Narok

Trans Nzoia County

Kitale Branch
Executive Building, Kenyatta
Street
P.O. Box 3184-30200
Tel: 254 - 054-30516
Kitale

UasinGishu County

Eldoret Branch
Hughes Building,
Uganda Road
P.O. Box 4308 - 30100
Tel. 254 - 053-2031846,
2031284, 2031756
Eldoret

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