

Annual Report & Financial Statements 2014





Our Vision:

An enterprising people

Our Mission

Always seeking to turn
opportunities into
successes

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Corporate Information

Directors	M. Cherwon P. Kemei J. K. Kenduiwo A. DeSimone* Prof. D. Rotich H. Cheserem (Mrs) Sammy Lang'at * American	Chairman
Chief Executive Officer	Sammy Lang'at	
Audit Committee	P. Kemei A. DeSimone J. K. Kenduiwo I. Muiruri	Chairman
Credit Committee	Prof. D. Rotich H. Cheserem J. K. Kenduiwo Sammy Lang'at A. Kiplangat	Chairman
Finance and Strategy Committee	J. K. Kenduiwo P. Kemei Prof. D. Rotich Sammy Lang'at L. Molonko	Chairman
Risk and Compliance Committee	A. DeSimone P. Kemei H. Cheserem J. Makawuondo	Chairman
Human Resources, Nomination and Remuneration Committee	H. Cheserem J. K. Kenduiwo Prof. D. Rotich Sammy Lang'at D. Namwendwa	Chairperson
Assets and Liability Management Committee (ALCO)	Sammy Lang'at F. Sheikh J. Makawuondo L. Molonko W. Ruto M. Orubia M. Mwinga A. Kiplangat	Chairman

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

Cheptumo & Company Advocates
P O Box 35556 - 00200
Nairobi

Ochieng Onyango Kibet & Ohaga Advocates
P O Box 43170 - 00100
Nairobi

Karimbux - Effendy & Company
P O Box 43356 - 00100
Nairobi

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

Chairman's Statement

Chairman's Statement

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, 2014.

2014 OPERATING ENVIRONMENT

Kenya's economic gains over the past few years have been remarkable. Coming on the heels of a delicate political transition, growth remains robust. GDP growth was at 5.3% compared to 4.8% in 2013. Inflation remained within a single digit and within the Government target bounds on account of decreases in prices of energy and food items. Overall inflation closed at 6.0% compared to 7.2% in 2013.

DEVELOPMENT IN THE BANKING SECTOR

The Kenyan Banking Sector continued with growth. Aggregate balance sheet increased by 22.2% from Kshs 2.7 trillion to Kshs 3.3 trillion in December 2014. Gross loans increased from Kshs 1.6 trillion to Kshs 1.9 trillion. Deposits grew 15.0% from Kshs 2.0 trillion to Kshs 2.3 trillion as at December 2014.

Profit before tax for the sector was up 13.5% to Kshs 141.1 billion from Kshs 124.3 billion in 2013.

BANK'S PERFORMANCE

The Bank's total assets grew from Kshs 9.6 billion to Kshs 10.2 billion. Customers' deposits grew by 8.5% from Kshs 7.1 billion to Kshs 7.7 billion while credit portfolio increased 16.8% to Kshs 6.0 billion.

Profit before tax was at Kshs. 190m compared to Kshs. 225m in 2013. Reflecting on this and our strong confidence in the future, the Board of Directors recommend dividend payment of Kshs. 25 cents per share amounting to Kshs. 50,000,000.

FUTURE OUTLOOK

The Medium-term Government Budget Policy projects real GDP to grow by 6.9 percent in 2015. This growth will be on back of increased production in agriculture, investment in infrastructure and manufacturing. Growth is also expected to benefit from increased investments and domestic demand following investor confidence and the ongoing initiatives to deepen regional

integration.

The Kenyan banking sector is expected to maintain its growth momentum largely supported by innovations and adoption of cost effective channels of offering financial services. The domestic outlook for the short to medium term indicates low inflationary and stable exchange rate environment.

As a Board, we are committed to working with the Management and Staff to tap on the emerging opportunities 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 2014.

Thank You.

Michael K. Cherwon

Chairman Board of Directors

Corporate Governance Statement

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 2014. 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 2014.

2. BOARD COMMITTEES

The Board has in place five main committees, namely the Risk and Compliance, Credit, Audit, Human Resources, Nomination and Remuneration and Finance 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. Periodically, it reviews the credit policy of the Bank.

c) Human Resources 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, review system of performance management, job grading, skills gaps, principles of rationalising etc. The committee is responsible for study of productivity levels across the Bank and addressing anomaly in staff productivity. The committee assists the Board in providing efficient, productive and quality organisation structures for the Bank. The committee 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. All the other members are non-executive directors in addition to the Internal Audit Manager. 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) Finance and Strategy Committee

The committee comprises three directors, the Chief Executive Officer and the Head of Finance. The Finance and 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 and design and submission to the Board of the main strategic orientations of the Bank.

Corporate Governance Statement (contd')

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, 2014 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	4.80%
TOTAL	200,000,000	100%
	=====	=====

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 six meetings excluding the working committee meetings. The Board members attendance for 2014 is as follows;

Name	Number of attendance	Percentage attendance
Mr. Michael Cherwon	6 out of 6	100%
Mr. Peter Kemei	6 out of 6	100%
Mr. Andre DeSimone	5 out of 6	83%
Mr. John Kenduiwo	6 out of 6	100%
Mrs. Hellena Cheserem	6 out of 6	100%
Prof. Daniel Rotich	6 out of 6	100%
Mr. Sammy Lang'at	6 out of 6	100%

b) Committee Meetings

i) Audit Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Peter Kemei	3 out of 3	100%
Mr. John Kenduiwo	3 out of 3	100%
Mr. Andre DeSimone	3 out of 3	100%
Mr. Isaac Muiruri	3 out of 3	100%

ii) Risk and Compliance Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Andre DeSimone	2 out of 3	67%
Mr. Peter Kemei	2 out of 3	67%
Mrs. Hellena Cheserem	3 out of 3	100%
Mr. Jeremiah Makawuondo	3 out of 3	100%

iii) Credit Committee Meetings

Name	Number of attendance	Percentage attendance
Prof. Daniel Rotich	4 out of 4	100%
Mr. John Kenduiwo	4 out of 4	100%
Mrs Hellena Cheserem	4 out of 4	100%
Mr. Sammy Lang'at	4 out of 4	100%
Ms. Alphina Kiplangat	4 out of 4	100%

iv) ALCO Committee Meetings

Name	Number of attendance	Percentage attendance
Mr. Sammy Lang'at	5 out of 5	100%
Mr. Farid Sheikh	4 out of 5	80%
Mr. Jeremiah Makawuondo	5 out of 5	100%
Mr. Laban Molonko	5 out of 5	100%
Mrs. Alphina Kiplangat	5 out of 5	100%
Mrs. Margaret Mwinga	3 out of 5	60%
Mr. Mark Orubia	5 out of 5	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.

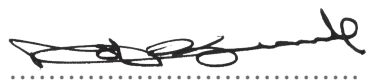
Business transactions with all parties, directors or their related parties are carried out at arms' length. In 2014 the directors submitted their annual declarations of interests which included:-

- 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 themselves 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.



Director

27th March 2015



Director

Report of the Directors

The directors present their annual report together with the audited financial statements of Transnational Bank Limited (the "Bank") for the year ended 31 December 2014, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the 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	190,816
Taxation charge	(65,104)
	—————
Profit for the year	125,712
	=====

DIVIDENDS

The directors recommend the payment of Sh 50,000,000 as dividend for the year ended 31 December 2014 (2013: Sh 80,000,000).

DIRECTORS

The current directors are listed on page 2. There were no changes in directors in the year 2014.

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
27th March 2015
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.

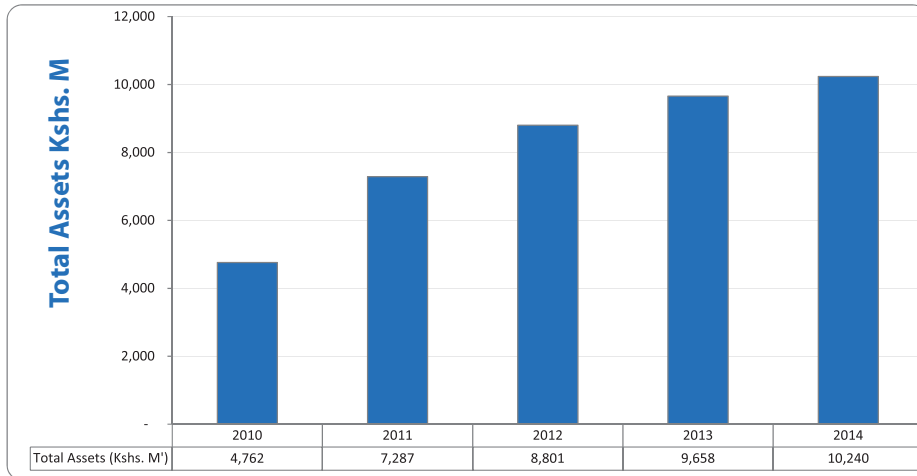


Director

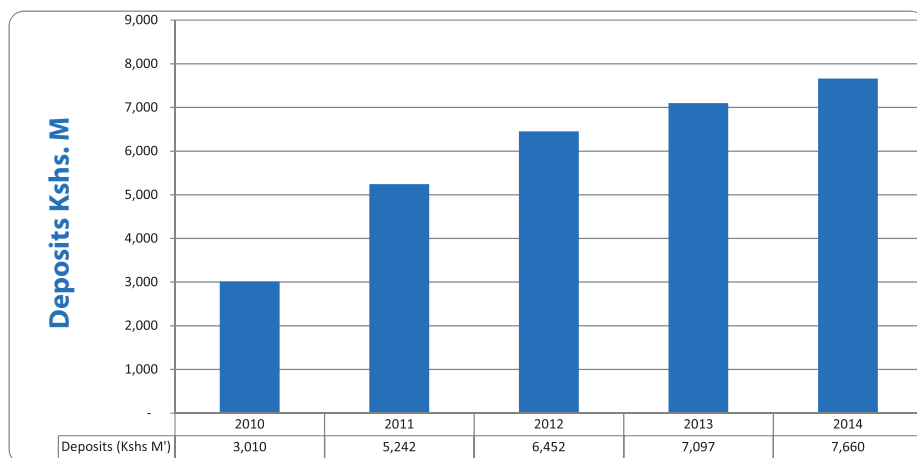
27th March 2015



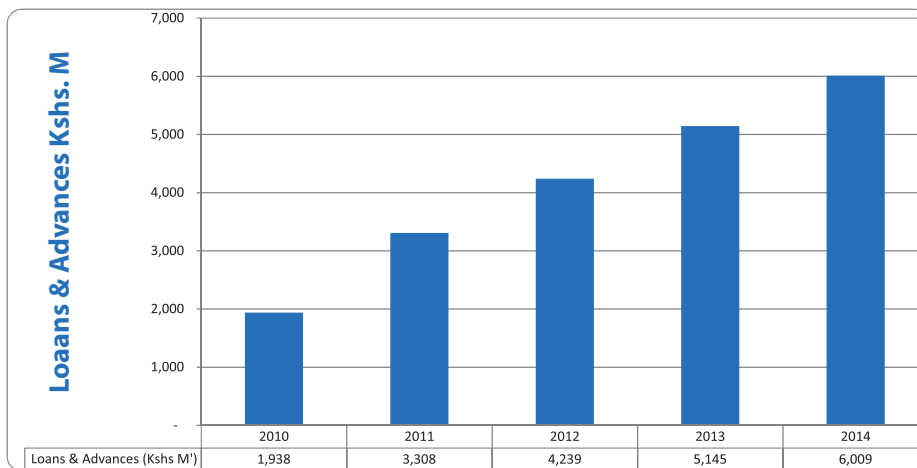
Director



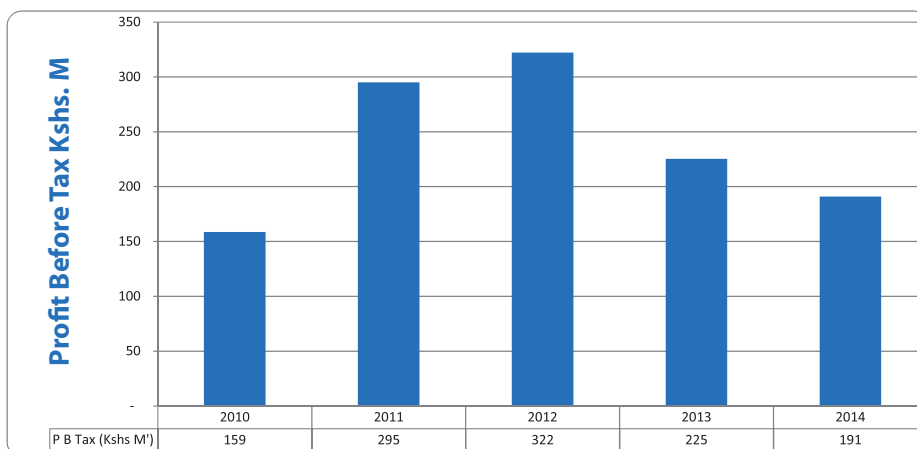
Growth in Total Assets



Growth in Deposits



Growth in Net Loans



Growth in Profit Before Tax

Independent Auditors' Report to the Members of Transnational Bank Limited

Report on financial statements

We have audited the accompanying financial statements of Transnational Bank Limited, set out on pages 13 to 67 which comprise the statement of financial position as at 31 December 2014, 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 2014 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

31st March, 2015

Statement of Profit or Loss and other Comprehensive Income for the Year Ended 31 December 2014

	Notes	2014 Sh'000	2013 Sh'000
INTEREST INCOME	7	1,263,233	1,092,515
INTEREST EXPENSE	8	(485,616)	(394,024)
		<hr/>	<hr/>
NET INTEREST INCOME		777,617	698,491
Fees and commission income	9	160,403	158,661
Gains on foreign exchange dealings	10	22,603	57,109
Other income/ (expense) - net	11	1,541	(79)
		<hr/>	<hr/>
OPERATING INCOME		962,164	914,182
Other operating expenses	12	(680,573)	(601,545)
Impairment losses on loans and advances	21	(90,775)	(87,425)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION		190,816	225,212
TAXATION CHARGE	14(a)	(65,104)	(67,094)
		<hr/>	<hr/>
PROFIT FOR THE YEAR		125,712	158,118
OTHER COMPREHENSIVE INCOME		-	-
		<hr/>	<hr/>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		125,712	158,118
		=====	=====
		Sh	Sh
EARNINGS PER SHARE			
- Basic and diluted	15	0.63	0.79
		=====	=====

Statement of financial position

As at 31 December 2014

	Notes	2014 Sh'000	2013 Sh'000
ASSETS			
Cash balances	16	307,857	342,414
Bank balances with Central Bank of Kenya	16	395,452	599,738
Deposits and balances due from banking institutions	17	723,365	767,746
Government securities	18	2,142,396	2,237,852
Commercial Paper	19	153,567	150,497
Loans and advances to customers	20(a)	6,009,427	5,144,709
Other assets	22	316,024	265,518
Tax recoverable	14(c)	-	9,351
Property and equipment	23	118,115	84,236
Intangible assets	24	37,340	28,170
Deferred tax asset	25	36,379	27,636
		<hr/>	<hr/>
TOTAL ASSETS		10,239,922	9,657,867
		<hr/> <hr/>	<hr/> <hr/>
LIABILITIES			
Customer deposits	26	7,659,671	7,096,825
Due to banking institutions	27	357,245	331,453
Other liabilities	28	294,326	360,042
Financial liability - derivatives	29	929	500
Tax payable	14(c)	12,992	-
		<hr/>	<hr/>
TOTAL LIABILITIES		8,325,163	7,788,820
		<hr/>	<hr/>
SHAREHOLDERS' FUNDS			
Share capital	30	1,000,000	1,000,000
Share premium		42,236	42,236
Retained earnings		771,950	764,494
Statutory reserve	31	100,573	62,317
		<hr/>	<hr/>
TOTAL SHAREHOLDERS' FUNDS		1,914,759	1,869,047
		<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		10,239,922	9,657,867
		<hr/> <hr/>	<hr/> <hr/>

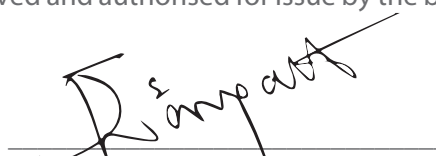
The financial statements on pages 16 to 71 were approved and authorised for issue by the board of directors on 27th March, 2015 and were signed on its behalf by:



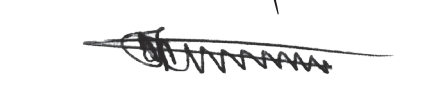
Director



Director



Chief Executive Officer



Company Secretary

Statement of Change in Equity for the Year Ended 31 December 2014

	Note	Share Capital Sh'000	Share premium Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Total Sh'000
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		<u>1,000,000</u>	<u>42,236</u>	<u>764,494</u>	<u>62,317</u>	<u>1,869,047</u>
At 1 January 2014		1,000,000	42,236	764,494	62,317	1,869,047
Transfer to statutory reserve	31	-	-	(38,256)	38,256	-
Dividends declared – 2013		-	-	(80,000)	-	(80,000)
Total comprehensive income for the year		-	-	125,712	-	125,712
At 31 December 2014		<u>1,000,000</u>	<u>42,236</u>	<u>771,950</u>	<u>100,573</u>	<u>1,914,759</u>

Statement of Cash Flows for the Year Ended 31 December 2014

	Notes	2014 Sh'000	2013 Sh'000
Cash flows from operating activities			
Net cash used in operating activities	32(a)	(76,887)	(268,068)
Tax paid	14(c)	(51,504)	(112,212)
		<hr/>	<hr/>
Net cash used in operating activities		(128,391)	(380,280)
		<hr/>	<hr/>
Cash flows from investing activities			
Purchase of equipment	23	(68,791)	(28,488)
Purchase of intangible assets	24	(21,933)	(23,297)
Proceeds from disposal of equipment		30	2,622
		<hr/>	<hr/>
Net cash used in investing activities		(90,694)	(49,163)
		<hr/>	<hr/>
Cash flow from financing activities			
Dividends paid	33	(79,710)	(122,727)
		<hr/>	<hr/>
Decrease in cash and cash equivalents		(298,795)	(552,170)
Cash and cash equivalents at 1 January		977,343	1,529,513
		<hr/>	<hr/>
Cash and cash equivalents at 31 December	32(b)	678,548	977,343
		=====	=====

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
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Nairobi

2 a) 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.

b) STANDARDS AND INTERPRETATIONS AFFECTING THE REPORTED RESULTS OR FINANCIAL POSITION

Adoption of new and revised International Financial Reporting Standards (IFRS)

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

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

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

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

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.

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

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

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

Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

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

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

Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting

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

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

IFRIC 21 Levies

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

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

ii) Relevant new and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014

	Effective for annual periods beginning on or after
New and Amendments to standards	
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

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

IFRS 9 Financial Instruments

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 directors of the Bank anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Bank's financial assets and financial liabilities (e.g. the Bank will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

IFRS 15 Revenue from Contracts with Customers

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

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

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

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

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

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

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

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

- iv) Early adoption of standards

The Bank did not early adopt new or amended standards in 2014.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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.

i) Financial assets at fair value through profit or loss (Continued)

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

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 of 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:

- Delinquency 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 exists 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.

The Bank as lessee

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 to 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 and Compliance Committee receive the Risk and 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. 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.

Notes to The Financial Statements

- 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

	2014		2013	
	Sh'000	%	Sh'000	%
Agriculture	1,247,690	21	941,366	18
Manufacturing	278,748	5	105,928	2
Wholesale and retail	721,170	12	783,102	15
Transport and communication	411,518	7	501,269	10
Real estate	758,496	13	430,546	8
Social community and personal services	719,666	12	635,594	12
Business services	386,465	6	506,546	10
Other	1,485,674	25	1,240,358	24
	<u>6,009,427</u>	<u>100</u>	<u>5,144,709</u>	<u>100</u>
	=====	===	=====	===

(b) Customer deposits

	2014		2013	
	Sh'000	%	Sh'000	%
Building societies	-	-	47	-
Co-operative societies	1,706	-	351,242	5
Insurance companies	13,632	-	176,644	2
Private enterprises	1,443,181	19	3,933,281	55
Non profit institutions and individuals	6,201,152	81	2,635,611	38
	<u>7,659,671</u>	<u>100</u>	<u>7,096,825</u>	<u>100</u>
	=====	===	=====	===

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

	2014		2013	
	Sh'000	%	Sh'000	%
Agriculture	2,028	-	12,164	2
Manufacturing	8,621	2	10,901	2
Wholesale and retail	2,874	1	3,634	1
Transport and communication	95,296	19	120,502	19
Real estate	8,621	2	10,901	2
Social community and personal services	11,494	2	14,534	2
Business services	198,744	40	251,311	40
Other	166,005	34	209,913	33
	<u>493,683</u>	<u>100</u>	<u>633,860</u>	<u>100</u>
	=====	===	=====	===

Notes to The Financial Statements

	2014 Sh'000	%	2013 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	723,256	7	767,746	9
Loans and advances to customers	6,009,427	64	5,144,709	57
Government securities held to maturity	2,142,396	22	2,237,852	25
Commercial paper	153,567	2	150,497	2
	<hr/>	<hr/>	<hr/>	<hr/>
	9,028,646	95	8,300,804	93
	<hr/>	<hr/>	<hr/>	<hr/>
Items not reported in the statement of financial position:				
Letters of credit	47,040	-	48,228	1
Letters of guarantees and performance bonds	399,473	4	418,868	5
Foreign exchange forward contracts	47,170	-	166,764	2
	<hr/>	<hr/>	<hr/>	<hr/>
	493,683	4	633,860	7
	<hr/>	<hr/>	<hr/>	<hr/>
	9,522,329	100	8,934,664	100
	=====	====	=====	====

(iii) Classification of loans and advances

	2014 Sh'000	2013 Sh'000
Individually impaired		
Grade 5: Impaired (loss)	177,994	202,772
Grade 3 & 4: Impaired (doubtful)	351,269	469,752
	<hr/>	<hr/>
Gross amount	529,263	672,524
Suspended interest	(71,890)	(49,956)
Allowance for impairment (note 21)	(313,195)	(301,137)
	<hr/>	<hr/>
Carrying amount	144,178	321,431
	<hr/>	<hr/>
Past due but not impaired		
Watch (30-90 days)	2,056,907	613,728
Allowance for impairment (note 21)	(62,007)	(18,721)
	<hr/>	<hr/>
	1,994,900	595,007
	<hr/>	<hr/>
Neither past due nor impaired		
Grade 1: Normal	3,870,349	4,228,271
	<hr/>	<hr/>
Total carrying amount	6,009,427	5,144,709
	=====	=====

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	148,727	46,290
	=====	=====

(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.

Notes to The Financial Statements

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 2014		
Grade 5: Individually impaired	177,994	29,456
Grade 3 & 4: Individually impaired	351,269	114,722
	-----	-----
Total	529,263	114,178
	=====	=====
31 December 2013		
Grade 5: Individually impaired	202,772	25,722
Grade 3 & 4: Individually impaired	469,752	295,709
	-----	-----
Total	672,524	321,431
	=====	=====

(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 2014.

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

	2014 Sh'000	2013 Sh'000
Against individually impaired		
Property	287,500	257,154
Equities	-	150
Other	219,784	62,554
	-----	-----
	507,284	319,858
	-----	-----
Against past due but not impaired		
Property	2,126,419	651,071
Other	708,806	174,793
	-----	-----
	2,835,225	825,864
	-----	-----
Total	3,341,931	1,145,722
	=====	=====

(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.

a) 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:

	2014	2013
At 31 December	40%	48%
Average for the period	42%	52%
Maximum for the period	46%	58%
Minimum for the period	38%	48%
Statutory Minimum requirement	20%	20%

Notes to The Financial Statements

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 2014	Upto 3 months	3-6 months	6-12 months	1-3 years	3-5 years	Over 5 years	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
FINANCIAL LIABILITIES							
Customer deposits	6,504,329	851,944	302,483	915	-	-	7,659,671
Financial guarantee contracts	399,474	-	-	-	-	-	399,474
Due to banking institutions	357,245	-	-	-	-	-	357,245
	<u>7,261,048</u>	<u>851,944</u>	<u>302,483</u>	<u>915</u>	<u>-</u>	<u>-</u>	<u>8,416,390</u>
FINANCIAL ASSETS							
Cash balances and Bank balances with the Central Bank of Kenya	307,857	-	-	-	-	-	307,857
Deposits and balances due from banking institutions	723,365	-	-	-	-	-	723,365
Commercial paper	153,567	-	-	-	-	-	153,567
Loans and advances to customers	1,987,536	369,743	1,369,702	1,252,613	711,171	318,662	6,009,427
Government securities	-	209,109	-	163,969	314,909	1,454,409	2,142,396
	<u>3,567,777</u>	<u>578,852</u>	<u>1,369,702</u>	<u>1,416,582</u>	<u>1,026,080</u>	<u>1,773,071</u>	<u>9,732,064</u>
Net liquidity gap	<u>3,693,271</u>	<u>273,092</u>	<u>(1,067,219)</u>	<u>(1,415,667)</u>	<u>(1,026,080)</u>	<u>(1,773,071)</u>	<u>(1,315,674)</u>
At 31 December 2013							
Total financial liabilities	7,304,906	395,094	218,637	3,716	-	-	7,922,353
Total financial assets	3,753,877	315,332	1,246,392	1,441,167	606,515	1,879,673	9,242,956
Net liquidity gap	<u>3,551,029</u>	<u>79,762</u>	<u>(1,027,755)</u>	<u>(1,437,451)</u>	<u>(606,515)</u>	<u>(1,879,673)</u>	<u>(1,320,603)</u>

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 4% 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.

Notes to The Financial Statements

AT 31 December 2014	Upto 3	3-6	6-12	1-3	Over	Non-	Total
FINANCIAL ASSETS	months	months	Months	years	3 years	interest	Sh'000
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	bearing	Sh'000
Cash balances	307,857	-	-	-	-	-	307,857
Bank balances with the Central Bank of Kenya	395,452	-	-	-	-	-	395,452
Deposits and balances due from banking institutions	723,365	-	-	-	-	-	723,365
Commercial paper	153,567	-	-	-	-	-	153,567
Loans and advances to customers	1,987,536	369,743	1,369,702	1,252,613	711,171	318,662	6,009,427
Government securities	-	209,109	-	163,969	314,909	1,454,409	2,142,396
Total financial assets	3,567,777	578,852	1,369,702	1,416,582	1,026,080	1,773,071	9,732,064
FINANCIAL LIABILITIES							
Customer deposits	6,523,208	838,023	297,540	900	-	-	7,659,671
Due to banking institutions	357,245	-	-	-	-	-	357,245
Total financial liabilities	6,880,453	838,023	297,540	900	-	-	8,016,916
Interest sensitivity gap	(3,312,676)	(259,171)	1,072,162	1,415,682	1,026,080	1,773,071	1,715,148
Total assets	1,980,229	304,716	1,207,063	1,400,667	2,377,339	1,972,942	9,242,956
Total 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

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.

Notes to The Financial Statements

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 2014 to 31 December 2014.

31 December 2014	Amount Sh'000	Scenario 1	Scenario 2
		8% increase in net interest margin Sh'000	8% decrease in net interest margin Sh'000
Profit before tax	190,816	206,081	175,551
Adjusted core capital	1,789,586	1,932,752	1,646,419
Risk weighted assets (RWA)	6,904,549	7,456,913	6,352,185
Adjusted core capital to RWA	25.92%	27.99%	23.84%
Adjusted total capital to RWA	26.47%	28.56%	24.35%

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.

Notes to The Financial Statements

At 31 December 2014	KSH Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	Others Sh'000	Total Sh'000
FINANCIAL ASSETS						
Cash balances	287,317	9,738	1,588	6,304	2,910	307,857
Bank balances with Central Bank of Kenya	363,357	15,141	2,416	14,522	16	395,452
Deposits and balances due from banking institutions	552,327	132,811	12,940	19,418	5,869	723,365
Loans and advances	5,665,699	234,063	18	109,647	-	6,009,427
Government securities	2,142,396	-	-	-	-	2,142,396
Commercial paper	153,567	-	-	-	-	153,567
Total financial assets	9,164,663	391,753	16,962	149,891	8,795	9,732,064
FINANCIAL LIABILITIES						
Customer deposits	7,450,195	188,004	1,314	20,140	18	7,659,671
Due to banking institutions	-	335,220	-	22,025	-	357,245
Total financial liabilities	7,450,195	523,224	1,314	42,165	18	8,016,916
Net items reported in statement of financial position	1,714,468	(131,471)	15,648	107,726	8,777	1,715,148
Items not reported in statement of financial position	428,159	39,918	212	-	25,394	493,683
At 31 December 2013						
Total financial assets	8,580,272	489,304	44,902	123,781	4,697	9,242,956
Total financial liabilities	7,044,232	316,224	15,468	80,091	741	7,456,756
Net items reported in statement of financial position	1,536,040	173,080	29,434	43,690	3,956	1,786,200
Items not reported in statement of financial position	559,636	46,425	214	-	27,585	633,860

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 Transnational Bank's business is transacted is Kenya shilling.

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

		Scenario 1 10% appreciation of Kenya shilling	Scenario 2 10% depreciation of Kenya shilling
31 December 2014	Amount Sh'000	Sh'000	Sh'000
Profit before tax	190,816	209,898	171,734
Adjusted core capital	1,789,586	1,968,545	1,610,627
Risk weighted assets (RWA)	6,904,549	7,595,004	6,214,094
Adjusted core capital to RWA	25.92%	28.51%	23.33%
Adjusted total capital to RWA	26.47%	29.12%	23.82%

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.

Notes to The Financial Statements

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	Relationship of unobservable inputs to fair value
	31/12/14 Sh'000	31/12/13 Sh'000				
Financial derivative	929	500	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 (2013: Nil).

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

	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
31 December 2014					
Fair value - Financial derivative	29	929	-	-	929
		=====	=====	=====	=====
31 December 2013					
Fair value - Financial derivative	29	500	-	-	500
		=====	=====	=====	=====

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 (2013: 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 2014.
- A ratio of core capital to the risk-weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 10.5%.
- Core capital of not less than 10.5% of total deposit liabilities.
- Total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

Notes to The Financial Statements

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:

	2014 Sh'000	2013 Sh'000
Tier 1 capital		
Total share capital	1,000,000	1,000,000
Share premium	42,236	42,236
Retained earnings	771,950	764,494
	-----	-----
Total	1,814,186	1,806,730
	-----	-----
Tier 2 capital		
Statutory reserve	100,573	62,317
	-----	-----
Total regulatory capital	1,914,759	1,869,047
	=====	=====
Risk-weighted assets		
Retail bank, corporate bank and central treasury	6,904,549	6,010,597
	-----	-----
Total risk weighted assets	6,904,549	6,010,597
	=====	=====
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	27.73%	31.10%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	26.28%	30.06%

7 INTEREST INCOME

Loans and advances	1,040,156	839,662
Government securities held to maturity	205,849	230,008
Deposits and balances due from banking institutions	17,228	22,845
	-----	-----
	1,263,233	1,092,515
	=====	=====

8 INTEREST EXPENSE

Interest on customer deposits	479,001	385,439
Interest on deposits due to banking institutions	6,615	8,585
	-----	-----
	485,616	394,024
	=====	=====

9 FEES AND COMMISSION INCOME

Commissions	132,886	135,486
Ledger related fees	27,508	23,175
	<hr/>	<hr/>
	160,394	158,661
	=====	=====

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.

2014	2013
Sh'000	Sh'000

11 OTHER INCOME / (EXPENSE) - NET

Gain/ (loss) on sale of treasury bonds	951	(1,435)
Gain on disposal of equipment	30	356
Miscellaneous income	560	1,000
	<hr/>	<hr/>
	1,541	(79)
	=====	=====

12 OTHER OPERATING EXPENSES

Staff costs (note 13)	351,972	331,295
Directors' emoluments - fees	6,971	6,614
- other emoluments	15,831	12,637
Other expenses	72,970	54,368
Rent and parking	54,279	50,742
Depreciation (note 23)	34,912	33,052
Computer maintenance	7,910	13,794
Security services	31,775	28,931
Amortisation of intangible assets (note 24)	12,763	4,382
Telephone, data and postage	23,712	22,098
Insurance	16,227	14,498
Advertising and marketing	30,434	11,854
Stationery and supplies	8,150	5,925
Auditors' remuneration	3,200	2,943
Contribution to Deposit Protection Fund	9,467	8,412
	<hr/>	<hr/>
	680,573	601,545
	=====	=====

Notes to The Financial Statements

13 STAFF COSTS

Salaries and wages	282,858	269,884
Pension costs - defined contribution plan	19,322	19,427
Provision for leave pay	15,854	13,877
Medical expenses	7,819	7,984
National Social Security Fund contributions	458	441
Other staff costs	20,387	15,440
Refreshments and entertainment	5,274	4,242
	<hr/>	<hr/>
	351,972	331,295
	=====	=====

14 TAXATION

(a) Taxation charge

Current taxation based on the taxable profit for the year at 30%

Current tax charge	73,847	67,704
Deferred taxation credit (note 25)	(14,541)	(987)
Deferred taxation - prior year under provision (note 25)	5,798	377
	<hr/>	<hr/>
Taxation charge	65,104	67,094
	=====	=====

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

Profit before taxation	190,816	225,212
	=====	=====
Tax at the applicable rate of 30%	57,245	67,563
Tax effect of expenses not deductible for tax purposes	2,331	5,961
Tax effect of income not taxable	(270)	(6,807)
Prior year deferred tax under provision	5,798	377
	<hr/>	<hr/>
Taxation charge for the year	65,104	67,094
	=====	=====

(c) Tax payable / (recoverable)

At the beginning of the year	(9,351)	35,157
Charge for the year	73,847	67,704
Payments during the year	(51,504)	(112,212)
	<hr/>	<hr/>
	12,992	(9,351)
	=====	=====

15 EARNINGS PER SHARE

Profit attributable to owners of the Bank – Sh'000	125,712 =====	158,118 =====
Weighted average number of ordinary shares		
At 1 January	200,000,000	122,886,309
Weighted average additional shares issued	-	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	0.63 =====	0.79 =====

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 2014 and 31 December 2013, respectively.

16 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Cash on hand	307,857	342,414
	-----	-----
Balances with Central Bank of Kenya:		
- Cash ratio requirement	380,915	391,642
- Cash held under lien	9,966	9,460
- Other (available for use by the Bank)	4,571	198,636
	-----	-----
	395,452	599,738
	-----	-----
	703,309 =====	942,152 =====

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 2014, the cash ratio requirement was 5.5% (2013 – 5.5%) 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 (2013 – 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).

Notes to The Financial Statements

17 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2014 Sh'000	2013 Sh'000
Held to maturity: At amortised cost		
Current accounts due on demand	723,365 =====	767,746 =====

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2014 was 7.91% (2013 – 9.3%) and nil for current account balances.

18 GOVERNMENT SECURITIES

Treasury bonds – Held to maturity		
- maturing within 90 days	-	-
- maturing between 90 days to 1 year	209,109	77,887
- maturing between 1 - 2 years	163,969	209,424
- maturing after 2 years but within 5 years	314,909	474,835
- maturing after 5 years	1,454,409	1,475,706
	-----	-----
	2,142,396 =====	2,237,852 =====

The weighted average effective interest rate as at year end was:

	%	%
Treasury bonds held to maturity	9.53 =====	8.8 =====
	2014 Sh'000	2013 Sh'000

19 COMMERCIAL PAPER

Maturing within 90 days	153,567 =====	150,497 =====
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The weighted average effective interest rate for commercial paper as at 31 December 2014 was 12.96% per annum. The commercial paper is held with Kenol Kobil Limited.

Notes to The Financial Statements

2014
Sh'000

2013
Sh'000

20 LOANS AND ADVANCES TO CUSTOMERS

(a)	Loans and advances to customers	5,470,660	4,547,223
	Staff loans (note 35 (b))	311,752	314,212
	Finance lease receivables (note 20(b))	756,321	755,601
		<hr/>	<hr/>
		6,538,733	5,617,036
	Less: unearned finance charges (note 20(b))	(154,104)	(152,469)
		<hr/>	<hr/>
		6,384,629	5,464,567
	Impairment loss on loans and advances (note 21)	(375,202)	(319,858)
		<hr/>	<hr/>
		6,009,427	5,144,709
		=====	=====

(b) Finance lease receivables

	Minimum lease payments		Present value of minimum lease payments	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Amounts receivable under finance leases:				
Within one year	305,980	380,825	282,051	282,527
In the second to fifth year inclusive	450,341	374,776	320,166	320,605
	<hr/>	<hr/>	<hr/>	<hr/>
	756,321	755,601	602,217	603,132
Less: unearned finance income	(154,104)	(152,469)	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Present value of minimum lease payments receivable	602,217	603,132	602,217	603,132
	=====	=====	=====	=====

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 (2013: 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 2014 was 18.07% (2013 – 19.6%).

The weighted average effective interest rate on finance lease receivables at 31 December 2014 was 15.4% (2013 - 15.8%).

Notes to The Financial Statements

(c) Non performing loans and advances to customers

Included in net loans and advances of Sh 6,009,427,000 (2013 - Sh 5,144,709,000) are loans and advances amounting to Sh 144,178,000 (2013 - Sh 321,431,000), net of specific provisions, which have been classified as non-performing.

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

Maturing:		
Up to one month	1,453,987	1,243,725
1-3 months	839,038	718,128
3-6 months	376,231	322,014
6-12 months	1,393,735	1,192,890
1-3 years	1,274,592	1,090,916
3-5 years	723,649	619,367
Over 5 years	323,397	277,527
	<hr/>	<hr/>
Loans and advances to customers (gross)	6,384,629	5,464,567
	=====	=====
GROSS LOANS AND ADVANCES TO CUSTOMERS BY TYPE (NET OF FINANCE CHARGES)		
Overdrafts	1,589,405	1,179,414
Term loans	4,795,224	4,285,153
	<hr/>	<hr/>
Loans and advances to customers (gross)	6,384,629	5,464,567
	=====	=====

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

	2014 Sh'000	2013 Sh'000
At 1 January	319,858	250,042
	-----	-----
Provisions in the year	91,225	88,268
Recoveries in the year	(450)	(843)
	-----	-----
	90,775	87,425
	-----	-----
Written off in the year	(35,431)	(17,609)
	-----	-----
At 31 December	375,202	319,858
	=====	=====
Make up:		
Individually impaired	313,195	301,137
Past due but not impaired	62,007	18,721
	-----	-----
	375,202	319,858
	=====	=====

22 OTHER ASSETS

Clearing and transit items	104,244	29,694
Deposits and prepayments	8,582	7,184
Interest receivable	154,104	152,469
Sundry debtors	7,902	17,185
Deposits	13,948	13,578
Other assets	27,244	45,408
	-----	-----
	316,024	265,518
	=====	=====

Notes to The Financial Statements

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 2013	112,148	193,220	9,713	-	315,081
Additions	4,232	13,617	-	10,639	28,488
Disposals	(711)	(7,302)	-	-	(8,013)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2013	115,669	199,535	9,713	10,639	335,556
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2014	115,669	199,535	9,713	10,639	335,556
Additions	31,274	33,817	3,700	-	68,791
Disposal	-	-	(2,030)	-	(2,030)
Transfer from Work in progress	3,654	6,985	-	(10,639)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	150,597	240,337	11,383	-	402,317
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
DEPRECIATION					
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)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2013	92,519	151,100	7,701	-	251,320
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 1 January 2014	92,519	151,100	7,701	-	251,320
Charge for the year	12,379	19,924	2,609	-	34,912
Eliminated on disposal	-	-	(2,030)	-	(2,030)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	104,898	171,024	8,280	-	284,202
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
NET BOOK VALUE					
At 31 December 2014	45,699	69,313	3,103	-	118,115
	=====	=====	=====	=====	=====
At 31 December 2013	23,150	48,435	2,012	10,639	84,236
	=====	=====	=====	=====	=====

Property and equipment with a cost of Sh 169,247,000 (2013 - Sh 152,963,000) were fully depreciated as at 31 December 2014. The nominal annual depreciation charge on these assets would have been Sh 38,856,000 (2013 - Sh 33,204,000).

24 INTANGIBLE ASSETS (Computer Software)

	Software Sh'000	Work in progress Sh'000	Total Sh'000
COST			
At 1 January 2013	60,691	-	60,691
Additions	1,503	21,794	23,297
	-----	-----	-----
At 1 January 2014	62,194	21,794	83,988
Additions	21,933	-	21,933
Transfer from work in progress	21,794	(21,794)	-
	-----	-----	-----
At 31 December 2014	105,921	-	105,921
	-----	-----	-----
AMORTISATION			
At 1 January 2013	51,436	-	51,436
Amortisation for the year	4,382	-	4,382
	-----	-----	-----
At 1 January 2014	55,818	-	55,818
Amortisation for the year	12,763	-	12,763
	-----	-----	-----
At 31 December 2014	68,581	-	68,581
	-----	-----	-----
NET BOOK VALUE			
At 31 December 2014	37,340	-	37,340
	=====	=====	=====
At 31 December 2013	6,376	21,794	28,170
	=====	=====	=====

Intangible assets with a cost of Sh 49,818,000 (2013 - Sh 49,334,000) were fully amortised as at 31 December 2014. The nominal annual amortisation charge on these assets would have been Sh 14,945,000 (2013 - Sh 14,814,000).

25 DEFERRED TAX ASSET

The deferred tax asset is attributable to the following items:

	2014 Sh'000	2013 Sh'000
Accelerated capital allowances	11,952	12,283
Provisions		
- Leave pay	2,394	2,407
- Legal fees	3,929	3,910
- Gratuity and union salary increment	577	170
- Other provisions	17,527	8,866
	-----	-----
	36,379	27,636
	=====	=====

Notes to The Financial Statements

Movement in deferred tax asset is as follows:

At 1 January	27,636	27,026
Profit and loss credit/(charge):		
- Current year credit	14,541	987
- Prior year over/(under) provision	(5,798)	(377)
	<hr/>	<hr/>
Profit and loss credit - Note 14(a)	8,743	610
	<hr/>	<hr/>
At 31 December	36,379	27,636
	=====	=====

26 CUSTOMER DEPOSITS

Current and demand accounts	1,903,598	1,822,175
Savings accounts	799,644	713,324
Fixed and call deposit accounts	4,956,429	4,561,326
	<hr/>	<hr/>
	7,659,671	7,096,825
	=====	=====

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

Repayable:		
Within one month	5,114,201	2,988,587
Within 1 - 3 months	1,285,688	3,333,941
Within 3 - 6 months	838,022	507,273
Within 6-12 months	420,860	263,503
Within 1-3 years	900	3,521
	<hr/>	<hr/>
	7,659,671	7,096,825
	=====	=====

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2014 was 10.40% (2013 – 9.6%).

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

	2014	2013
	Sh'000	Sh'000
Demand accounts	357,245	331,453
	=====	=====

The average effective interest rate on deposits and balances due to banking institutions at 31 December 2014 was 7.72% (2013: 6.4%).

28 OTHER LIABILITIES

	2014 Sh'000	2013 Sh'000
Bankers cheques outstanding	74,321	60,914
Deposits for letters of credit and letters of guarantee	7,483	8,760
Provision for leave pay	7,983	8,022
Legal fees provision	13,096	13,033
Bonus	2,135	2,716
Dividends payable (note 33(a))	1,181	891
Other liabilities and accruals	188,127	265,706
	<hr/>	<hr/>
	294,326	360,042
	=====	=====

29 FINANCIAL LIABILITY DERIVATIVE**At 31 December 2013**

	Contract exchange rate 2014	Foreign currency 2014 \$'000	Contract value 2014 Sh'000	Fair value liability 2014 Sh'000
Maturing within 3 months				
Sell Euros	112.78	350	39,473	929
				<hr/>
				929
				=====

At 31 December 2013

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

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 90.60 to US Dollar 1 and Sh 110.12 to Euro 1 in 2014 (2013- Sh 86.4 to US Dollar 1 and Sh 119.14 to Euro 1).

Notes to The Financial Statements

30 SHARE CAPITAL

	2014 Sh'000	2013 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 (2013- 200,000,000) ordinary shares of Sh 5 each	1,000,000	1,000,000
	=====	=====
Movement of shares is as follows:		
	No of shares	No of Shares
At 1 January	200,000,000	122,886,309
Bonus issue	-	77,113,691
	-----	-----
At 31 December	200,000,000	200,000,000
	=====	=====

31 STATUTORY RESERVE

	2014 Sh'000	2013 Sh'000
At 1 January 2014	62,317	35,019
Transfer from retained earnings	38,256	27,298
	-----	-----
At 31 December 2014	100,573	62,317
	=====	=====

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

	2014 Sh'000	2013 Sh'000
Profit before taxation	190,816	225,212
Depreciation (note 23)	34,912	33,052
Amortisation of intangible assets (note 24)	12,763	4,382
Gain on disposal of equipment	(30)	(356)
Working capital changes;		
Balances with Central Bank of Kenya		
- Cash ratio requirement (note 16)	10,727	(85,142)
- Cash held under lien	(506)	-
Government securities held at fair value	95,456	(13)
Loans and advances to customers	(864,718)	(905,801)
Commercial paper	(3,070)	(150,497)
Other assets	(50,506)	(85,862)

Notes to The Financial Statements

Customer deposits	562,846	645,189
Other liabilities	(66,006)	51,392
Financial liability – derivatives	429	376
	<u> </u>	<u> </u>
Cash used in operating activities	(76,887)	(268,068)
	<u> </u>	<u> </u>
(b) Analysis of the balances of cash and cash equivalents		
Cash on hand (note 16)	307,857	342,414
Balances with Central Bank of Kenya – other (note 16)	4,571	198,636
Placements and balances due from banking institutions (note 17)	723,365	767,746
Deposits due to banking institutions (note 27)	(357,245)	(331,453)
	<u> </u>	<u> </u>
	678,548	977,343
	<u> </u>	<u> </u>

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

33 DIVIDENDS

a) Dividends payable

	2014 Sh'000	2013 Sh'000
At 1 January	891	732
Dividends declared	80,000	122,886
Dividends paid	(79,710)	(122,727)
	<u> </u>	<u> </u>
At 31 December	1,181	891
	<u> </u>	<u> </u>

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 2014 has been proposed as follows:-

Dividend per share Sh	Total dividend Sh
0.25	50,000,000
<u> </u>	<u> </u>

The financial statements for the year ended 31 December 2014 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 2015 after ratification by the shareholders at the Annual General Meeting.

Payment of dividends is subject to withholding tax at a rate of 5% for resident shareholders and 10% for non-resident shareholders.

34 CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2014 Sh'000	2013 Sh'000
(a) Contingent liabilities		
Letters of credit	47,040	48,228
Letters of guarantee and performance bonds	399,473	418,868
Forward exchange contracts	47,170	166,764
	<hr/>	<hr/>
	493,683	633,860
	=====	=====

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.

	2014 Sh'000	2013 Sh'000
(b) Capital commitments		
Authorised but not contracted for	118,012	60,425
Authorised and contracted for	5,000	65,400
	<hr/>	<hr/>
	123,012	125,825
	=====	=====
(c) Operating lease arrangements		

The Bank leases its branches premises under operating leases. During the year ended 31 December 2014, Sh 51,238,000 (2013: Sh 50,604,000) 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:

	2014 Sh'000	2013 Sh'000
Within one year	44,992	32,400
In the second to fifth year inclusive	53,200	75,783
	<hr/>	<hr/>
	98,192	108,183
	=====	=====

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 2014 include advances and loans to companies associated with directors. Contingent liabilities at 31 December 2014 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 22,513,000 (2013 - Sh 25,509,000).

(b) Loans and advances:

	Directors' associated companies		Employees	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
At 1 January	819,598	610,671	314,212	244,143
Net movement during the year	338,486	208,927	(2,460)	70,069
At 31 December	<u>1,158,084</u> =====	<u>819,598</u> =====	<u>311,752</u> =====	<u>314,212</u> =====

These loans and advances are performing and are adequately secured.

Interest earned on advances to directors and associated companies amounted to Sh 46,940,000 (2013 – Sh 45,439,000).

(c) Loans and advances:

	Directors' associated companies		Employees	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
At 1 January	1,706,418	2,018,523	39,099	42,500
Net movement during the year	(337,041)	(312,105)	(19,877)	(3,401)
At 31 December	<u>1,369,377</u> =====	<u>1,706,418</u> =====	<u>19,222</u> =====	<u>39,099</u> =====

Interest paid on deposits from directors and associated companies amounted to Sh 51,836,000 (2013 – Shs 49,762,000) and Sh 1,377,072 (2013 - Sh 1,920,000) on staff deposits.

Notes to The Financial Statements

	2014 Sh'000	2013 Sh'000
(d) Guarantees and letters of credit to companies associated with directors	44,851 =====	75,026 =====
(e) Key management compensation		

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

	2014 Sh'000	2013 Sh'000
Salaries and other benefits	81,580 =====	75,026 =====
Directors' remuneration:		
Fees for services as directors	6,971	6,614
Allowances	15,831	12,637
	-----	-----
	22,802 =====	19,251 =====

36 ASSET PLEDGED AS SECURITY

As at 31 December 2014, assets pledged as security comprised balances with the Central Bank of Kenya under lien for Domestic Foreign Currency clearing amounting to USD 110,000 (2013: 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 and presentation currency.

	Appendix	2014 Sh'000	2013 Sh'000
INCOME			
Interest on loans and advances		1,016,591	839,662
Interest on government securities		229,414	230,008
Interest on placements		17,228	22,845
		<hr/>	<hr/>
		1,263,233	1,092,515
		<hr/>	<hr/>
INTEREST EXPENSE			
Interest on customer deposits		479,001	385,439
Interest on deposits due to banking institutions		6,615	8,585
		<hr/>	<hr/>
		485,616	394,024
		<hr/>	<hr/>
NET INTEREST INCOME		777,617	698,491
FEES AND COMMISSIONS INCOME		160,394	158,661
OTHER OPERATING INCOME	II	24,144	57,030
OPERATING EXPENSES	II	(680,573)	(601,545)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES		(90,775)	(87,425)
		<hr/>	<hr/>
PROFIT BEFORE TAXATION		190,816	225,212
TAXATION CHARGE		(65,104)	(67,094)
		<hr/>	<hr/>
		125,712	158,118
		<hr/>	<hr/>

Appendix II

FOR THE YEAR ENDED 31 DECEMBER 2014

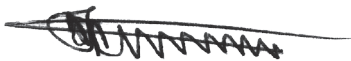
	2014 Sh'000	2013 Sh'000
OTHER OPERATING INCOME		
Gains on foreign exchange dealings	22,603	57,109
Gains on disposal of equipment	30	356
Bad debts recovered	450	843
Miscellaneous income	110	157
Gain/(loss) on sale of treasury bonds	951	(1,435)
	-----	-----
	24,144	57,030
	=====	=====
ADMINISTRATION		
Staff costs	351,972	331,295
Directors' emoluments - fees	6,971	6,614
- other emoluments	15,831	12,637
Other expenses	39,207	25,339
Rent and parking fees	54,279	50,742
Depreciation	34,912	33,052
Computer maintenance	7,910	13,794
Security services	31,775	28,931
Amortisation of intangible assets	12,763	4,382
Telephone, data and postage	23,712	22,098
Insurance	16,227	14,498
Advertising and marketing	30,434	11,854
Stationery and supplies	8,150	5,925
Auditors' remuneration	3,200	2,943
Licenses	5,877	4,408
Contribution to Deposit Protection Fund	9,467	8,412
Subscriptions and donations	4,256	3,900
Maintenance costs	5,533	4,178
Car running expenses	2,343	2,216
Legal and professional fees	1,655	2,942
ATM expenses	7,373	6,795
Travel and accommodation	6,726	4,590
	-----	-----
	680,573	601,545
	=====	=====

Annual General Meeting

NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE COMPANY WILL BE HELD ON 20TH MAY 2015, 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 23rd April 2014
 - 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 2014.
 - 2.4 To declare and approve a final dividend of Kenya Shillings twenty five Cents (0.25) per share for the financial year ended 31st December 2014 payable to shareholders on the Register of Members as at 31st December 2014.
 - 2.5 To elect Directors. In accordance with section 24 of the Company's Articles of Association, Mr. Peter Kemei hereby retires, and being eligible, offers himself for re-election. Mr. Andre DeSimone hereby retires, and being eligible, offers himself for re-election.
 - 2.6 To approve the Directors' remuneration for the year ended 31st December 2014.
 - 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

by Order of the Board



Jacqueline Onsando
COMPANY SECRETARY

DATED 20TH April 2015

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.

PROXY FORM

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 20th, May 2015, At 10.00 am and at any adjournment thereof.

As witness under our/my hand this day of.....2015

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.



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