ANNUAL REPORT AND FINANCIAL STATEMENTS 2013

Bank of Baroda (Kenya) Ltd.

Annual Report and Financial Statements
for the Year Ended 31 December 2013

TABLE OF CONTENTS

A glorious presence of 60 years

Bank of Baroda (Kenya) Ltd.

CHAIRMAN'S REPORT

Ranjan Dhawan

Dear Stakeholders,

I have the pleasure to present the Bank's Annual Audited Report and Financial Statements for the year ended 31st December 2013, when the Bank has also completed 60 years of its successful and glorious presence in Kenya.

KENYAN ECONOMY

The Kenyan Gross Domestic Product (GDP) expanded by 4.7% in 2013 against a target of 5.2% compared to 4.6% in 2012.

The performance was supported by;

- The stable macroeconomic environment for the better part of the year.
- Low and stable inflation supported by improved supply of basic foods, lower international oil prices and lower cost of electricity.
- Stability in the exchange rates
- Infrastructural and construction sector development

The reasons for lower Growth than the projected growth:

- Deficit rainfall that affected the agriculture sector which is the single largest contributor to our GDP and also affects other sectors of economy.
- Decline in exports resulting to worsening of trade balance
- Comparably higher interest rates.
- Reduced spending by government agencies, during the transition.
- Risk aversion in the lead up to the general election in the first quarter and its after effects.
- Security concerns
- Delay in stabilization of the Governmental Structures consequent upon devolution of Government and formation of counties.

The Kenyan economy is expected to accelerate in the year 2014, at the rate of 5.2%. Rapid economic growth in the other East African Community states is expected to spur demand for Kenyan goods and services.

- The macroeconomic stability witnessed in 2013 continued into the first quarter of 2014 and is likely to be maintained to the rest of the year.
- Operationalization of the development budget in the counties is expected to spur further economic growth
- Private consumption is also likely to improve given the stable interest rates and low inflation regime.
- Recent discoveries of petroleum oil and natural gas are likely to trigger more foreign direct investment inflows.
- The manufacturing sector's performance is projected to maintain its current growth path given the positive growth within the region
- Similarly, the financial intermediation sector is likely to maintain its momentum in 2014 mainly on account of enhanced performance and innovations in the sectors.
- Investments in the construction industry is likely to remain robust against a background of stable interest rates coupled with the ongoing government infrastructural projects and the private sector's resilient participation especially in the real estate development.

BANKING SECTOR

The Kenyan banking sector comprised 43 commercial banks, 1 mortgage finance company, 9 deposit taking microfinance institutions, 7 representative offices of foreign banks, 105 foreign exchange bureaus and 2 credit reference bureaus as at December 31, 2013. The banking sector balance sheet size expanded by 16.1 percent from Ksh 2,354.0 billion in December 2012 to Ksh 2,732.8 billion in December 2013. The major components of the balance sheet on the asset side were loans and advances, government securities and placements, which accounted for 56.7 percent, 21.5 percent and 6.5 percent of total assets, respectively.

The banking sector gross loans and advances rose from Ksh 1,361.3 billion in December 2012 to Ksh 1,605.2 billion in December 2013, which translated to a growth of 17.9 percent. The growth was attributed to increase in lending to households, trade, manufacturing and real estate sectors. Loans and advances net of provisions stood at Ksh 1,548.3 billion in December 2013, up from Ksh 1,311.5 billion registered in a similar period in 2012.

Deposits from customers which form the main source of funding for the banking sector, accounted for 72.5 percent of total funding liabilities. The deposit base grew by 12.4 percent from Ksh 1,761.1 billion in December 2012 to Ksh 1,980.2 billion in December 2013 largely supported by aggressive mobilization of deposits by banks, remittances and receipts from exports.

The level of gross non-performing loans (NPLs) grew by 30.9 percent from Ksh 61.6 billion in December 2012 to Ksh 80.6 billion in December 2013 attributed mainly to high interest rates and the reduced economic activities during the period towards and after the March 2013 general elections. Inadequate Government funding for various infrastructural facilities has also affected adversely the respective sector. Similarly, the ratio of gross NPLs to gross loans increased from 4.5 percent in December 2012 to 5.0 percent in December 2013.

The banking sector registered an increase of 15.5 percent growth in pre-tax profits, from Ksh 107.7 billion in December 2012 to Ksh 124.3 billion as at end of December 2013. Total income increased by 1.6 percent from Ksh 352.5 billion in December 2012 to Ksh 358.3 billion in December 2013, while total expenses declined by 4.5 percent from Ksh 244.8 billion in December 2012 to Ksh 233.9 billion in December 2013 with the decline largely attributed to reduction in interest expenses. Interest on loans and advances, fees and commissions and earnings on government securities were the main sources of income accounting for 59.0 percent, 18.3 percent and 15.4 percent of total income respectively. On the other hand, interest on deposits, staff costs and other expenses were the key components of expenses, accounting for 30.9 percent, 29.8 percent and 24.9 percent respectively.

PERFORMANCE OF THE BANK

The Bank's Operating Profit was Kshs 2.58 billion translating to an increase of 54.49% for the year ended 31st December 2013 compared to Kshs 1.67 billion in December 2012 translating to an increase of Kshs 0.91 billion. Interest expense reduced by 19% while the interest income fell by 3% for the year ended 31st December 2013 compared to the position for the period ended 31st December 2012. This indicates the positive result of the Bank`s efforts to bring down the cost of deposits by going for more prudent deposit mix accounts. Efficient management of funds by treasury department of the Bank has also made a good contribution in improving the bottom line.

During the year 2013, Deposits grew by Kshs 3.5 billion and stood at Kshs 41.88 Billion on 31st December 2013 from Kshs 38.38 Billion as at 31st December 2012, thus translating to a growth of 9.10% over last year in local currency. Advances grew by Kshs. 1.71 billion from Kshs. 22.35 Billion as on 31st December 2012 to Kshs 24.07 billion as at 31st December 2013, indicating a growth of 7.67% over last year in local currency. Total Business grew by Kshs 5.2 billion during the year to stand at Kshs 65.94 Billion as at 31st December 2013 from Kshs 60.74 Billion as at 31st December 2012, showing a growth of 8.58% over last year. The ratio of Gross NPA (Kshs 598 Million) as a percentage of total advances stood at 2.49% as on 31st December 2013 (from Kshs 583.77 Million, a percentage of 2.61% in December 2012).

AWARDS & ACCOLADES

The performance of the Bank has been adjudged and acknowledged by the Industry from time to time. In Banking Awards 2014 (East Africa), Bank received two awards from "Think Business" –Most Efficient Bank (1st Runner Up) & Best Bank in Kenya Tier II (2nd Runner Up) for the year 2013.

60 YEARS IN KENYA

Bank completed a glorious 60 years of its uninterrupted operations in Kenya on 14th December 2013. Starting its journey from Makadara Road in Mombasa on 14th December 1953, now it is operating across the country at all important locations, viz; Nairobi, Mombasa, Kisumu, Eldoret, Nakuru, Kakamega & Thika.

Although, the Year 2013 was the year for celebrations and counting on the achievements of the Bank, the "Baroda" family unfortunately, suffered a setback as it lost two of its precious human resources along with a tender son of one of the expatriate officers during a heinous act of terrorism.

However, to mark our presence on the eve of 60 Years, in a very modest programme, the bank planted -60- trees at the Karura Forest, Nairobi and resolved to move forward with more dedication and customer centric services in future.

WAY FORWARD

We are considering increasing our footprint in the country by opening more branches in the near future and making our services more available and convenient. Our Meru Branch is now operational and the Bank is also exploring the possibility of opening a new branch within Nairobi.

The Bank plans to embark on building the Baroda (Kenya) brand and enhance visibility of the bank in Kenya by embracing different IT products. This will impact positively on increasing the number of accounts to be opened as we aim also in having new relationships during the year.
Credit monitoring is one of the important areas, that is consistently receiving our attention and the machinery to administer the portfolio is being regularly strengthened to meet the emerging challenges.
We are also aggressively pursuing recovery measures on NPAs and keeping watch on potential NPA accounts to avoid further slippage.

ACKNOWLEDGEMENT

I take this opportunity to thank the Government and the Central Bank of Kenya for continued facilitation and support to our Bank. I also appreciate our esteemed customers and the patronage of business partners for their continued support. I thank the management and staff for their dedication which resulted in sustained increase in our business and bottom line during the year. I would also like to thank my fellow Directors for their continued support, timely guidance and decision making.

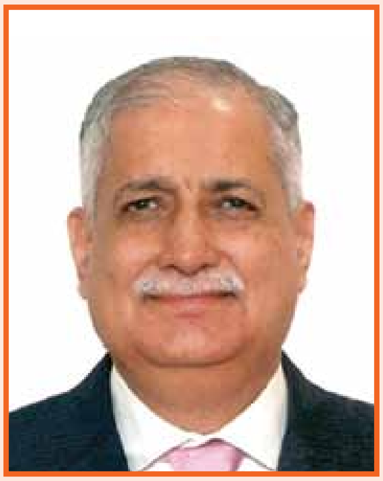
We look forward to working together towards meeting and exceeding customers and shareholder's expectation in the coming year and I look forward to your continued support and good wishes.

Thank you.

(Ranjan Dhawan)
Chairman - Bank of Baroda (Kenya) Ltd.

COMPANY INFORMATION

BOARD OF DIRECTORS



Name	Ranjan Dhawan
Age	59 Years
Nationality	Indian
Position	Chairman and Non-Executive Director
Date of Appointment	24-May-2013
Other Directorships	Bank of Baroda (India) , Bank of Baroda (Tanzania) Ltd. & Bank of Baroda Capital Markets Ltd (India)
Qualifications	B.Com, MBA (Finance), ACMA (U.K.), CIA (USA)
Percentage of Shareholding in the bank	None

Name	Yatish C. Tewari
Age	55 Years
Nationality	Indian
Position	Managing Director
Date of Appointment	07 December 2013
Other Directorships	Nil
Qualifications	B. Sc, JAIIB
Percentage of Shareholding in the bank	One share

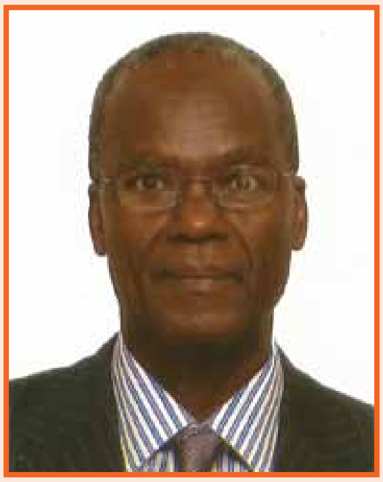
Name	Philip Burh
Age	53 Years
Nationality	Indian
Position	Director (Executive)
Date of Appointment	17 March 2014
Other Directorships	Nil
Qualifications	B. A, MBA, JAIIB, Certificate in Information Technology
Percentage of Shareholding in the bank	None

COMPANY INFORMATION (continued)

BOARD OF DIRECTORS (continued)

Name	V. H. Thatte
Age	59 Years
Nationality	Indian
Position	Non-Executive Director
Date of Appointment	2-Nov-2012
Other Directorships	Bank of Baroda (Tanzania) Ltd., Bank of Baroda (Ghana) Ltd., IndiaFirst Life Insurance Company Ltd (India) & The Clearing Corporation of India Ltd.
Qualifications	M. Com, ACA
Percentage of Shareholding in the bank	None

Name	J. K. Muiruri
Age	68 Years
Nationality	Kenyan
Position	Non-Executive Director
Date of Appointment	14-Sep-2007
Other Directorships	Sunset Boulevard Limited, Kenya Holdings Ltd, Lion of Kenya Ins. Company Limited, Farmchem Limited, Knight Frank Kenya Limited & African Banking Corporation (ABC) Bank
Qualifications	ACCA, CPA(K)
Percentage of Shareholding in the bank	None



Name	Vikram C. Kanji
Age	47 Years
Nationality	Kenyan
Position	Non-Executive Director
Date of Appointment	22-Jan-2010
Other Directorships	Leadway Investments Ltd -(Executive), Suvila Ltd-(Executive), Mombasa Cements Ltd (Non-Executive), Safari Sumset Ltd.
Qualifications	Solicitor (enrolled with Law Society of UK), Advocate of High Court of Kenya, Certified Public Secretary of Kenya)
Percentage of Shareholding in the bank during the year	None

COMPANY INFORMATION (continued)

PRINCIPAL SHAREHOLDERS

Bank of Baroda – India	86.70%

PRINCIPAL OFFICERS

Mr. Yatish C. Tewari	-	Managing Director
Mr. Kumar Ajay Singh	-	Head - Operations
Mr. Amit Gupta	-	Head - Risk Management / Compliance
Ms. Elizabeth Nyambutu	-	Head - Credit
Mr. Winston Sore	-	Head - Internal Audit
Mr. Sanjay Kumar Ray	-	Head - Treasury
Ms. Maria Gorett Makokha	-	Head - Treasury (Back Office)
Mr. Patrick Sila	-	Head - Finance
Mr. Rakesh R. Mehta	-	Branch Head - Digo Rd Branch, Mombasa
Mr. Arya P. Das	-	Branch Head - Thika Branch
Mr. Banambar Behera	-	Branch Head - Kisumu Branch
Mr. Diwakar P. Singh	-	Branch Head - Sarit Centre Branch
Mr. Raman Kumar	-	Branch Head - Eldoret Branch
Mr. S. K. Palanivelu	-	Branch Head - Nakuru Branch
Mr. Paul Kairu	-	Branch Head - Kakamega Branch
Mr. Aditya N. Singh	-	Branch Head - Nairobi Branch
Ms. Neela Raj	-	Branch Head - Nyali Branch, Mombasa
Mr. Philip Burh	-	Branch Head - Industrial Area Branch
Mr. Dhirajlal N. Shah	-	Manager - Marketing

REGISTERED OFFICE

Baroda House
P.O. Box 30033, 00100
NAIROBI - KENYA
Telephone: (020) 2248402, 2248412, 2226416
Fax: (020) 316070/310439
E-mail: kenya@bankofbaroda.com; ho.kenya@bankofbaroda.com

INDEPENDENT AUDITOR

PKF Kenya
Certified Public Accountants
Kalamu House, Grevillea Grove, Westlands
P.O. Box 14077, 00800
Telephone: +254(20)4446616/9, 4270000
NAIROBI - KENYA

COMPANY SECRETARY

Africa Registrars
Kenya - Re Towers
Upperhill
P.O. Box 1243, 00100
NAIROBI - KENYA

LEGAL ADVISORS

Hamilton, Harrison & Mathews
A. B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates

PRINCIPAL VALUERS

Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited

PRINCIPAL CORRESPONDENTS

Bank of Baroda	-	Mumbai, India
Bank of Baroda	-	New York, U.S.A.
Bank of Baroda	-	London, U.K.
Bank of Baroda	-	Brussels, Belgium
Bank of Baroda	-	Durban, South Africa
Bank of Baroda	-	Sydney, Australia
Bank of India	-	Tokyo, Japan
Bank of Montreal	-	Toronto, Canada
Union Bank of Switzerland	-	Zurich, Switzerland

COMPANY INFORMATION (continued)

HEAD OFFICE

Baroda House, 29 Koinange Street
P.O. Box 30033, 00100
NAIROBI
Telephone: +254(20) 2248402 / 2248412 / 2226416
Fax: (020) 316070/310439
E-mail: kenya@bankofbaroda.com; ho.kenya@bankofbaroda.com

BRANCH NETWORK

Koinange Street Branch, Nairobi
Baroda House, 29 Koinange Street
P.O. Box 30033, 00100
NAIROBI
Telephone: (020) 2248402/12
Fax: (020) 310439
E-mail: nairobi@bankofbaroda.com

Digo Road Branch, Mombasa
Kenya House, Digo Road
P.O. Box 90260, 80100
MOMBASA
Telephone: (041) 224507/8, 2226211
Fax: (041) 228607
E-mail: digoro@bankofbaroda.com

Kisumu Branch
Central Square
P.O. Box 966, 40100
KISUMU
Telephone: (057) 2021768/74, 2020303
Fax: (057) 2024375
E-mail: kisumu@bankofbaroda.com

Thika Branch
Kenyatta Avenue
P.O. Box 794, 01000
THIKA
Telephone: (067) 22379, 30048
Fax: (067) 30048
E-mail: thika@bankofbaroda.com

Kakamega Branch
Kenyatta Avenue
P.O. Box 2873
KAKAMEGA
Telephone: (020) 2111777
Fax: (056) 31766
E-mail: kakamega@bankofbaroda.com

Eldoret Branch
Charotar Patel Plaza, Moi Street
P.O. Box 1517, 30100
ELDORET
Telephone: (053) 2063341
Fax: (053) 2063540
E-mail: eldoret@bankofbaroda.com

Industrial Area Branch, Nairobi
Enterprise Road
P.O. Box 18269, 00500
NAIROBI
Telephone: (020) 555971/2/3
Direct: (020) 555945
Fax: (020) 555943
E-mail: indust.nairobi@bankofbaroda.com

Sarit Centre Branch, Nairobi
Lower Ground Floor, Sarit Centre
P.O. Box 886, 00606
Westlands, NAIROBI
Telephone: (020) 3752590/91
Fax: (020) 3752592
E-mail: sarit@bankofbaroda.com

Nakuru Branch
Vickers House, Kenyatta Avenue
P.O. Box 12408, 20100
NAKURU
Telephone: (051) 2211718
Fax: (051) 2211719
E-mail: nakuru@bankofbaroda.com

Nyali Branch, Mombasa
Nyali Road, Texas Towers
P.O. Box 95450, 80106
MOMBASA
Telephone: (041) 4471103
Fax: (041) 4471104
E-mail: nyali@bankofbaroda.com

BOARD & MANAGEMENT COMMITTEES

The Board & management committees as at the date of this report comprise:

Board Audit Committee	Credit Committee	Asset and Liability Committee	Board Risk Management Committee	Executive Committee
Composition				
Three Non-Executive Directors	Two Executive and Two Non-Executive Directors.	Two Executive Directors, Head Credit Head Operations Head Treasury Head Treasury (Back Office) Head Risk / Compliance Head Finance	One Executive Director Three Non-Executive Director	Head Operations Head Credit Head IT Head Treasury Head HR & Administration Head Finance
Main function				
Strengthening the control environment, financial reporting and auditing function.	Appraisal and approval of credit applications and reviewing credit portfolio.	Monitoring and Management of the statement of financial position including liquidity risk, interest rate risk, foreign currency risk and compliance with all statutory requirements.	Ensuring quality, integrity and reliability of the Bank's Risk Management function.	To act as link between the Board and Management in implementing operational plans, annual budgets and periodic review of operations, strategic plans and identification of opportunities.
Frequency of meetings per Annum (minimum)				
Quarterly	Quarterly	Monthly	Quarterly	Three times a year
Chairperson				
Mr. J. K. Muiruri	Mr. J. K. Muiruri	Mr. Yatish C. Tewari	Mr. J. K. Muiruri	Mr. Kumar Ajay Singh
Members				
Mr. Vikram C. Kanji Mr. V. H. Thatte	Mr. Yatish C. Tewari Mr. Vikram C. Kanji	Ms. Elizabeth Nyambutu Mr. Kumar Ajay Singh Mr. Sanjay Kumar Ray Mr. David Kinuthia Mr. Amit Gupta Mr. Patrick Sila	Mr Vikram C Kanji Mr V H Thatte Mr. Yatish Chander Tewari	Ms. Elizabeth Nyambutu Mr. Patrick Kombe Mr. Sanjay Kumar Ray Mr. Kennedy Machoka Mr. Patrick Sila

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximising returns with minimal use of resources in its pursuit of excellence in corporate life.

Respective Responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

Board of Directors

The composition of the Board is set out on page 4. The Board is chaired by a Non-Executive Chairman and comprises of the Managing Director (Executive Director), one other Executive Director and three other Non-Executive Directors. All Non-Executive Directors are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 13. The Directors are responsible for the development of internal financial controls which provide safeguard against material mis-statements and fraud and also for the fair presentation of the financial statements.

The Board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, five Board meetings were held on the following dates:

- 28 February 2013
- 14 March 2013
- 24 June 2013
- 06 August 2013
- 30 December 2013

The attendance of individual Directors is as follows:

Name of Director	Period	Meetings held During their tenure	Meetings Attended
Mr. Ranjan Dhawan	24 May 2013 to 31 December 2013	3	3
Mr. Yatish C. Tewari	07 December 2013 to 31 December 2013	1	1
Mrs. Vindhya Ramesh *	01 January 2013 to 06 December 2013	4	4
Mr. Sunil K. Srivastava **	01 January 2013 to 12 July 2013	3	3
Mr. J. K. Muiruri	01 January 2013 to 31 December 2013	5	5
Mr. Vikram C. Kanji	01 January 2013 to 31 December 2013	5	4
Mr. V. H. Thatte	01 January 2013 to 31 December 2013	5	4
* Since repatriated / resigned on 08/12/2013			
** Since repatriated / resigned on 12/07/2013			

The Board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committees reporting to the Board. The composition of the sub-committees is set out on page 7.

Board Evaluation

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good corporate governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2013. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge.

The Board Performance evaluation covered the following:

(a) The Board Self Evaluation
The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Director Peer Evaluation
A Directors' Peer evaluation exercise was conducted for each member. Each director was required to give the ratings on the performance of each member of the Board.

(c) The Board Chairman's Evaluation
The Board Members assessed the Chairman's performance and noted that the Board managed to achieve its Business targets for year 2013 under his Chairmanship. The Chairman was effective during the year.

Board Committees

Board Audit Committee

The committee comprises three Non-Executive Directors. The committee meets on a quarterly basis and its functions include

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and Central Bank of Kenya Prudential Regulations and other pronouncements.

Credit Committee

The committee is chaired by a Non-Executive Director and comprises of the two Executive Directors, the other Non-Executive Director and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Financial Reporting Standards.

Management Committees

Asset and Liability Committee

The committee, chaired by the Managing Director, comprising one Director (Executive) and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks.

Board Risk Management Committee

The committee, chaired by the Director Executive and comprising various departmental heads, meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

Executive Committee

The committee, chaired by the Director-Executive and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Directors' Remuneration

The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

The remuneration paid to the Directors and key management staff is disclosed in Notes on page 54 to the financial statements.

Relationship with Shareholders

The Bank is a private limited liability company with the details of the main shareholder set out on page 6. Shareholders have full access through the Managing Director to all information they require in respect of the Bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the Kenyan newspapers.

(Mr. Yatish C. Tewari)
Managing Director

26th March 2014

REPORT OF THE DIRECTORS

The Directors submit their report and the audited financial statements for the year ended 31 December 2013, in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act, which disclose the state of affairs of the Bank.

PRINCIPAL ACTIVITIES

The Bank is licensed under the Banking Act and provides banking, financial and related services.

RESULTS	2013 Shs '000	2012 Shs '000
Profit before tax	2,505,027	1,666,700
Tax	(465,331)	(290,600)
Profit for the year	2,039,696	1,376,100

DIVIDEND

The Directors propose a final dividend of Shs. 3.6 per share (2012: Shs. 3.40 per share) amounting to Shs. 178.14 million (2012: Shs. 168.25 million).

DIRECTORS

The Directors who held office during the year and to the date of this report are shown on page 9.

In accordance with the Bank's Articles of Association, no Director is due for retirement by rotation.

INDEPENDENT AUDITOR

The company's auditor, PKF Kenya, has indicated willingness to continue in office in accordance with Section 159(2) of the Companies Act (Cap. 486), subject to approval of the Central Bank of Kenya in accordance with Section 24(1) of the Banking Act (Cap. 488).

BY ORDER OF THE BOARD

For and on behalf of:-
AFRICA REGISTRARS SECRETARIES

COMPANY SECRETARY
NAIROBI

26th March 2014

STATEMENT OF DIRECTOR'S RESPONSIBILITIES

The Companies Act (Cap. 486) requires the Directors to prepare financial statements which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results for that year. It also requires the Directors to ensure that the Bank maintains proper accounting records which disclose with reasonable accuracy the financial position of the Bank. The Directors are also responsible for safeguarding the assets of the Bank.

The Directors accept the responsibility for the financial statements which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, consistent with previous years, and in conformity with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Bank as at 31 December 2013 and of its operating results for the year then ended. The Directors further confirm the accuracy and completeness of the accounting records maintained by the Bank which have been relied upon in the preparation of the financial statements, as well as on the adequacy of the systems of internal financial controls.

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

Approved by the Board of Directors on 26th March 2014 and signed on its behalf by:

DIRECTOR

MANAGING DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR

TO THE MEMBERS OF BANK OF BARODA (KENYA) LIMITED

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Bank of Baroda (Kenya) Limited set out on pages 15 to 55, which comprise the statement of financial position as at 31 December 2013 and the statement of profit or loss, statement of 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 information.

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 Companies Act (Cap. 486), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an independent 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 the auditor's judgement, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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 accompanying financial statements give a true and fair view of the financial position of Bank of Baroda (Kenya) Limited as at 31 December 2013 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act (Cap. 486).

Report on other legal requirements

As required by the Companies Act (Cap. 486) 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, statement of profit or loss and statement of other comprehensive income are in agreement with the books of account.

PKF Kenya

Certified Public Accountants
PIN NO. P051130467R

NAIROBI: **26th March 2014**

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Mehul Bhavsar - P/No. 1818
307/14

STATEMENT OF PROFIT OR LOSS

	Notes	2013 Shs '000	2012 Shs '000
Interest income	1	6,085,923	5,901,167
Interest expense	2	(3,041,539)	(3,753,388)
NET INTEREST INCOME		**3,044,384**	**2,147,779**
Fees and commission income		163,334	174,703
Foreign exchange trading income		77,635	64,119
Other income	3	34,600	80,535
OPERATING INCOME		**3,319,953**	**2,467,136**
Increase in impairment losses on loans and advances	4	(71,511)	(8,278)
Other operating expenses	5	(743,415)	(792,158)
PROFIT BEFORE TAX		**2,505,027**	**1,666,700**
Tax	6	(465,331)	(290,600)
PROFIT FOR THE YEAR		**2,039,696**	**1,376,100**
EARNINGS PER SHARE			
Basic and diluted (Shs. per share)	7	41.22	27.81
DIVIDEND			
Proposed final dividend for the year	8	178,149	168,252
DIVIDEND PER SHARE (Shs. per share)	**8**	**3.60**	**3.40**

The notes on pages 21 to 55 form an integral part of these financial statements.

Report of the independent auditor - Pages 14.

STATEMENT OF OTHER COMPREHENSIVE INCOME

	Notes	2013 Shs '000	2012 Shs '000
Profit for the year		2,039,696	1,376,100
Items that may be reclassified subsequently to profit or loss:			
Fair value gains and (losses) on available-for-sale financial assets			
- government securities		(55,370)	(380,935)
- corporate bonds	15	(4,956)	(4,581)
- quoted shares	15	(381)	211
Total comprehensive income for the year		1,978,989	990,795

The notes on pages 21 to 55 form an integral part of these financial statements.

Report of the independent auditor - Pages 14.

STATEMENT OF FINANCIAL POSITION

	Notes	2013 Shs'000	2012 Shs'000
ASSETS			
Cash in hand		265,970	223,276
Balances with Central Bank of Kenya	9	2,131,439	1,852,943
Government securities	10	24,251,152	20,872,148
Placements with and loans and advances to other banking institutions	11	1,024,391	195,991
Other assets	12	271,336	389,149
Loans and advances to customers	13	23,578,559	21,922,597
Investment properties	14	24,141	24,760
Investment securities	15	264,693	308,173
Intangible assets	16	3,759	5,192
Property and equipment	17	132,638	159,672
Deferred tax	18	73,446	65,767
Tax recoverable		-	118,109
TOTAL ASSETS		**52,021,524**	**46,137,777**
LIABILITIES			
Customer deposits	19	41,876,522	38,382,464
Deposits due to and borrowings from other banking institutions	20	2,112,076	1,634,835
Other liabilities	21	363,910	362,100
Current tax		99,901	-
TOTAL LIABILITIES		**44,452,409**	**40,379,399**
SHAREHOLDERS' EQUITY			
Share capital	22	989,717	989,717
Retained earnings		6,497,900	4,646,795
Fair value reserve		(345,944)	(285,179)
Loan Loss Reserve		249,293	238,793
Proposed dividend	8	178,149	168,252
TOTAL SHAREHOLDERS' EQUITY		**7,569,115**	**5,758,378**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**52,021,524**	**46,137,777**

The financial statements on pages 15 to 55 were approved and authorised for issue by the Board of Directors on 26th March 2014 and were signed on its behalf by:

Managing Director

Director

For and on behalf of:-
AFRICA REGISTRARS SECRETARIES
COMPANY SECRETARY
NAIROBI

Director

The notes on pages 21 to 55 form an integral part of these financial statements.
Report of the independent auditor - Pages 14.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2013	Notes	Share capital Shs'000	Retained earnings Shs'000	Loan loss reserve Shs'000	Available-for-sale fair value reserves: Government securities Shs'000	Available-for-sale fair value reserves: Corporate bonds Shs'000	Available-for-sale fair value reserves: Quoted shares Shs'000	Proposed dividend Shs'000	Total Shs'000
At start of year		989,717	4,646,795	238,793	(284,002)	(1,335)	158	168,252	5,758,378
Realisation of fair value reserve		-	58	-	-	-	(58)	-	-
Transfer to loan loss reserve		-	(10,500)	10,500	-	-	-	-	-
Total comprehensive income/(loss) for the year		-	2,039,696	-	(55,370)	(4,956)	(381)	-	1,978,989
Transactions with owners: Dividends: - Final for 2012 (paid)	8	-	-	-	-	-	-	(168,252)	(168,252)
- Final for 2013 (proposed)	8	-	(178,149)	-	-	-	-	178,149	-
At end of year		989,717	6,497,900	249,293	(339,372)	(6,291)	(281)	178,149	7,569,115

The notes on pages 21 to 55 form an integral part of these financial statements.

Report of the independent auditor - Pages 14.

STATEMENTS OF CHANGES IN EQUITY

Year ended 31 December 2012	Notes	Share capital Shs'000	Retained earnings Shs'000	Loan loss reserve Shs'000	Available-for-sale fair value reserves: Government securities Shs'000	Available-for-sale fair value reserves: Corporate bonds Shs'000	Available-for-sale fair value reserves: Quoted shares Shs'000	Proposed dividend Shs'000	Total Shs'000
At start of year		989,717	3,474,447	203,293	96,933	3,246	(53)	168,252	4,935,835
Transfer to loan loss reserve		-	(35,500)	35,500	-	-	-	-	-
Total comprehensive income/(loss) for the year		-	1,376,100	-	(380,935)	(4,581)	211	-	990,795
Transactions with owners:									
Dividends:									
- Final for 2011 (paid)	8	-	-	-	-	-	-	(168,252)	(168,252)
- Final for 2012 (proposed)	8	-	(168,252)	-	-	-	-	168,252	-
At end of year		989,717	4,646,795	238,793	(284,002)	(1,335)	158	168,252	5,758,378

The notes on pages 21 to 55 form an integral part of these financial statements.

Report of the independent auditor - Pages 14.

STATEMENT OF CASH FLOWS

	Notes	2013 Shs '000	2012 Shs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest receipts		6,240,881	5,864,005
Interest payments		(3,274,707)	(3,350,090)
Fees and commission receipts		266,010	261,115
Payments to employees and suppliers		(727,086)	(688,897)
Tax paid		(255,000)	(264,000)
Cash flows from operating activities before changes in operating assets and liabilities		**2,250,098**	**1,822,133**
Changes in operating assets and liabilities:			
- cash reserve ratio	9	(266,745)	(260,712)
- loans and advances		(1,729,158)	(2,758,318)
- other assets		101,368	(49,068)
- customer deposits		3,727,226	7,715,217
- other liabilities		23,287	(41,923)
NET CASH FROM OPERATING ACTIVITIES		**4,106,076**	**6,427,329**
Cash flows from investing activities			
Purchase of intangible assets	16	(226)	(1,947)
Purchase of property and equipment	17	(8,592)	(91,788)
Purchase of government securities		(8,191,460)	(15,639,388)
Dividends received	3	425	423
Proceeds from disposal of government securities		689,073	9,270,335
Proceeds from maturity of government securities		3,213,350	-
Proceeds from maturity of investment securities	15	35,588	35,587
Proceeds from disposal of property and equipment		98	666
NET CASH (USED IN) INVESTING ACTIVITIES		**(4,261,744)**	**(6,426,112)**
Cash flows from financing activities			
Dividend paid		(168,252)	(168,252)
NET CASH (USED IN) FINANCING ACTIVITIES		**(168,252)**	**(168,252)**
Net (decrease)/increase in cash and cash equivalents		(323,920)	(167,035)
CASH AND CASH EQUIVALENTS AT START OF THE YEAR	**23**	**(431,278)**	**(264,243)**
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	**23**	**(755,198)**	**(431,278)**

The notes on pages 21 to 55 form an integral part of these financial statements.

Report of the independent auditor - Pages 14.

SIGNIFICANT ACCOUNTING POLICIES

1. GENERAL INFORMATION

Bank of Baroda (Kenya) Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements have been prepared under the historical cost convention, except as indicated otherwise below and are in accordance with International Financial Reporting Standards (IFRS). The historical cost convention is generally based on the fair value of the consideration given in exchange of assets.

These financial statements comply with the requirements of the Kenyan Companies Act. The statement of profit or loss and statement of comprehensive income represent the profit and loss account referred to in the Act. The statement of financial position represents the balance sheet referred to in the Act.

(i) New and amended standards adopted by the Bank

The Bank has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income in advance of the effective date. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, the ‘statement of comprehensive income’ is renamed the ‘statement of profit or loss and other comprehensive income’ and the ‘income statement is renamed the statement of profit or loss’. The effective date is for annual periods beginning on or after 1 July 2012.

The Bank has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income. Under the amendments to IAS 1, the ‘statement of comprehensive income’ requires separately analysis of items that will not be subsequently reclassified to profit or loss and those that will be subsequently reclassified, including the related income tax effects. These changes have been retrospectively applied. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 do not result in any impact on profit or loss, comprehensive income and total comprehensive income.

The Bank has applied the amendments to IFRS 7 Disclosures offsetting financial assets and liabilities– Transfers of financial assets in the current year. The amendments improves the disclosure requirements for transactions involving the transfer of financial assets. As the Bank did not transfer any financial assets that were not recognised, this had no material impact on the financial statements.

International Financial Reporting Standard 12 (IFRS 12) on ‘Disclosures of Interests in Other Entities’ enhances the disclosure requirements about an entity’s interests in subsidiaries, joint arrangements, associates and unconsolidated ‘structured entities’. Additional disclosures are as per Note 15.

International Financial Reporting Standard 13 (IFRS 13) on ‘Fair Value Measurement’ - The standard aims to improve consistency and reduce complexity by providing a more precise definition and a single source of measurement of fair valuation of certain assets and liabilities and the related disclosure requirements. Adoption of IFRS 13 had no material impact on the financial statements.

Amendments to IAS 32: The amendments to IAS 32 clarify existing application issues relating to the offsest of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of ‘currently has a legally enforeceable right of set-off and simultaneous realization and settlement.

The amendments to IAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ii) New standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2013 and not adopted in advance of the effective date.

Amendments to IAS 36, Disclosure of recoverable amounts of non financial assets are not effective until annual periods beggining on or after 1 January 2014, with retrospective application permissible.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified into two principal measurement categories: those measured as at fair value and those measured at amortised cost. The Bank is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 for the financial statements for the year ending 31 December 2015. There is at present no specific mandatory date for adoption of IFRS 9.

The Bank has not assessed the potential impact of the above changes on its financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

(b) Critical accounting estimates and judgements

The Bank's financial statements and its financial results are influenced by its accounting policies and the assumptions, estimates and judgements made by management.

These assumptions, 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 prevailing circumstances.

- Key sources of estimation uncertainty

Management has made the following estimate that has a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

- **Impairment of loans and advances:**

Critical estimates have been made by the management in arriving at the discounted values of securities in order to arrive at the impairment charges for non-performing loans and advances. The values of securities are discounted using both the International Financial Reporting Standards and the Prudential Guidelines issued by the Central Bank of Kenya. The Prudential Guidelines provide a specific basis of discounting securities whilst discounting according to International Accounting Standard 39 (IAS 39) on Financial Instruments: Recognition and Measurement' is based on historical experience and other relevant factors, discounted to net present values.

- **Useful lives of property, plant and equipment:**

Management reviews the useful lives and residual values of the items of property, plant and equipment on a regular basis. During the financial year, the directors determined no significant changes in the useful lives and residual values.

- Significant judgements made by management in applying the Bank's accounting policies

Management has made the following judgements that are considered to have the most significant effect on the amounts recognised in the financial statements:

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Critical accounting estimates and judgements (continued)

- Impairment losses on loans and advances:

The Bank reviews its loan portfolio to assess the likelihood of impairment at least on a quarterly basis. In determining whether a loan or advance is impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected from that loan or advance.

Management use judgement based on historical experience for such assets with credit risk characteristics and as to whether there are any conditions that would indicate potential impairment. 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 financial assets:

The directors have reviewed the group's held to maturity financial assets in the light of its capital maintenance and liquidity requirements and have confirmed the group's positive intention and ability to hold those assets to maturity.

- Non financial assets

The Bank reviews its non financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management make judgements as to whether there are any conditions that indicate potential impairment of such assets.

- Impairment of financial assets classified as 'available for sale'

The Bank determines that available-for-sale financial assets are impaired when there has been a significant or prolonged decline in their fair values below its original cost. This determination of what is significant or prolonged requires significant judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price and market prices for government securities. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(c) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings (the functional currency), at the rates ruling at the transaction dates. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. The resulting differences from conversion and translation are dealt with in profit or loss in the year in which they arise.

(d) Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Bank. The Bank recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Bank and when the specific criteria have been met for each of the Bank's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The Bank bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement.

- Interest income is recognised on an accruals basis in the profit or loss for the year using the effective yield on the asset. Interest income includes income from loans and advances, income from placements with loans and advances to other banking institutions and income from government securities. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Revenue recognition (continued)

- Fees and commissions income are recognised at the time of effecting the transaction.
- Foreign exchange trading income is recognised at the time of effecting the transaction. It includes income from spot and forward deals and translated foreign currency assets and liabilities.
- Dividend income is recognised when the shareholders right to receive payment has been established
- Rental income is accounted for in the period in which it is earned.

(e) Property and equipment

All property and equipment is initially recorded at cost and thereafter stated at historical cost less depreciation. Historical cost comprises expenditure initially incurred to bring the asset to its location and condition ready for its intended use.

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

Buildings and leasehold improvements are depreciated on a straight line basis over the remaining period of the lease. Depreciation on all other assets is calculated on a reducing balance basis to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

	Rate %
Computers and electronic equipment	30.00
Motor vehicles	25.00
Furniture and fittings	12.50

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains or losses on disposal of property and equipment are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

(f) Investment properties

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently stated at historical cost less accumulated depreciation.

Subsequent expenditure on investment properties where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

Depreciation is calculated on the straight line basis to write down the cost of the property to its residual value over its estimated useful life of 50 years.

The properties residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The properties carrying amounts are written down immediately to their recoverable amount if the carrying amount is greater than their estimated recoverable amount.

Gains or losses on disposal of investment property are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the instrument. Management determines all classification of financial assets at initial recognition. The Bank's financial assets fall into the following categories:

- Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

The Bank's financial assets fall into the following categories:

- Held-to-maturity: financial assets with fixed or determinable payments and fixed maturity where the management have the positive intent and ability to hold to maturity. Subsequent to initial recognition, such assets are carried at amortised cost using the effective interest rate method. Changes in the carrying amount are recognised in the profit or loss.

- Available-for-sale: Available-for-sale: financial assets that are held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rate. Such assets are classified as non-current assets except where the management intends to dispose the assets within 12 months of the date of this report. Subsequent to initial recognition, they are carried at fair value with gains and losses recognised in other comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in equity is recognised is transferred to retained earnings. Interest calculated using the effective interest method and gains and losses on disposal of assets classified as available-for-sale' are recognised in the profit or loss. Dividends on 'available-for-sale' equity instruments are recognised in the profit or loss when the entity's right to receive payment is established.

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

- those that the entity intends to sell immediately or in the short term, which are classified as 'held for trading', and those that the entity upon initial recognition designated it as 'fair value through profit or loss';

- those that the entity upon initial recognition designates as 'available-for-sale'; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Such assets are classified as current assets where maturities are within 12 months of the date of this report. All assets with maturities greater than 12 months after the date of this report are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in the profit or loss.

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Gains and losses on disposal of investments whose changes in fair value were initially recognised in the profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of investments whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Financial instruments (continued)

The Bank does not have any financial assets classified as either held for trading or fair value through profit or loss.

Management classifies financial assets as follows:

Cash in hand, balances with Central Bank of Kenya, placements with and loans and advances from other banking institutions, other assets, tax recoverable and loans and advances to customers are classified as loans and receivables and are carried at amortised cost.

The portfolio of government securities has been split by bond into the held-to-maturity and available-for-sale classes of financial assets. The fair values of government securities classified as available for sale are based on the market prices as at the date of the statement of financial position. Government securities classified as held-to-maturity are carried at amortised cost.

Investment securities are classified as “Available-For-Sale” (AFS) financial instruments. The fair values of quoted

investments and corporate bonds are based on current bid prices at the date of this report. Where fair values cannot be reliably measured (unquoted investments), the Bank carries these investments at cost less provision for impairment.

Where financial assets are carried at fair value in the statement of financial position, management classify the fair values of financial assets based on the qualitative characteristics of the fair valuation as at the financial year end. The three hierarchy levels used by management are:

- **Level 1:** where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.

- **Level 2:** where fair values are based on adjusted quoted prices and observable prices of similar financial assets.

- **Level 3:** where fair values are not based on observable market data.

Financial liabilities

The Bank’s financial liabilities which include customer deposits, deposits due to other banking institutions, current tax and other liabilities fall into the following category:

- **Financial liabilities measured at amortised cost:** These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised as interest expense in the profit or loss under finance costs.

All financial liabilities are classified as current liabilities unless the Bank has an unconditional right to defer settlement of the liability for at least 12 months after the date of this report.

Financial liabilities are derecognised when, and only when, the Bank’s obligations are discharged, cancelled or expired.

Offsetting financial instruments

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

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of financial assets

- Assets carried at amortised cost

The Bank assesses at the date of the report whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that a certain event has an impact on the estimated future cash flows of the financial asset.

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

- Default in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower or issuer (for example, declining financial ratios)
- Breach of loan covenants or conditions;
- Initiation of Bankruptcy proceedings;
- Deterioration of the borrower’s or issuer’s competitive position;
- Deterioration in the value of collateral; and
- The disappearance of an active market for that financial asset because of financial difficulties

- Impairment of loans and advances

Loans and advances are recognised when cash is advanced to borrowers. Loans and advances are initially recognised at fair value and are subsequently carried at amortised cost less provision for impairment losses.
A specific credit risk provision for loan impairment is established to provide for management’s estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. In arriving at such provisions, present value of future expected cash flows, including amounts recoverable from securities, discounted at effective interest rates of loans are taken into account.

A general credit risk provision for loan impairment is also provided. This ranges from between 1% to 3% of the gross advances classified as Normal and Watch.

Where provisions computed in accordance with the Prudential Guidelines exceed those under International Accounting Standard 39 (IAS 39) on Financial Instruments: Recognition and Measurement, the excess is credited to reserves under the loan loss reserve.

The Prudential Guidelines and IAS 39 are used by the Bank to determine when a loan becomes impaired. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is/or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective interest rate and the discounted value of the collateral. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss.

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

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Impairment of financial assets (continued)

- Impairment of loans and advances (continued

For the purposes of a collective evaluation of impairment, financial assets are Banked on the basis of similar credit risk characteristics (i.e. on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows 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.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

- Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are considered to be past due. They will continue to be treated as past due unless all past due interest is paid in cash at the time of renegotiation and a sustained record of performance has been maintained.

- Assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as 'available for sale', a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists, the cumulative loss (the difference between the acquisition cost and the current fair value, less any impairment losses previously recognised in profit or loss) is eliminated from equity and recognised in the profit or loss.

(i) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible 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 in order to determine the extent of the impairment loss (if any).

Assets that have an indefinite useful life are not subject to amortisation and are tested for impairment annually.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Retirement benefit obligations

The Bank operates a defined contribution pension scheme for its employees, the assets of which are held in a separate trustee administered guaranteed scheme managed by an insurance company. The pension plan is funded by contributions from the employees and the Bank. The Bank's contributions are charged to the profit or loss in the year to which they relate. The Bank has no further payment obligations once the contributions have been paid.

The Bank and its employees contribute to the National Social Security Fund (NSSF), a statutory defined contribution scheme registered under the NSSF Act. The Bank's contributions to the defined contribution scheme are charged to the profit or loss in the year to which they relate.

Employee entitlements to gratuity and long service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the date of the reporting period.

(k) Employee entitlements

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

(l) Intangible asset - Computer software

Computer software programmes are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight line basis over their useful lives which are estimated to be 5 years.

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the acquisition of identifiable and unique software products controlled by the company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

(m) Leases

The company as a lessee

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit or loss on a straight line basis over the lease period.

The company as a lessor

Assets leased to third parties under operating leases are included in investment properties in the statement of financial position.

(n) Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit or loss for the year.

Current tax
Current tax is provided on the basis of the results for the year, adjusted in accordance with tax legislation.

SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

Deferred tax

Deferred tax is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates at the date of the statement of financial position are used to determined deferred tax. Deferred tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised.

(o) Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the Bank's shareholders.

(p) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash, balances due to and from other banking institutions, balances with Central Bank of Kenya (excluding cash reserve ratio) and government securities maturing within 91 days from the date of the statement of financial position.

(q) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the Directors. Any expected loss is charged to the statement of profit or loss.

(r) Foreign exchange forward contracts

Foreign exchange forward contracts are marked to market and are carried at their fair value and shown as commitments. Gains and losses on foreign exchange forward contracts are dealt with on a net basis in profit or loss in the year in which they arise.

(s) Share capital

Ordinary shares are classified as equity.

(t) Comparatives

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

		2013 Shs'000	2012 Shs'000
1.	**INTEREST INCOME**		
	Loans and advances to customers	3,754,527	4,118,995
	Government securities	2,247,823	1,653,687
	Corporate bonds	31,195	38,773
	Deposits and balances due from banking institutions	51,348	87,588
	Other income	1,030	2,124
		6,085,923	5,901,167
2.	**INTEREST EXPENSE**		
	Time deposits	2,937,217	3,657,146
	Customer deposits	70,509	63,771
	Deposits and balances due to banking institutions	33,813	32,471
		3,041,539	3,753,388
3.	**OTHER INCOME/(LOSSES)**		
	Profit on disposal of government securities	9,134	44,142
	Profit on disposal of property and equipment	-	350
	Rental income	13,443	19,838
	Dividend income	425	423
	Miscellaneous income	834	2,455
	Recoveries of advances previously provided for	10,764	13,327
		34,600	80,535
4.	**IMPAIRMENT LOSSES ON LOANS AND ADVANCES**		
	Loans and advances to customers:		
	- Additional Provisions	71,511	8,278
	Increase in provision for impairment	**71,511**	**8,278**
5.	**(a) OTHER OPERATING EXPENSES**		
	Staff costs (Note 5 (b))	378,313	384,196
	Directors' emoluments:		
	- fees	1,010	580
	- other	10,428	13,562
	Depreciation of investment properties (Note 14)	619	(615)
	Amortisation of intangible assets (Note 16)	1,659	1,653
	Depreciation on property and equipment (Note 17)	35,528	55,601
	Impairment of property and equipment	-	7,375
	Auditors' remuneration:		
	- current year	3,655	3,318
	- under provision for prior year	-	143
	Contribution to Deposit Protection Fund	51,526	42,894
	Operating lease rentals	72,386	72,717
	Other operating expenses		
	- administration	140,256	149,777
	- establishment	48,035	60,957
		743,415	792,158

		2013 Shs '000	2012 Shs '000
5.	**(b) STAFF COSTS**		
	The following items are included under staff costs:		
	Staff leave	6,122	2,667
	Pension costs:		
	- staff gratuity	14,400	54,215
	- defined contribution scheme	16,920	13,360
	- National Social Security Fund (NSSF)	372	382
6.	**TAX**		
	Current tax	473,010	308,825
	Deferred tax (credit) (Note 18)	(7,679)	(18,225)
		465,331	290,600
	The tax on the Bank's profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows:		
	Profit before tax	2,505,027	1,666,700
	Tax calculated at a rate of 30% (2012: 30%)	751,508	500,010
	- expenses not deductible for tax purposes	7,710	15,930
	- income not subject to tax	(293,887)	(225,340)
	Tax charge	**465,331**	**290,600**

7. EARNINGS PER SHARE

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of the bonus shares issued if any.

	2013	2012
Net profit for the year attributable to shareholders (Shs. '000)	2,039,696	1,376,100
Adjusted weighted average number of ordinary shares in issue (' 000)	49,486	49,486
Earnings per share - basic and diluted (Shs.)	41.22	27.81

There were no potentially dilutive shares outstanding as at 31 December 2013 and 2012.

8. DIVIDEND

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an annual general meeting. At the forthcoming annual general meeting a final dividend in respect of the year ended 31 December 2013 of Shs. 3.60 per share (2012: Shs. 3.40) amounting to Shs. 178.14 million (2012: Shs. 168.25 million) is to be proposed.

Where applicable, payment of dividends is subject to deduction of withholding tax at a rate 5% for residents and 10% for non-residents.

9. BALANCES WITH CENTRAL BANK OF KENYA

	2013 Shs'000	2012 Shs'000
Balances with Central Bank of Kenya		
- cash reserve ratio	2,084,136	1,817,391
- other (Note 23)	47,303	35,552
	2,131,439	1,852,943

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2013 the cash reserve ratio requirement was 5.25% (2012: 5.25%) of all customer deposits.

10. GOVERNMENT SECURITIES

	2013 Shs'000	2012 Shs'000
Treasury Bills - 'Held to Maturity (HTM)'	19,214	1,073,922
Treasury bonds - 'available-for-sale (AFS)'	9,716,280	10,964,128
Treasury bonds - 'Held to Maturity (HTM)'	14,515,658	8,834,098
	24,251,152	20,872,148
Comprising		
Maturing within 91 days (Note 23)	19,214	748,738
Maturing after 91 days but within one year	2,001,614	1,820,050
Maturing within one to three years	1,700,022	1,775,685
Maturing after three years	20,530,302	16,527,675
	24,251,152	20,872,148

The fair values of the government securities classified as 'Available-for-sale' financial assets are categorised under Level 1 based on the information set out in accounting policy (g).

11. PLACEMENT WITH AND LOANS AND ADVANCES TO OTHER BANKING INSTITUTIONS

	2013 Shs'000	2012 Shs'000
Balances with banking institutions in Kenya	564,216	311
Balances with banking institutions abroad	272,027	191,045
Balances with parent bank	188,148	4,635
	1,024,391	195,991

12. OTHER ASSETS

	2013 Shs'000	2012 Shs'000
Items in transit	167,937	300,378
Other receivables and prepayments	103,399	88,771
	271,336	389,149

13. LOANS AND ADVANCES TO CUSTOMERS

a) Loans and advances to customers

	2013 Shs'000	2012 Shs'000
Loans and overdrafts	23,859,280	22,269,259
Bills discounted and foreign bills purchases	208,393	84,039
Gross loans and advances to customers (Note 13 (c))	**24,067,673**	**22,353,298**
Suspended interest	(73,205)	(71,520)
Provision for impaired loans and advances (Note 13 (b))	(415,909)	(359,181)
Loans and advances to customers net of provision for impairment (Note 13(d))	**23,578,559**	**21,922,597**

		2013 Shs '000	2012 Shs '000
13.	**LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)**		
b)	**Provision for impaired loans and advances - Specific provision**		
	At start of year	359,181	529,598
	New provisions		
	- Additional provisions	71,511	8,278
	- Write Offs	(4,019)	(165,368)
	- Recoveries / Excess Provisions reversed	(10,764)	(13,327)
	Net decrease/(increase) in provision for impairment	56,728	(170,417)
	At end of year	415,909	359,181

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to Shs. 598.364 million (2012: Shs. Shs. 583.766 million). These are included in the statement of financial position net of provisions at Shs. 109.251 million (2012: Shs.153.065 million). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to Shs. 73.205 million (2012: Shs. 71.520 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the Bank.

From past experience, the management is of the opinion that 1% provision for normal accounts and 3% provision for watch accounts is adequate to cover any accounts which might become delinquent in the future.

c) Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows:

	2013		2012	
	Shs '000	%	Shs '000	%
Agriculture	620,055	2.58%	695,096	3.11%
Manufacturing	6,094,323	25.32%	6,216,298	27.81%
Building and Construction	2,945,623	12.24%	1,968,007	8.80%
Mining and Quarrying	617,170	2.56%	259,600	1.16%
Energy and Water	74,609	0.31%	93,211	0.42%
Trade	7,017,224	29.16%	6,357,832	28.44%
Tourism, Restaurant and Hotels	1,051,636	4.37%	1,169,330	5.23%
Transport and Communication	1,225,782	5.09%	1,722,016	7.70%
Real Estate	3,753,991	15.60%	3,237,560	14.48%
Financial Services	55,086	0.23%	61,887	0.28%
Social, Community and Personal Households	612,173	2.92%	572,461	2.92%
	24,067,673	100%	22,353,298	100%

13. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

d) Loans and advances neither past due nor impaired, past due but not impaired and individually impaired	2013 Shs '000	2012 Shs '000
Neither past due nor impaired	23,000,423	20,840,129
Past due but not impaired	468,885	929,402
Individually impaired	598,365	583,767
Gross loans and advances to customers	24,067,673	22,353,298
Less: Provision for impaired loans and advances and suspended interest	(489,114)	(430,701)
Net loans and advances to customers (Note 13(a))	23,578,559	21,922,597

The loans and advances past due but not impaired are aged between 30 to 90 days. Loans and advances that are aged past 180 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the Bank. The loans and advances past due but not impaired can be analysed as follows:

	2013 Shs '000	2012 Shs '000
Watch	468,885	929,402

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired

The fair value of the collateral for loans and advances individually impaired is Shs. 279.620 million.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Repossessed collateral

As at 31 December 2013 and 2012 the Bank did not repossess any collateral held as security.

14. INVESTMENT PROPERTIES

	2013 Shs '000	2012 Shs '000
Cost		
At start and end of year	30,950	30,950
Depreciation		
At start of year	6,190	6,805
Charge for the year	619	(615)
At end of year	6,809	6,190
Net book value	**24,141**	**24,760**

15. INVESTMENT SECURITIES - 'AVAILABLE-FOR-SALE'

	2013 Shs '000	2012 Shs '000
Quoted equity investments:		
At start of year	2,443	2,232
Fair value (loss)/gain	(381)	211
At end of the year	2,062	2,443
Unquoted equity investments:		
At start and end of year	19,391	19,391
Corporate bonds		
At start of year	286,339	327,201
Maturity	(35,587)	(35,587)
Interest income for the year	31,195	38,773
Interest income received	(33,751)	(39,467)
Fair value (loss)	(4,956)	(4,581)
At end of the year	243,240	286,339
	264,693	308,173

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in accounting policy (g).

The fair values of the unquoted equity investments are categorised under Level 3 based on the information set out in accounting policy (g).

16. Intangible assets - software

	2013 Shs '000	2012 Shs '000
Cost		
At start of year	8,070	6,123
Additions	226	1,947
At end of year	8,296	8,070
Amortisation		
At start of year	2,878	1,225
Charge for the year	1,659	1,653
At end of year	4,537	2,878
Net book value	3,759	5,192

17. PROPERTY AND EQUIPMENT

Year ended 31 December 2013

	Buildings Shs'000	Leasehold Improvements Shs'000	Computers and electronic equipment Shs'000	Motor vehicles Shs'000	Furniture and fittings Shs'000	Total Shs'000
Cost						
At start of year	11,123	104,247	124,410	23,426	103,610	366,816
Additions	-	569	6,469	-	1,554	8,592
Disposals	-	-	(767)	-	-	(767)
At end of year	11,123	104,816	130,112	23,426	105,164	374,641
Depreciation						
At start of year	4,452	53,121	87,048	15,789	46,734	207,144
Charge for the year	222	13,858	12,261	1,909	7,278	35,528
Disposals	-	-	(669)	-	-	(669)
At end of year	4,674	66,979	98,640	17,698	54,012	242,003
Net book value	6,449	37,837	31,472	5,728	51,152	132,638

In the opinion of the directors, there is no impairment in the value of property and equipment.

All additions to property and equipment during the year were made on a cash basis.

Year ended 31 December 2012

	Buildings Shs'000	Leasehold Improvements Shs'000	Computers and electronic equipment Shs'000	Motor vehicles Shs'000	Furniture and fittings Shs'000	Total Shs'000
Cost						
At start of year	11,123	66,860	70,798	21,090	133,654	303,525
Interclass transfers	-	(11,465)	45,174	-	(33,709)	-
Additions	-	48,852	17,823	2,336	22,777	91,788
Impairment	-	-	(9,117)	-	(18,274)	(27,391)
Disposals	-	-	(268)	-	(838)	(1,106)
At end of year	11,123	104,247	124,410	23,426	103,610	366,816
Depreciation						
At start of year	2,452	40,511	56,026	13,299	60,060	172,348
Charge for the year	2,000	12,610	39,552	2,490	(1,051)	55,601
Reversal on - impairment	-	-	(8,278)	-	(11,738)	(20,016)
Disposals	-	-	(252)	-	(537)	(789)
At end of year	4,452	53,121	87,048	15,789	46,734	207,144
Net book value	6,671	51,126	37,362	7,637	56,876	159,672

18. DEFERRED TAX

Deferred tax is calculated on all temporary timing differences under the liability method using a principal tax rate of 30% (2012: 30%). The movement on the deferred tax account is as follows:

	2013 Shs'000	2012 Shs'000
As start of year	(65,767)	(47,542)
Profit or loss charge/(credit) (Note 6)	(7,679)	(18,225)
At end of year	(73,446)	(65,767)

Deferred tax assets and deferred tax charge/(credit) in the profit or loss are attributable to the following:

	At start of year Shs '000	Charge/ (credit) to profit or loss Shs '000	At end of year Shs '000
Property and equipment	(5,239)	(404)	(5,643)
Provision for staff accruals	(58,658)	6,444	(52,214)
Provision for impairment	-	(13,719)	(13,719)
General provision	(1,870)	-	(1,870)
	(65,767)	(7,679)	(73,446)

19. CUSTOMER DEPOSITS

	2013 Shs '000	2012 Shs '000
Current and Savings accounts	8,143,343	7,678,613
Term deposits	33,733,179	30,703,851
	41,876,522	38,382,464

Analysis of customer deposits by maturity:

	2013 Shs '000	2012 Shs '000
Payable within 90 days	28,282,738	26,211,153
Payable after 90 days and within one year	13,422,387	10,029,935
Payable after one year	171,397	2,141,376
	41,876,522	38,382,464

Concentration:
The economic sector concentrations within the customer deposits portfolio were as follows:

	2013		2012	
	Shs'000	%	Shs'000	%
Non profit institutions and individuals	33,707,432	80.49%	30,125,182	78.49%
Private companies	7,547,942	18.02%	7,408,365	19.30%
Insurance companies	621,148	1.48%	848,917	2.21%
	41,876,522	100%	38,382,464	100%

Included in customer accounts were deposits of Shs. 1,722.079 million (2012: Shs. 1,443.123 million) held as collateral for loans and advances. The fair value of those deposits approximates the carrying amount.

20. DEPOSITS DUE TO OTHER BANKING INSTITUTIONS

	2013 Shs '000	2012 Shs '000
Parent Bank	198,301	26,176
Foreign Banks	1,913,775	1,608,659
	2,112,076	1,634,835

21. OTHER LIABILITIES

	2013	2012
Staff leave and gratuity accrual	174,048	195,525
Bills payable	1,194	12,594
Other accounts payable	188,668	153,981
	363,910	362,100

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of financial position.

22. SHARE CAPITAL

	No. of ordinary shares		Issued and paid up capital	
	2013 '000	2012 '000	2013 Shs '000	2012 Shs '000
At start and end of year	49,486	49,486	989,717	989,717
Issue of shares	-	-	-	-
At start and end of year	49,486	49,486	989,717	989,717

The authorised share capital of the company is Shs. 2 billion (2012: Shs. 2 billion) representing 100 million (2012: 100 million) ordinary shares of Shs. 20 each.

23. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:	2013 Shs'000	2012 Shs'000	Changes during the year Shs'000
Cash in hand	265,970	223,276	42,694
Government securities maturing within 91 days after the year end (Note 10)	19,214	748,738	(729,524)
Balances with Central Bank of Kenya (Note 9)	47,203	35,552	11,751
Placements with and loans and advances from other banking institutions (Note 11)	1,024,391	195,991	828,400
Deposits due to other banking institutions (Note 20)	(2,112,076)	(1,634,835)	(477,241)
	(755,198)	(431,278)	(323,920)

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS

In common with banking business, the Bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantees. The majority of these facilities are offset by corresponding obligations from third parties.

Contingent liabilities	2013 Shs'000	2012 Shs'000
Spots	117,015	105,862
Letters of credit	1,534,278	1,178,785
Letters of guarantees	4,759,174	5,421,096
Bills sent for collection	965,746	925,695
	7,365,213	6,731,036

24. OFF BALANCE SHEET FINANCIAL INSTRUMENTS, CONTINGENT LIABILITIES AND COMMITMENTS (CONTINUED)

An acceptance is an undertaking by a Bank to pay a bill of exchange on a specified due date. The Bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

Guarantees are generally written by a Bank to support the performance of a customer to third parties. The Bank will only be required to meet these obligations in the event of the customers default.

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

The Bank has open lines of credit facilities with correspondent Banks.

Commitments	2013 Shs	2012 Shs
Undrawn formal stand-by facilities, credit lines	2,740,594	2,257,191

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

Capital commitments

There were no capital expenditure contracted as at the reporting date.

Operating lease commitments

The future minimum lease payments under non-cancellable operating leases are as follows:	2013 Shs'000	2012 Shs'000
- not later than 1 year	72,626	77,308
- later than 1 year and not later than 5 years	60,673	129,657
- later than 5 years	-	1,522
	133,299	208,487

The Directors are of the view that future net revenues, funding and cash flows will be sufficient to cover these commitments.

25. FINANCIAL RISK MANAGEMENT

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

The Bank's Risk Management Policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

Risk Management function is carried out by the Bank's Risk Management Department under policies approved by the Board of Directors. The Bank's Risk Management Department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The Bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk

The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

(a) Credit risk

The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).
The credit risk management and control are centralised in credit and treasury departments of the Bank.

- Measurement of credit risk

• Loans and advances

In measuring credit risk of loans and advances to customers, the Bank reflects various components.
These include:

- the probability of default by the borrower/client on their contractual obligations;
- current exposures on the borrower/client and the likely future development, from which the Bank derives the exposure at default; and
- the likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39 and the banking Act which are based on losses that have been incurred at the date of the statement of financial position rather than expected losses.

The Bank assesses the probability of default of individual borrower/client using internal rating internally methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgment and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management.
The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

• Investments

For investments, external ratings in addition to the requirements of the banking Act are used by the Bank for better credit quality and maintain a readily available source to meet the funding requirement at the same time.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

- Risk limit control and mitigation policies

The Bank measures,monitors and controls concentrations of credit risk wherever they are identified.
The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group's of borrowers, and to industry segments. Such risks are monitored on a continous basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry/sector are approved as and when required by the Risk Management Committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

- **Collateral**

  The Bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

  • Mortgages over properties;
  • Charges over business assets such as land and buildings, inventory and receivables;
  • Charges over financial instruments such as investments.
  • Deposits placed under lien

- **Credit-related commitments**

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

  Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

- Impairment and provisioning policies

The Bank's internal and external systems focus more on credit-quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment.

The impairment provision shown in the statement of finacial position at the year-end is derived after taking various factors into consideration as described in accounting policy (k). The Bank's management uses basis under IAS 39 and the Prudential Guidelines to determine the amount of impairment.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

- Exposure to credit risk

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from loans and advances to customers which form 45.25% (2012: 47.78%) of total financial assets; 46.45% (2012: 45.49%) represents investments in government securities.
- 97.51% (2012: 97.39%) of the loans and advances portfolio is categorised in the top two grades (Normal and Watch).
- 1.95% (2012: 4.16%) of the loans and advances portfolio are considered to be past due but not impaired (note 13).
- Most of its loans and advances to customers are performing as per the covenants and the non-performing ones have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Government securities are considered stable investments as the risk is considered negligible.
- Management considers the historical information available to assess the credit risk on investment securities.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

(b) Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rates, interest rates and bid prices, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objectives of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management of market risk rests with the Assets and Liability Committee (ALCO).

The treasury department is responsible for the development of detailed risk management policies, subject to review and approval by ALCO, and for the day to day implementation of these policies. Market risks arise mainly from trading and non-trading activities.

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

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's available-for-sale investments.

The major measurement techniques used to measure and control market risk are outlined below :

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) Market risk (continued)

- ALCO review

ALCO meets on a monthly basis to review the following:

- A summary of the Bank's aggregate exposure on market risk
- A summary of the Bank's maturity/repricing gaps
- A report indicating that the Bank is in compliance with the Board's set exposure limits
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings

- Review of the treasury department

The Risk Management Department monitors foreign exchange risk in close co-ordination with the Finance Department. Regular reports are prepared by the Finance Department of the Bank.

Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exceptional reports for example limits or line excesses

(c) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising out of legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from the Bank's operations and is faced by all other business entities.

The Bank endeavours to manage the operational risk by creating a balance between avoidance of cost or financial losses and damage to the Bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development policies and programs to implement the Bank's operational risk management is with the senior Management of the Bank.

The above is achieved by development of overall standards for the Bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions
- Compliance to regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plans
- Giving training to staff to improve their professional competency
- Ethical standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

25. FINANCIAL RISK MANAGEMENT (CONTINUED)

(d) Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively monitored by Management to ensure compliance with the Bank's risk limits. The Bank's risk limits are assessed regularly to ensure their appropriateness, given its objectives and strategies and current market conditions. A variety of techniques are used by the Bank in measuring the risks inherent in its trading and non-trading positions.

26. CURRENCY RISK

The Bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with Correspondent Banks and takes deposits and lends in other currencies also. The Bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. This position is monitored on a daily basis by the Management.

The significant currency positions are detailed below:

AT 31 DECEMBER 2013

	US \$ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Assets					
Cash and Bank balances	7,501	1,457	850	-	9,808
Balances with CBK	23,609	12,393	11,272	29	47,303
Deposits due from other banking institutions	30,975	176,975	49,421	202,804	460,175
Loans and advances to customers	2,718,684	28,328	-	-	2,747,012
Total assets	2,780,769	219,153	61,543	202,833	3,264,298
Liabilities					
Customer deposits	914,887	213,426	55,439	-	1,183,752
Deposits due to other banking institutions	1,911,760	-	-	200,316	2,112,076
Total liabilities	2,826,647	213,426	55,439	200,316	3,295,828
Net balance sheet position	(45,878)	5,727	6,104	2,517	(31,530)
Off balance sheet net notional position	30,530	-	-	-	30,530

AT 31 DECEMBER 2012

	US \$	GB £	Euros	Others	Total
Total assets	2,434,636	214,262	108,262	6,809	2,763,969
Total liabilities	(2,511,965)	(215,778)	(101,854)	(26,341)	(2,855,938)
Net balance sheet position	(77,329)	(1,516)	6,408	(19,532)	(91,969)

26. CURRENCY RISK (CONTINUED)

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya shilling strengthened against each currency, the effect would have been the opposite.

Year 2013	US $ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Effect on profit - increase/(decrease)	(3,211)	401	427	176	(2,207)

Year 2012	US $ Shs '000	GB £ Shs '000	Euros Shs '000	Others Shs '000	Total Shs '000
Effect on profit - increase/(decrease)	(5,413)	(106)	449	(1,367)	(6,437)

27. INTEREST RATE RISK

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. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the reporting date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The Bank does not have any derivative financial instruments. The Bank does not bear any interest rate risk on off balance sheet items.

AT 31 DECEMBER 2013	Upto 3 months Shs'000	3 - 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	Over 3 years Shs'000	Non interest bearing Shs'000	Total Shs'000
ASSETS							
Cash in hand	-	-	-	-	-	265,970	265,970
Balances with Central Bank of Kenya	-	-	-	-	-	2,131,439	2,131,439
Government securities	-	734,659	1,204,321	1,632,550	19,722,519	957,103	24,251,152
Placements with and loans and advances to other banking institutions	735,090	-	-	-	-	289,301	1,024,391
Other assets	-	-	-	-	-	271,336	271,336
Loans and advances to customers	13,830,427	325,007	728,272	2,854,165	5,242,323	598,365	23,578,559
Investment properties	-	-	-	-	-	24,141	24,141
Other investments	-	-	-	-	238,525	26,168	264,693
Intangible assets	-	-	-	-	-	3,759	3,759
Property and equipment	-	-	-	-	-	132,638	132,638
Deferred tax	-	-	-	-	-	73,446	73,446
Total assets	14,565,517	1,059,666	1,932,593	4,486,715	25,203,367	4,773,666	52,021,524
LIABILITIES AND SHAREHOLDERS' EQUITY							
Customer deposits	24,337,381	8,404,620	5,017,767	113,732	57,665	3,945,357	41,876,522
Deposits due to other banking institutions	1,911,760	-	-	-	-	200,316	2,112,076
Other liabilities	-	-	-	-	-	363,910	363,910
Current tax	-	-	-	-	-	99,901	99,901
Shareholders' equity	-	-	-	-	-	7,569,115	7,569,115
Total liabilities and shareholders' equity	26,249,141	8,404,620	5,017,767	113,732	57,665	12,178,599	52,021,524
On balance sheet interest sensitivity gap	(11,683,624)	(7,344,954)	(3,085,174)	4,372,983	25,145,702	(7,404,933)	-
AT 31 DECEMBER 2012							
Total assets	11,889,593	1,225,195	2,303,136	4,457,343	21,764,957	4,497,553	46,137,777
Total liabilities and shareholders' equity	24,583,244	5,917,308	4,112,627	1,009,200	1,132,176	9,383,222	46,137,777
On balance sheet interest sensitivity gap	(12,693,651)	(4,692,113)	(1,809,491)	3,448,143	20,632,781	(4,885,669)	-

27. INTEREST RATE RISK (CONTINUED)

The table below summarises the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

	2013				2012			
	Shs. %	US$ %	GB£ %	Euro %	Shs. %	US $ %	GB£ %	Euro %
Government securities	11.55	-	-	-	10.34	-	-	-
Placements with other banking institutions	12.30	-	0.60	-	10.74	-	-	-
Loans and advances to customers	18.94	7.45	7.72	5.66	22.40	7.46	7.32	6.07
Customer Deposits	7.77	-	-	-	11.14	-	-	-
Borrowings from other banking institutions	-	1.75	-	-		2.13	-	-

Interest rate risk sensitivity

At 31 December 2013, if the weighted average interest rates had been 10 percent higher with all other variables held constant, post-tax profit for the year would have been as follows:

	2013 Shs	2012 Shs
Effect on interest income - increase	308,508	284,310
Effect on interest expense - (increase)	(284,492)	(228,634)
Net effect on profit after tax - increase	24,016	55,676

28. PRICE RISK SENSITIVITY

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as ‘Available-for-sale’.

The table below summarises the impact on increase in the market price on the Bank’s equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Banks equity instruments moved according to the historical correlation with the price:

	Impact on equity	
	2013	2012
Effect of increase	498,079	562,646

29. LIQUIDITY RISK

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn. The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the liquidity of the Bank and its exposure to changes in interest and exchange rates.

The Bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with high level of certainty. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interBank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sufficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits. The Bank fully complies with the Central Bank of Kenya’s minimum cash reserve ratio (5.25 %) and liquidity ratio (20 %) requirements, with the average liquidity maintained at 60.7% (2012: 56.6%) during the year.

29. LIQUIDITY RISK (continued)

The table below analyses assets and liabilities into the relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date.

AT 31 DECEMBER 2013	Upto 3 month Shs'000	3 - 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	Over 3 years Shs'000	Total Shs'000
ASSETS						
Cash in hand	265,970	-	-	-	-	265,970
Balances with Central Bank of Kenya	1,440,201	427,371	-	213,631	50,236	2,131,439
Government securities	-	764,845	1,253,804	1,699,628	20,532,875	24,251,152
Placements with and loans and advances to other banking institutions	1,024,391	-	-	-	-	1,024,391
Other assets	271,336	-	-	-	-	271,336
Loans and advances to customers	13,830,427	325,007	728,272	2,854,165	5,840,688	23,578,559
Investment properties	-	-	-	-	24,141	24,141
Other investments	-	-	-	-	264,693	264,693
Intangible assets	-	-	-	-	3,759	3,759
Property and equipment	-	-	-	-	132,638	132,638
Deferred tax	-	-	-	-	73,446	73,446
Total assets	16,832,325	1,517,223	1,982,076	4,767,424	26,922,476	52,021,524
LIABILITIES AND SHAREHOLDERS' EQUITY						
Customer deposits	28,282,738	8,404,620	5,017,767	113,732	57,665	41,876,522
Deposits due to other banking institutions	2,112,076	-	-	-	-	2,112,076
Other liabilities	363,910	-	-	-	-	363,910
Current tax	-	99,901	-	-	-	99,901
Shareholders' equity	-	178,149	(345,944)	-	7,736,910	7,569,115
Total liabilities and shareholders' equity	30,758,724	8,682,670	4,671,823	113,732	7,794,575	52,021,524
Net liquidity gap	(13,926,399)	(7,165,447)	(2,689,747)	4,653,692	19,127,901	-
AT 31 DECEMBER 2012						
Total assets	13,915,219	1,559,574	2,367,156	4,591,899	23,703,929	46,137,777
Total liabilities and shareholders' equity	28,208,088	6,085,560	3,827,448	1,009,200	7,007,481	46,137,777
Net liquidity gap	(14,292,869)	(4,525,986)	(1,460,292)	3,582,699	16,696,448	-

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is considered to be of a stable and long term nature.

30. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

In the opinion of the Directors, the fair values of financial assets and financial liabilities are not materially different from their carrying values.

31. CAPITAL MANAGEMENT

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

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

The Bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya. These ratios measure capital adequacy by comparing the Bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Credit Risk Weighted Assets

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied. e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit etc., are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes general provisions and non-dealing investments.

Market Risk Weighted Assets

This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential Regulation.

Operational Risk Weighted Assets

This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

31. CAPITAL MANAGEMENT (CONTINUED)

	Balance sheet - nominal values		Risk weighted amount	
	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000
Cash in hand	265,970	223,276	-	-
Balances with Central Bank of Kenya	2,131,439	1,852,943	-	-
Government securities	24,251,152	20,872,148	-	-
Placements with and loans and advances from other banking institutions	1,024,391	195,991	204,878	39,198
Other assets	271,336	389,149	271,336	389,149
Loans and advances to customers	23,578,559	21,922,597	21,503,213	20,118,239
Investment properties	24,141	24,760	24,141	24,760
Other investments	264,693	308,173	264,693	308,173
Intangible assets	3,759	5,192	3,759	5,192
Property and equipment	132,638	159,672	132,638	159,672
Deferred tax	73,446	65,767	73,446	65,767
Tax recoverable	-	118,109	-	118,109
Total assets	52,021,524	46,137,777	22,478,104	21,228,259
Off balance sheet positions	7,376,213	7,631,438	4,450,232	3,723,212
Total risk weighed assets	59,397,737	53,769,215	26,928,336	24,951,471
Less: Market Risk qualifying Assets included in above	(264,693)	(308,173)	(264,693)	(308,173)
Adjusted Credit Risk Weighted Assets	59,133,044	53,461,042	26,663,643	24,643,298

Market Risk

Interest rate risk capital charge	332,178	-	4,152,223	-
Foreign exchange risk capital charge	3,423	-	42,783	-
Commodities risk capital charge	-	-	-	-
Total market risk capital charge	335,600	-	4,195,006	-
Total market risk weighted assets	4,195,006	-	4,195,006	-

Operational risk

Net interest income	2012	2,147,779	-	-	-
	2011	2,286,130	-	-	-
	2010	1,677,095	-	-	-
Net non interest income	2012	319,357	-	-	-
	2011	169,361	-	-	-
	2010	759,772	-	-	-
Gross income		7,359,494	-	-	-
Average gross income		2,453,165	-	367,975	-
Total operational risk weighted assets		2,453,165	-	4,599,684	-
Total risk weighted assets		65,781,215	-	35,458,333	-

31. CAPITAL MANAGEMENT (CONTINUED)

Capital adequacy requirement calculation	Capital 2013 Shs'000	2012 Shs '000
Tier 1 capital	7,414,171	5,636,512
Tier 2 capital	249,293	238,793
Total Capital	7,663,464	5,875,305
Total deposit liabilities	41,876,522	38,382,464

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual ratios		Minimum requirement	
	2013 %	2012 %	2013 %	2012 %
Core capital to total risk weighted assets	20.90	22.59	10.5	8
Total capital to total risk weighted assets	21.60	23.55	14.5	12
Core capital to deposit liabilities	17.70	14.69	10.5	8

32. RELATED PARTY TRANSACTIONS

Included in loans and advances and customer deposits are amounts advanced to/received from certain Directors and companies in which Directors are involved either as shareholders or Directors (related companies). In addition, contingent liabilities (Note 24) include guarantees and letters of credit which have been issued to related companies.

The following transactions were carried out with related parties:

	2013 Shs'000	2012 Shs'000
a) Interest received from loans and advances to:		
Related companies	3,655	4,937
Senior management employees	80	36
other employees	9,495	7,644
	13,230	12,616
b) Interest paid on deposits from:		
Directors	1,065	832
Related companies	4,816	23,544
Senior management employees	35	262
Other employees	251	188
	6,166	24,825
c) Management fees paid		
Related companies	40,086	39,413

32. RELATED PARTY TRANSACTIONS (CONTINUED)

	Directors		Related companies		Senior management employees		Other employees	
d) Outstanding loans and advances	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000
At start of year	-	-	31,681	6,881	1,861	1,007	125,638	98,190
Advances during the year	-	-	7,130	35,402	2,000	1,840	57,471	43,526
Interest charged	-	-	3,655	4,937	80	36	9,495	7,643
Repayments during the year	-	-	(24,359)	(15,540)	(1,813)	(1,022)	(52,808)	(23,721)
At end of year	-	-	18,106	31,681	2,128	1,861	139,797	125,638

The loans and advances to related parties are performing .

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

	Directors		Related companies		Senior management employees		Other employees	
e) Deposits	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000	2013 Shs'000	2012 Shs'000
At start of year	11,268	9,687	167,398	368,854	1,969	2,454	22,602	25,220
Deposits received during the year	161,097	63,511	1,025,951	1,342,806	22,131	18,488	28,737	384,195
Interest paid during the year	1,065	832	4,816	23,544	35	262	251	188
Withdrawals during the year	(121,336)	(62,763)	(1,080,491)	(1,567,807)	(23,561)	(19,234)	(11,665)	(387,000)
At end of year	52,094	11,268	117,674	167,398	574	1,969	39,924	22,602

32. RELATED PARTY TRANSACTIONS (CONTINUED)

f) Undrawn formal stand by facilities, credit lines and other commitments to lend:

	2013 Shs'000	2012 Shs'000
Related companies	16,648	15,372

g) Directors emoluments

	2013 Shs'000	2012 Shs'000
-fees	1,010	580
-others	10,428	13,562
	11,438	14,142

h) Key management personnel compensation

Key management includes the directors and other members of key management.

	2013 Shs'000	2012 Shs'000
Short-term employee benefits	42,982	39,409
Post-employment benefits	2,063	1,916
	45,045	41,325

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

33. PRESENTATION CURRENCY

The financial statements are presented in to the nearest thousand Kenya Shillings (Shs'000).

Appendix I -
SCHEDULE OF OTHER OPERATING EXPENDITURE

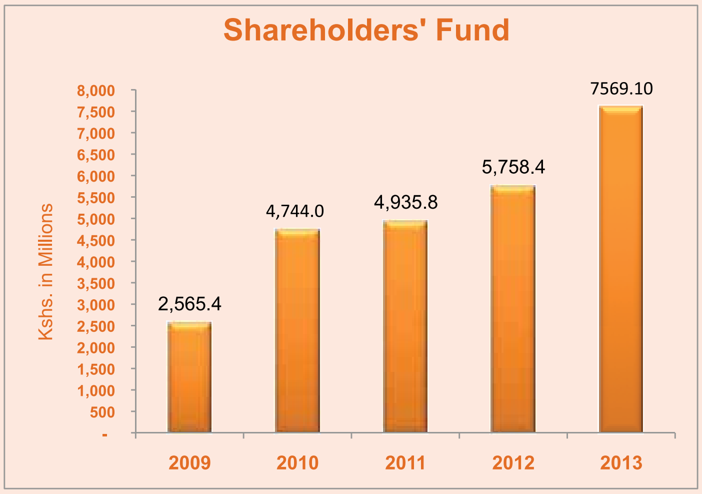
		2013 Shs'000	2012 Shs'000
1.	**STAFF COSTS**		
	Leave benefits	6,122	6,602
	Pension fund contributions	17,292	15,782
	Salaries and wages	290,986	264,167
	Fringe benefit tax	779	878
	Staff and other expenses	30,822	67,811
	Staff housing	17,154	14,798
	Staff medical	14,906	13,360
	Staff training	252	798
	Total staff costs	**378,313**	**384,196**
2.	**ADMINISTRATIVE EXPENSES**		
	Advertising	15,139	16,615
	Broker commissions	2,123	7,109
	Computer expenses	13,721	12,338
	Donations and fines	375	988
	Subscriptions and periodicals	4,285	4,513
	Entertainment	2,684	3,032
	Legal and professional fees	41,841	46,551
	Miscellaneous	22,200	21,083
	Postages, telephones, telex and fax	5,999	6,716
	Printing and stationery	9,576	7,804
	Secretarial fees	177	150
	Insurance	10,046	10,816
	Travelling and motor vehicle	12,090	12,062
	Total administrative expenses	**140,256**	**149,777**
3	**OPERATING EXPENSES**		
	Electricity and water	10,219	10,615
	Insurance	734	585
	Licences	2,747	2,198
	Office cleaning	4,219	3,579
	Repairs and maintenance	30,116	43,980
	Total operating expenses	**48,035**	**60,957**

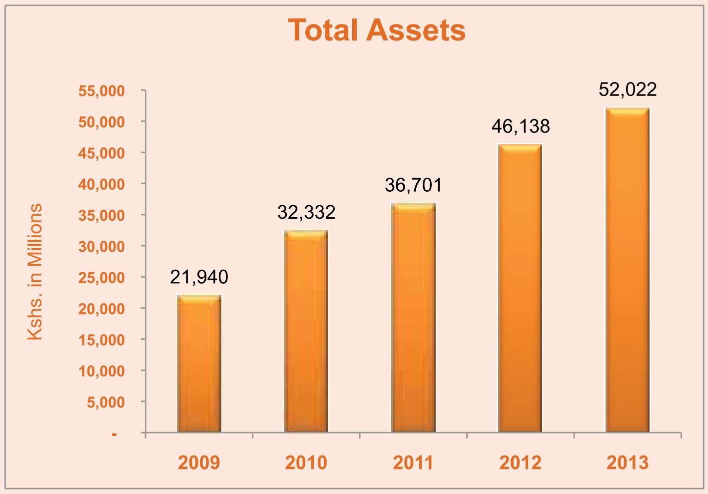
Appendix II -
SCHEDULE OF OTHER OPERATING EXPENDITURE

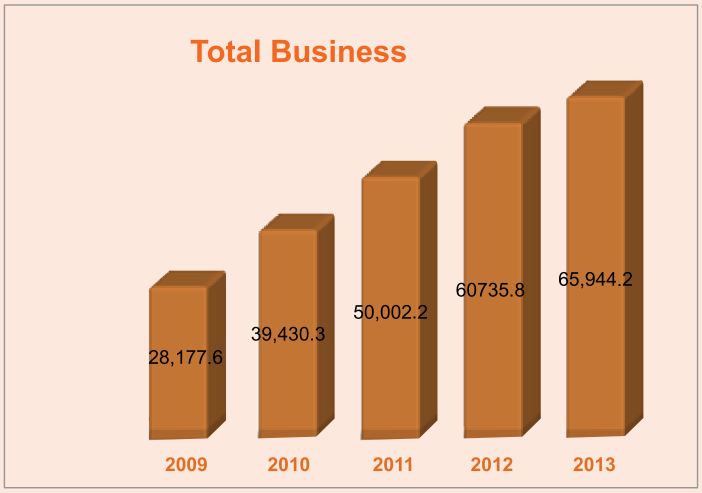
OTHER DISCLOSURES

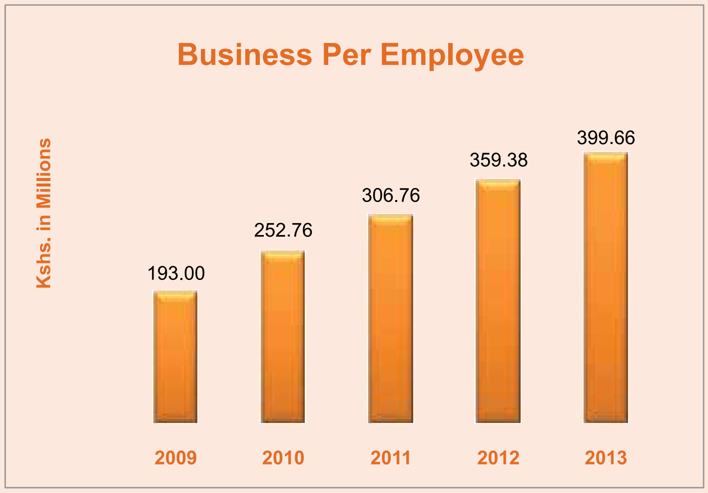
		2013 Kshs "000"	2012 Kshs "000"
1	NON-PERFORMING LOANS AND ADVANCES		
a)	Gross Non-performing loans and advances	598,364	583,766
b)	Less Interest in Suspense	73,204	71,520
c)	Total Non-Performing Loans and Advances (a-b)	525,160	512,246
d)	Less Loan Loss Provision	415,909	359,181
e)	Net Non-Performing Loans and Advances(c-d)	109,251	153,065
f)	Discounted Value of Securities	109,251	153,065
g)	Net NPLs Exposure (e-f)	-	-
2	INSIDER LOANS AND ADVANCES		
h)	Directors, Shareholders and Associates	18,106	31,680
i)	Employees	141,924	127,499
j)	Total Insider Loans and Advances and other facilities	160,030	159,179
3	OFF-BALANCE SHEET ITEMS		
a)	Letters of credit,guarantees, acceptances	6,293,452	6,599,881
b)	Forwards, swaps and options	117,015	105,862
b)	Other contingent liabilities	965,746	925,695
c)	Total Contingent Liabilities	7,376,213	7,631,438
4	CAPITAL STRENGTH		
a)	Core capital	7,414,171	5,636,512
b)	Minimum Statutory Capital	1,000,000	1,000,000
c)	Excess (a-b)	6,414,171	4,636,512
d)	Supplementary Capital	249,293	238,793
e)	Total Capital (a+d)	7,663,464	5,875,305
f)	Total risk weighted assets	35,458,332	24,951,471
g)	Core Capital/Total deposits Liabilities	17.7%	14.7%
h)	Minimum statutory Ratio	10.5%	8.0%
i)	Excess	7.2%	6.7%
j)	Core Capital / total risk weighted assets	20.9%	22.6%
k)	Minimum Statutory Ratio	10.5%	8.0%
l)	Excess (j-k)	10.4%	14.6%
m)	Total Capital/total risk weighted assets	21.6%	23.5%
n)	Minimum statutory Ratio	14.5%	12.0%
o)	Excess (m-n)	7.1%	11.5%
5	LIQUIDITY		
a)	Liquidity Ratio	60.6%	55.8%
b)	Minimum Statutory Ratio	20.0%	20.0%
c)	Excess (a-b)	40.6%	35.8%

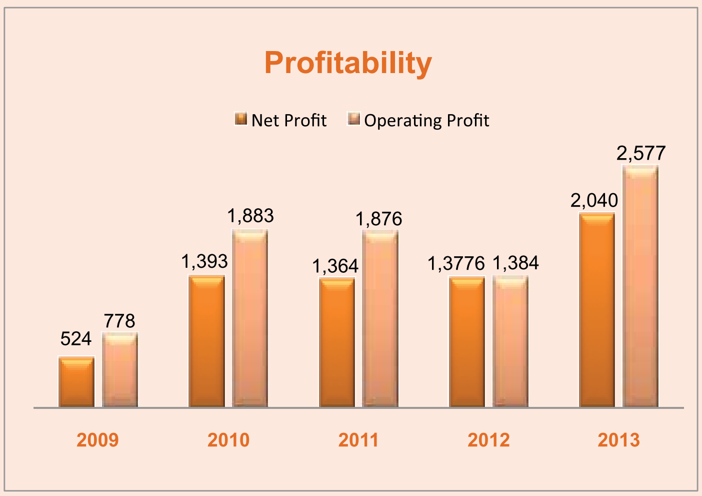
Appendix III - Financial Highlights











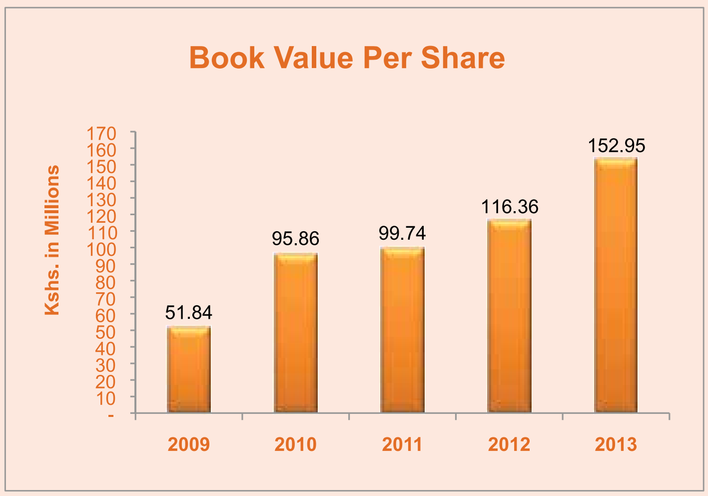


PHOTO GALLERY

Corporate Social Responsibility

Mr. Y.C. Tewari, MD with the team on the occassion of plantation of 60 trees at Karura Forest, Nairobi on completion of Bank's 60 years of operations.

Bank participated in 1st Lady's Half Marathon - Team Baroda relaxing outside the Bank's stall after the run.

Proud Moments

Mr Y. C. Tewari, Managing Director, receiving the Banking Awards (East Africa) 2014, from Mr Habil Olaka, CEO Kenya Bankers Association for the Best Bank in Tier II (2nd runner up).

Award Winning Team Baroda.

Visits

Mr Ranjan Dhawan, Chairman along with Board members and Head Office staff members at Head Office Nairobi.

Visit of Mr. P. Srinivas, Executive Director, Bank of Baroda to Head Office, Nairobi. Ms. Vindhya Ramesh, then MD, looks on.

Bank Of Baroda Staff

...Team Baroda...

NOTES

www.bankofbarodakenya.com

Bank of Baroda (Kenya) Ltd is regulated by Central Bank of Kenya.