2012 Annual Report & Financial Statements






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BANK

ABC Bank is your one-stop financial shop offering you innovative financial solutions across Kenya and Uganda.

OUR VISION

Empowering you to achieve the extraordinary.

OUR MISSION

To nurture lasting relationships with all our stakeholders through innovative value adding financial solutions and services that help them realize their objectives.

OUR CORE VALUES

Customer Centricity - We strive to be an understanding, friendly, flexible and reliable bank in meeting our customer needs.

Professionalism - We exhibit professional conduct and sound judgment in standards and service; we are objective and focused on issues.

Teamwork - We believe that the path to greatness is along with others.

Excellence - We pride ourselves in our relentless pursuit of excellence by improving the quality of everything we do.

Commitment - We are deeply committed to our customers, to each other and every community we serve.

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DIRECTORS
Ashraf Savani,
Chairman

Shamaz Savani
Group Managing Director

Richard Omwela
Joseph Muiruri
Anil Ishani

BOARD AUDIT COMMITTEE
Joseph Muiruri
Chairman

Richard Omwela
Anil Ishani
Shamaz Savani

BOARD CREDIT COMMITTEE
Richard Omwela
Chairman

Ashraf Savani
Shamaz Savani

BOARD RISK AND COMPLIANCE COMMITTEE
Joseph Muiruri
Chairman

Richard Omwela
Anil Ishani
Shamaz Savani

EXECUTIVE COMMITTEE
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Chairman

Deviinder Gupta
Group Chief Executive Officer

Raj Pal Arora
Chief Operating Officer

Peter Kinyanjui
General Manager –Business Development

Mary Mulili
Head of Corporate Banking

Geoffrey Nyambane
Head of Finance,Strategy and CMAC

Joel Mbuvi
Head of Treasury

Jesse Timbwa
Head of Credit and Legal

Corline Amanda
Head of Retail Banking

Lee Gachomba
Head of SME Banking

James Kariuki
Head of ICT

Wambui Kaguongo
Head of Product Development & Marketing

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Chairman

COMMITTEE
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Peter Kinyanjui
Geoffrey Nyambane
Joel Mbuvi
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ABC Capital

ABC Capital has been a member of the Nairobi Securities Exchange(NSE) since its inception in 1954. It therefore shares a rich heritage in the fortunes of the leading stock exchange in the Eastern Africa region. The stock brokerage firm was acquired by African Banking Corporation Limited (ABC Bank Group) in 2008, benefiting from the Groups's professionalism and key competencies of relationship management and expert approach in terms of its operations embodied in the ISO 9001:2008. ABC Capital offers services ranging from shares and fixed income trading, portfolio management, corporate finance, advisory and research, to a dynamic and discerning clientele in retail, institutional, corporate and high net worth riches.

ABC Insurance Brokers

ABC Insurance Brokers Ltd is focused solely on satisfying its client's insurance cover needs. Located at the ABC Bank House in Westlands, the company has grown rapidly through its commitment to customer service, competitive pricing and focused market orientation. ABC Insurance offers a wide range of comprehensive products such as motor vehicle, fire, computer, marine, burglary, and life insurance. In addition, it offers work Injury benefits (WIBA), mortgage protection, bonds and domestic package insurances.

ABC Capital Bank, Uganda

ABC Capital Bank started its journey in 1993, as a deposit taking financial institution then trading by the name Capital Finance Corporation Ltd (CFC). Licensed and supervised by Bank of Uganda under the Financial Institutions Act 2004, CFC offered a wide range of products such as savings accounts, business accounts, fixed deposits, business loans services and remittances through Western Union money transfer agency, among others. ABC Capital Bank came into being and was licensed into a commercial bank in 2010, becoming a full subsidiary of ABC Group in 2012.

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1 Young athletes benefit from ABC Bank's helping hand

ABC Bank Group sponsored the newly introduced short races in the 2012 edition of the annual Safaricom Baringo Half Marathon. The event was held on November 4, 2012 in Kabarnet town.

Announcing ABC Bank's partnership in the sporting activity which, among others, aims at encouraging the youth and bringing about social harmony among neighbouring communities, Mr Shamaz Savani, the Group Managing Director said the Bank supports initiatives aimed at nurturing the talents of the youth.

He singled out the talented youth in sports, which has proved to be a viable source of income for many sports people besides keeping them off vices, like crime.

"Majority of the youth are found in far-flung areas of this country thereby limiting their chances of displaying their talents to the country and the world at large. We want to unearth tomorrow's Tergat," Mr Savani said in reference to the event's founder, former world cross country champion Mr Paul Tergat. Mr Tergat who also hails from Baringo County said the event has not been appealing to some groups of people because it was limited to one category, 21 kms.

"It is therefore my greatest joy that we now have new shorter and fun races targeting the various ages from small children to the youth and professional athletes, thanks to ABC Bank," said Mr Tergat. The 2012 edition featured, for the first time, 1km and 2km fun run for children aged between seven and 14 years while old men and women ran 2km. The junior youth from 15 years and above tackled the open competitive 5km race. These races were sponsored by ABC Bank.

2 ABC Bank joins efforts to assist people with spinal cord injuries

ABC Bank has joined forces with The Cluster Foundation (TCF), a non-governmental organisation supporting people with spinal cord injuries (paraplegics) through various activities.

The Bank would be donating all its old newspapers quarterly to the Foundation, which recycles them to produce eco-pencils. The pencils are then sold to corporate and the general public to raise money which is channelled through various activities to support a programme that assists people suffering from paralysis.

"Some people detest old newspapers because they consume space while others treat them as waste. What they don't know is that the same old newspapers would bring a smile to someone's sad face," said Mrs. Njoki A. Mwangi, a trustee of the organisation. The Bank begun donating old newspapers to the Foundation on June 13, 2012 and does so on a quarterly basis to date.
"We are appealing to individuals and corporates to join us in supporting this worthy cause," said Ms. Amanda Corline, Head of Retail Banking at ABC Bank. The Foundation, under its 'Empowering Paraplegics' programme, organises excursions, home visits, entertainment and sports activities for them to reduce the effects of their handicap, especially loss of self-esteem.

Once they have gained some confidence, the Foundation, in conjunction with other partners, exposes them to various skills before connecting them to various job opportunities.

3 ABC Bank gives a facelift to Kamiti Primary School

Kamiti Primary School, a public institution located within the Kamiti Maximum Prison, Nairobi, has a fresh coat of paint thanks to ABC Bank Group.

The Group, through its Koinange Branch, bought paint, paid for and supervised the painting of the school, as part of its Corporate Social Responsibility (CSR) undertakings.

"Our branch decided to support the growth and development of education in the country through this initiative aimed at benefiting students, their teachers and the community at large," said Mr George Wanga, the Koinange Branch Manager. The school, which has a population of over 1,000 pupils, comprising the warder's children from Kamiti Maximum Prison and others from outside, does not receive support from the correctional facility. Instead, it depends on the Ministry of Education under the Free Primary Education.

"We cannot express our gratitude enough to ABC Bank for the good job they have done to us," said Mr Joseph Mwangi, the school's head teacher.

4 ABC supports construction of learning center

In yet another indicator of its commitment to the development of the education sector in the region, ABC Group supported the building of a learning resource centre at the Catholic University of Eastern Africa (CUEA).

The Group gave Kshs 500,000 to the construction of the centre, which will enable the university achieve excellence in research and learning for its students, as well as promote its community service within the Eastern African region and beyond.

The sponsorship is in line with one of the Group's key Corporate Social Responsibility focus areas – education. The project will not only benefit the CUEA fraternity, but also the larger society. Once open, it will also allow access to members of the community; especially those from the neighbouring Kibera slums whose children will have access to the library section of the centre. Its doors will also be open to students from nearby institutions of learning.

5 ABC Bank supports the Sacco sector

In appreciation of the role the cooperative sector plays in the social-economic development of the country, ABC Bank in 2012 supported Sacco education programmes, by sponsoring awards and spearheading other initiatives geared towards promoting the good work of the sector.

The Bank sponsored the 'Most Innovative SACCO' Prize during the 2012 Ushirika Day (International Co-operative Day) held on July 7 in Nairobi.

"We aspire to continue working with the Saccos in their various endeavours for the benefit of their members and development of this country," said ABC Bank Group Managing Director, Mr Shamaz Savani. He said the sector has created thousands of jobs for Kenyans while offering an effective framework for resource mobilization in the country. For instance, according to the latest government statistics, the sector, particularly through its Sacco sub-sector, mobilised over Kshs 230 billion.

This has seen the Bank supporting Saccos through various initiatives. For example, it is presently working with a number of Saccos across the country, assisting them to bridge their working capital requirements by extending to them short-term loans. It has also partnered with Unitas Sacco, which has over 140,000 members to open current accounts, facilitating them accesss to multiple benefits with financial service.

The Bank is also facilitating them to improve their operational efficiency and thereby increasing their revenue by financing some of their projects, offering them a wide range of innovative products to meet their banking needs and assisting them to embrace and invest in information and communication technology (ICT).

Some of the highlights of ABC Group In the past year

ABC Bank Opens a Branch in Lamu

ABC Bank's 10th branch is located on the beach front Kenyatta road. It joins others in Nairobi (Westlands, Koinange street, Libra and Industrial Area), Mombasa, Kisumu, Meru, Nakuru and Eldoret. It sets the tone for the bank's expansion program whose key objective is to have operations in all major counties in the country by 2017. Customers of the branch will benefit from the Group's wide range of products - Personal, Corporate and SME Banking services - and support from the Group's affiliate companies - ABC Capital and ABC Insurance.

ABC Bank Scoops Three Key Awards

The Bank won three awards at the 2012 Annual Think Business Business Awards, for excellence in banking services. The awards included the Best Bank Award among banks with total assets greater than Kshs 10 billion but less than Kshs 40 billion; Best Bank in SME Banking (2nd runner up) and Best Bank in Product Innovation (2nd runner up). To win the Best Bank Award, ABC Bank scored highly in financial soundness as determined by eight parameters including return on average assets, cost of funds, performance loans provisions to operating income and core capital to total deposits. ABC Bank was also lauded for quality product offering and friendly rates to the SME market. The Product Innovation award recognised the Bank's Medical Intern Product, an innovative personal unsecured loan for medical interns, required to work in the public sector for a mandatory period of one year - to start off their careers.

ABC Bank Group Signs MOU with Investeq Capital

The two financial institutions signed the Memorandum of Understanding (MOU), increasing the Bank's offerings to their mutual customers. They have had a fruitful relationship since 2010 which has benefited hundreds of Small and Medium Enterprises (SMEs) in Kenya. Under the initial MOU, the customers benefited from guarantees before the Bank increased its product offering by introducing a wider range of financial solutions including an invoice discounting facility, personal loans, term loans and asset finance.

ABC Bank launches a Change Management programme

Dubbed 'Nyota Mpya' (swahili for New Star) its key pillar is customer centricity through efficient service delivery and tailor-made products. The program, which includes a culture change training, is aimed at growing the bank from ordinary to extra-ordinary - in road to becoming the financial service provider of choice in the East African region.

ABC Bank successfully upgrades its Core Banking System

This strengthened the Bank's efficiency and capacity, allowing customers to experience higher quality and secure services. The Bank plans to further expand its e-channels in the near future, using an innovative integrated approach that achieves a higher level of speed and convenience.

ABC Bank Sponsors Lawyers Biggest Conference

In line with its objective of becoming a premier financial services provider of choice for the country's professionals, ABC Bank sponsored the Law Society of Kenya's (LSK) Annual Conference, to a tune of Kshs 250,000. The event, the biggest event on LSK's annual calendar, held at the Leisure Lodge & Golf Resort, Mombasa, attracted over 700 participants including high ranking officials from the judiciary, State Law office, diplomatic mission, parliament, non-governmental organizations and corporate heads.

Mr. Ashraf Savani

ABC Group Chairman

"We espouse international best practices in our corporate governance in all our operations as we work towards achieving our objective of being the premier financial services provider in the region."

t is my pleasure to present to you the Bank's Annual Report and Financial Statements for the year ended 31st December 2012, a year in which the global and local economy faced various challenges through which the Bank was able to register a good performance.

The Bank posted impressive results on the strength of several innovative initiatives that were executed, which enabled us to grow the businesses in this fiercely competitive market.

Some of the initiatives we implemented included signing strategic agreements with key and reputable partners, empowering our staff through training and recruitment of new employees to acquire competencies needed in a fast-changing business environment and continuously streamlining our operations to boost efficiency and manage costs across the business. This was geared towards expanding our human capital, improving service delivery and expanding our offerings to our customers in an effort to retain existing business while attracting new customers to grow the business and maximize shareholder value.

Operating Environment

Global economy

The World Bank estimates global GDP grew by 2.3 per cent in 2012. The slowdown compared to 2011 was occasioned by several factors including, rise in oil prices in the international markets, the economic turmoil in the euro zone and slowed growth in emerging markets and developing economies due to weak demand from advanced economies.

> *'In 2011/12 financial year, overall government expenditure stood at Kshs 1,024. 7 billion while total budgeted recurrent expenditure was Kshs 732.8 billion.'*

Developing countries recorded among their slowest economic growth rates of the past decade in 2012, with GDP estimated to have grown 5.1 per cent. Growth in high income countries remained weak, with GDP expanding only 1.3 per cent in 2012. In the

Euro Area, growth is now projected to only return to positive territory in 2014. While diminished, downside risks to the global economy persist and include a stalling of progress on the Euro zone crisis, debt and fiscal issues in the United States, the possibility of a sharp slowing of investment in China and a disruption in global oil supplies.

Kenya economy

The Ministry of Devolution and Planning estimated Kenya's Real Gross Domestic Product (GDP) expanded by 4.6 per cent in 2012 compared to a growth of 4.4 per cent in 2011. The growth was achieved despite a myriad of challenges including a turbulent global economy, delayed long rains and a weakened Kenya shilling in the beginning of the year. This performance was supported by a stable macroeconomic environment, increased domestic demand, modest growth in credit and notable growths in agriculture, wholesale and retail trade, and transport and communication.

The annual inflation decreased from 14.0 per cent in 2011 to 9.4 per cent in 2012. The decline in inflation was largely attributed to better food supply resulting from

Favourable weather conditions.

During the fiscal year 2012/13, the overall fiscal framework was premised on: adequate provision of resources for transition to the devolved system of government, funding of both human capital and infrastructure development and continued implementation of the various flagship projects under the Vision 2030.

In 2011/12 financial year, overall government expenditure stood at Kshs 1,024. 7 billion while total budgeted recurrent expenditure was Kshs 732.8 billion. The stock of Central Government outstanding public debt increased by 14.8 per cent from Kshs 1.3 trillion as at June 2011 to Kshs 1.5 trillion as at June 2012. Domestic debt stood at Kshs 768.0 billion and accounted for 50.7 per cent of the total stock of debt. External debt stood at Kshs 749.2 billion while ratio to total debt to GDP stood at 44.1 per cent in 2012 compared to 43.4 per cent in 2011.

The current account deteriorated to a deficit of Kshs 359.5 billion in 2012 from a deficit of 340.2 billion in 2011. The deterioration was mainly due to the widening of the visible trade deficit. The capital and financial account recorded a higher surplus of Kshs 438.0 billion in 2012 compared to a surplus of Kshs 332.6 billion recorded in 2011. The overall balance of payment improved from a surplus of Kshs 21.8 billion in 2011 to a surplus of Kshs 123.2 billion in 2012. This improvement was on account of increased international reserves attributed to the purchases of foreign exchange reserves from the domestic interbank market by CBK and the disbursement of IMF loans under the Extended Credit Facility (ECF).

The financial sector grew slower in 2012 to post a growth of 6.5 per cent in 2012 compared to a 7.8 per cent growth in 2011. This growth was on account of high interest incomes for commercial banks including other bank charges, increased branch network and agency banking. However, growth in the sector was curtailed by a tight monetary policy in the first half of 2012 and a relatively slow pace of lowering the lending rates despite a significant drop in the Central Bank Rate (CBR) in the second half of the year.

The tightening of the Monetary Policy saw the government T-bill rate reach a high and low of 20.79 per cent and 7.50 per cent respectively and the foreign exchange rate which also saw a high and low of Kshs 87.75 and Kshs 81.85 against the USD respectively.

The overall domestic credit grew by 20 per cent to Kshs 1.8 trillion in 2012 up from Kshs 1.5 trillion in 2011. Credit to private sector grew at a slower rate of 11.7 per cent in 2012 compared to 30.8 per cent in 2011 mainly on account of prohibitive cost of borrowing. The performance of the stock market improved during the year. The NSE 20 Share Index rose by 29.0 per cent to 4,133 from 3,205 in December 2011 while market capitalization increased by 46.5 per cent from Kshs 868 billion in 2011 to Kshs 1,272 billion in December 2012. The labour market recorded 659.4 thousand new jobs in 2012, representing an increase of 5.5 per cent. Annual average nominal wage earnings increased by 4.7 per cent in 2012 while the real average earnings declined by 4.8 per cent due to inflation. In total 68,000 jobs were created in the modern sector in 2012, compared to 74,200 in 2011.

The value of total exports grew from Kshs 512.6 billion to Kshs 517.8 billion in 2012. The value of imports grew by 5.7 per cent from Kshs 1,300.7 billion in 2011 to 1,374.6 billion in 2012. Consequently, Kenya's trade balance worsened further by 8.7 per cent in 2012 compared to 46.7 per cent in 2011. The annual average price of oil increased from US$ 110.60 per barrel in 2011 to US$ 112.97 per barrel in 2012. Total domestic demand for petroleum products declined by 5.7 per cent from 3,857,900 tonnes in 2011 to 3,638,000 tonnes in 2012. This was due to decline in fuel oil consumption mainly used in thermal generation and reduced demand in irrigation activities. Installed electricity capacity expanded by 4.7 per cent from 1,534.3 MW in 2011 to 1,606.1 MW in 2012. Consequently total electricity generation increased by 3.9 per cent to 7,851.2 GWh in 2012 compared to 7,559.9 GWh in 2011.

'The Bank's performance improved across all our business lines during the year, driven by our business model, which is aimed towards specific niche markets in the East African region.'

Banking sector

According to the Central Bank of Kenya (CBK), as at 31st December 2012, the banking sector consisted of the Central Bank of Kenya as the regulatory authority, 44 banking institutions (43 commercial banks and 1 mortgage financial company), 5 representative offices of foreign banks, 8 Deposit-Taking Microfinance Institutions (DTMs), 2 Credit Reference Bureaus (CRBs) and 112 Forex Bureaus. Out of the 44 banking institutions, 31 locally owned banks comprise 3 with public shareholding and 28 privately owned while 13 are foreign owned. The 8 DTMs, 2 CRBs and 112 forex bureaus are privately owned. The foreign owned financial institutions comprise of 9 locally incorporated foreign banks and 4 branches of foreign incorporated banks.

The Kenyan banking sector recorded enhanced performance in 2012 riding out turbulences in the macro-economic environment. The sector recorded a 15.3 per cent growth in total net assets from Kshs 2.02 trillion in December 2011 to Kshs 2.33 trillion in December 2012. Similarly customer deposits increased by 14.8 per cent from Kshs 1.49 trillion in December 2011 to Kshs 1.71 trillion in December 2012.

The Central Bank continued pursuing a tight Monetary Policy from the fourth quarter of 2011 through to June 2012. This was targeted at taming inflationary pressures and stabilization of the exchange rate. The second half of 2012 saw the easing of the monetary policy with the overall inflation rate declining from 18.3 per cent in January 2012 to 3.2 per cent in December 2012.

During the year 2012, CBK partnering with the Government registered significant progress with regard to strengthening the country's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) legal and regulatory framework.

ABC Bank Financial Performance

The Bank's performance improved across all our business lines during the year, driven by our business model, which is aimed towards specific niche markets in the East African region, and driven by our carefully executed initiatives leveraging technology and human capital. The balance sheet grew by 56.8 per cent during the period under review after it rose to Kshs 19.7 billion up from Kshs 12.6 billion in the previous year, making ABC Bank one of the fastest growing banks in terms of total assets in 2012. The Group reported a 3 per cent increase in profit after tax to Kshs 381 million in December 2012, up from Kshs 370 million in 2011 which was a marginal increase due to increased cost of funds on the back of a tightened Monetary Policy and additional investments made in IT infrastructure and expansion of the strategic business units.

Awards

The good working relationship and quality service delivery track record we have cultivated over time has continued bearing fruit, and our peers in the banking industry appreciated and celebrated with us the

awards that were achieved.

ABC Bank scooped three key awards at the 2012 Think Business Banking Awards, the premier award ceremony honoring excellence in Kenya's banking sector. During a gala dinner held on April 24 in Nairobi, ABC Bank was voted as the Best Bank among Banks with total assets greater than Kshs 10 billion but less than Kshs 40 billion, the Second runners up in the Best Bank in SME Banking category and the Second runners up in the Best Bank in Product Innovation award.

Corporate Governance

Our mandate, as a Board, is to provide the management with the overall guidance on the Bank's strategic direction and oversight on its (Bank's) corporate governance. We are pleased with the management, backed by our dedicated staff and loyal customers, for the good results achieved by their effective execution of the Bank's strategy.

This has not only been vindicated by the impressive results the Bank posted in 2012, but also the overall growth and increased shareholder value we have registered since we started our operations in 1984. We espouse international best practices in our corporate governance in all our operations as we work towards achieving our objective of being the premier financial services provider in the region. Our various board committees meet regularly to ensure that the full Board is properly informed on all risk-related issues. This enables all directors to contribute fully in identifying, evaluating, monitoring and managing risk and providing the necessary oversight and supporting the growth of the Bank.

'Whenever the need has arisen, we have continued to seek new resources - in terms of capital, systems and new skills at both staff and Board level.'

As a Board, we will continue to ensure that the safety of depositors' funds is guaranteed while providing guidance towards the growth of the Bank and shareholder value by contributing to the Bank's overall strategic development. Whenever the need has arisen, we have continued to seek new resources - in terms of capital, systems and new skills at both staff and Board level – in order to keep the Bank on an upward, targeted and sustainable growth path.

Corporate Social Responsibility

As a good corporate citizen, the Bank has continued to give back to society through its programme of Corporate Social Responsibility (CSR) projects.

We, as a Board, are happy with the programme, especially the Bank's management and staff for the manner in which they have continued to select and implement the CSR projects. Guided by a desire to go for projects that are sustainable and have the greatest impact on the people and environment in which the Bank operates, our CSR team has chosen projects in critical areas – community development, education, health and sports.

Some of the CSR projects the Bank invested during the year include:-

Nurturing the young talent in sports

ABC Bank Group sponsored the newly introduced short races in the 2012 edition of the annual Safaricom Baringo Half Marathon. By sponsoring the event, which was held on November 4, 2012 in Kabarnet Town, the Bank reaffirmed its commitment to supporting initiatives aimed at nurturing the talents of the youth.

This is critical especially sports, which has proven to be a viable source of income for many sportspeople besides keeping them off vices, including crime. The sponsorship of the marathon for the second year running was also one way of thanking our customers in the greater Rift Valley region where we have two branches, in Nakuru and Eldoret.

Supporting the development of the education sector

Even as the Bank kept supporting the growth of the education sector by offering scholarships/bursaries to bright students from needy families, we also made efforts to improve the learning infrastructure. For instance, Kamiti Primary School, a public institution located within the Kamiti Maximum Prison - Nairobi, has a fresh coat of paint after many decades of waiting, thanks to ABC Bank Group.

The Group, through its Koinange street Branch, bought paint, paid for and supervised the painting of the school, as part of its CSR programme. The school, which has a population of around 1,110 pupils, comprising of warders' children and others from outside, does not receive support from the correctional facility. Instead, it depends on the Ministry of Education under the Free Primary Education Programme.

People with spinal cord injuries

ABC Bank joined forces with The Cluster Foundation (TCF), a non-governmental organisation supporting people with spinal cord injuries (paraplegics) through various activities. The Bank would be donating all its old newspapers quarterly to the Foundation, which recycles them to produce eco-pencils. The pencils are then sold to the public and corporates to raise money, which is spent on supporting a programme that assists people with paralysis through various activities.

'We believe that the expansion, restructuring and the investment we made across the business in 2012 offers us the flexibility and capacity to benefit from these opportunities.'

The Foundation, under its Empowering Paraplegics programme, organizes excursions, home visits, entertainment and sports activities for them to reduce the effects of their handicap, especially loss of self-esteem. Once they have gained some confidence, the Foundation, in conjunction with other partners, exposes them to various skills before connecting them to various job opportunities.

Outlook for 2013

The Ministry of Finance predicts a 5.6 per cent economic growth in the year 2013. On its part, the MPC (CBK) Market Perceptions Survey conducted in December 2012 showed that the private sector expects inflation and the exchange rate to remain stable in 2013.

The Survey also showed increased optimism for a strong recovery in growth in 2013. With the coming into force of the 47 county governments in Kenya after the March 4, 2013 General election, implementation of Vision 2030 projects and ongoing strengthening of the regional integration process, we anticipate increased investment opportunities both at home and across the region.

We, as ABC Bank, would like to tap into these opportunities by leveraging on our pool of skilled staff across the business to serve customers and add value to the stakeholders. We believe that the expansion, restructuring and the investment we made across the business in 2012 offers us the flexibility and capacity to benefit from these opportunities. Our focus is to continue investing in our human capital, infrastructure and business development initiatives highlighted by the Group Managing Director to increase our efficiency and competitiveness in the market.

Appreciation

Without the loyalty and support of our customers we would not have made it not only in 2012, but also this far since we started operating over 27 years ago. For that, as a Board, we say thank you.

We are grateful to our management team and staff for their hard work, dedication and innovativeness, which enabled the Bank to register a good performance in 2012. We undertake to support the management and staff in enhancing their careers while offering our clients the quality service they deserve as we grow our shareholder value because we appreciate them as our most valuable asset.

My gratitude also goes to my fellow board members for their invaluable wisdom they exhibited during the year in discharging their role within the Bank.

I wish you all a happy and fruitful year 2013.

Thank you.

Ashraf Savani
Chairman

Mr. Samaz Savani

Group Managing Director

Our 3 year strategic plan came to an end in (December) 2012, which we considered a transition year, and, as a responsive and forward-looking institution, we designed, developed and rolled out our new 5-Year Strategic Plan to 2017.

IIt gives me great pleasure to present to you the ABC Bank Consolidated Audited Accounts and Annual Report for the period ended 31st December, 2012.

The year remained challenging despite the easing of the macroeconomic pressures – a gradual decline in the country's inflation rate, stabilization of the Kenya shilling against major currencies and lowering of interest rates.

'The continued investment in IT infrastructure is geared towards coming up with new and superior products and services while improving the security and efficiency of our systems.'

Nevertheless, the year was good for us as the various initiatives and key projects we undertook during the year started bearing fruit, resulting in the Bank recording good results.

Financial Performance

During the period under review, the Group's profit before tax grew to Kshs 526 million, up from Kshs 508 million recorded in 2011, driven by growth across the business.

The Group's customer deposits went up to Kshs 15.5 billion from Kshs 10.4 billion in 2011, a 48.7 per cent growth. Profit after tax increased by 3 per cent to Kshs 381 million compared to Kshs 370 million in 2011.

It is a performance, which underlined the strength of our business strategy to attracting and retaining customers, especially the Small and Medium Enterprises (SMEs), through innovative products and quality service. The Group's balance sheet increased by 56.8 per cent to Kshs 19.7 billion compared to Kshs 12.6 billion recorded in 2011. The Bank's Net Interest Income (NII) grew by 16.3 per cent from Kshs 752.6 billion to Kshs 875 billion, whereas Group's NII grew by 20.8 per cent from Kshs. 753.7 million to Kshs 910.5 million. Non Funded Income (NFI) for the Bank grew by 9.4 per cent from Kshs 463 million to Kshs 546.6 million and the Group's NFI grew by 2.1 per cent from Kshs 480 million to Kshs 490 million respectively.

During the period under review, however, our total operating expenses went up to Kshs 875 million from Kshs 726 million in 2011. This was due to our increased business activities as a result of among others, new staff recruitment, marketing, training and other capital expenditures on IT infrastructure.

The continued investment in IT infrastructure is geared towards coming up with new and superior products and services while improving the security and efficiency of our systems and processes to provide an all-inclusive one stop shop that is convenient, secure and innovative to exceed our customers' expectations and requirements.

Key projects

During the year, we executed various projects as part of our strategy to attract and retain customers in the various sectors of the economy while enhancing the career progress of our staff and growing our shareholder value.

New strategy

Our 3-Year Strategic Plan came to an end in (December) 2012, which we considered a transition year and, as a responsive and forward-looking institution, we designed, developed and rolled out our new 5-Year Strategic Plan to 2017.

With that single move, we shifted from successive 3-year cycle planning to 5-year Strategic Plans, thereby laying a firm foundation for our growth in the next five years effective January 2013. The long term strategy will give us ample time to design, execute and evaluate the outcome of all our initiatives, as we work towards achieving our Vision of becoming the financial services provider of choice in the East African region. It is a strategy we intend to implement through well thought out initiatives, including, but not limited to, our change management programme dubbed 'Nyota Mpya' (New Star).

'With this strategic step, further integration of the two banks is now possible, with a key focus towards: trade flows between Kenya and Uganda.'

Under the guidance of the Alternative Channels and Change Management Department, the programme's key pillar is customer centricity through efficient service and tailor-made products.

Restructuring of business

The success of our new strategy, through which we aim to play a critical role in East Africa's financial sector in the next five years, would be achieved if the whole business performs at its optimum.

After a careful review early in the year, a full business process re-engineering program was initiated to optimize performance up to its full potential, re-evaluating the products and services in line with the competition, and restructuring of the business to boost capacity.

In an effort to tap into the synergies of the Group companies, we increased our shareholding in ABC Capital Bank Ltd, Uganda, converting it from an associate to a subsidiary. With this strategic step, further integration of the two banks is now possible, with a key focus towards: trade flows between Kenya and Uganda, achieving our Vision of becoming the financial services provider of choice in East Africa, and tapping into the growing business opportunities generated by the regional integration initiatives especially within the East African Community (EAC).

With the expected growth of the economy and the devolved system of government expected to come into force in 2013, a lot of resources will be required to finance, especially infrastructure, which would see the Nairobi Securities Exchange (NSE) playing a key role in mobilizing capital.

Hence, the government and the private sector are likely to turn to the stock market to raise capital to finance their projects; which means our subsidiary company, ABC Capital, which is a member of the NSE, needs adequate capacity to facilitate the resource mobilization.

To lay the foundation for this, we restructured it during the year, recruiting new staff to execute our business strategy for the stock market.

Also, we have boosted the capacity of ABC Insurance Brokers Ltd, to enable it to expand opportunities in the insurance sector, specially the bancassurance market.

The Bank initiated re-engineering of the processes across the business to make them more efficient and re-designed the products and services to increase market appeal especially to the Small and Medium Enterprises (SMEs). We expect these changes will enable the Bank achieve its strategic objectives.

Supporting the small businesses

EPZA

ABC Bank registered a milestone on April 24, 2012, when it signed a Memorandum of Understanding (MoU) with the Export Processing Zones Authority (EPZA), a government agency charged with the responsibility of promoting export-focused businesses.

The strategic partnership gives the Bank an opportunity to support businesses in the export and import sector, especially SMEs, by providing them financial solutions and advisory services to increase their overall productivity. Among others, the Bank is working at providing the export and import SMEs with trade finance while availing developmental finance to developers within the Export Processing Zones (EPZ) and other SMEs to construct commercial warehouses and godowns.

Through the group companies ABC Capital Ltd and ABC Insurance Brokers Ltd, the Bank will offer them professional and up-to date advisory services.

These partnerships complement other agreements the Bank has entered into in the recent past, all aimed at supporting SME customers. They include the financing facility the Bank signed with the European Investment Bank (EIB), the world's largest multinational financial institution owned by European Union member states.

Under the partnership with EIB, SME customers stand to benefit greatly because we are now able to offer them loans with a longer tenor of between four and 10 years and at rates fairly lower than those prevailing in the market, and we are available to structure and to meet individual customer needs.

'As we roll out our 5-Year strategy, 2013 is a critical year for us because it represents a major shift in our strategic focus for the Bank. '

Education

ABC Bank signed a Memorandum of Understanding (MoU) with the Ministry of Education aimed at facilitating the transfer of funds to schools under the country's free education programme.

The MoU is one of the partnerships the Bank entered into during the year with strategic partners to support the growth and development of the education sector in the country.

The programme has recorded great successes. The Free Primary Education (FPE) programme, which commenced in 2003, has helped to boost enrolment in primary schools by nearly 50 per cent, from 5.9 million to 8.8 million pupils, according to the Kenya Economic Survey 2010.

The Bank continued with the initiatives as a good corporate citizen by taking part in Community Social Development through involvement in a number of projects during the year.

Going forward, the Bank endeavors to continue investing in projects that would positively and sustainably impact on people and the wider society in which we operate.

Outlook for 2013

As we roll out our 5-Year strategy, 2013 is a critical year for us because it represents a major shift in our strategic focus for the Bank. This entails aggressively working towards growing our market share as we shift our strategic focus to the top-line, by leveraging on the initiatives and investments we made in 2012 across the business.

We expect to achieve our strategic objectives by implementing various interlinked and well thought-out initiatives and projects, improving our efficiency, expanding our reach as well as seeking out and entering into partnerships with selected strategic partners to grow the business.

We will continue working towards increasing our footprint during the year, including opening new branches to complement our current branch network. It is worth noting that we opened our Lamu Branch on June 18, 2012 to add to our other nine branches in Nairobi (four branches) and one branch each in Mombasa, Meru, Nakuru, Kisumu and Eldoret.

We intend to leverage on our upgraded core banking system to expand our reach by rolling out innovative products and services, including intelligent ATMs, and upgrading our mobile and internet banking to increase our retail customers' access to our services. We are working round the clock to ensure that in a few months, our MasterCard and upgraded Internet Banking services are available to all customers too.

As our key asset, we will continue investing in our staff during the year by rolling out extensive training and mentorship programmes for them. With our performance-based human resource information management system, we expect to increase the capability and effectiveness of our staff and future tasks through internal and external training programmes.

Conclusion

I extend my appreciation to our customers, business partners, Board of Directors, the management team, and staff for their commitment to the Bank.

Thank you.

Shamaz Savani

Group Managing Director

1 Mr. Shamaz Savani

Mr. Shamaz Savani has a Bachelors of Commerce in Finance and a Bachelors of Arts Degree in Economics in Economics; both from McMaster University, Canada, and an MBA from the University of Surrey in UK. He has been with the bank for over 15 years. Mr. Shamaz Savani is responsible for the bank's strategy formulation, policy making and IT Integration. In addition, he is the Chief Sponsor for all change management projects in the bank.

2 Mr. Joseph Muiruri

Mr. Joseph Muiruri is an accountant by profession, having qualified as a fellow of Chartered Association of Certified Accountants (UK) in 1976 and is also a practitioner of the Institute of Certified Public Accountants of Kenya (ICPAK). He retired in December 2002 after working for 35 years with Ernst & Young East Africa, where for 25 years he was a partner and Chairman of the firm from 1996 - 2002. As partner in charge of a large portfolio of major clients, he gained wide auditing and accounting experience. He is now a financial consultant and also acts as a Non - Executive director in a number of companies. Mr. Muiruri also chairs the ABC Bank Board Audit, Risk and Compliance committee.


1 2

3 Mr. Anil Ishani

Mr. Anil Ishani was until 2007 the Resident Representative of the Aga Khan Development Network in Kenya (AKDN). Prior to that, until 1997, Mr. Ishani was a consultant in the London office of UK Solicitors Dibb Lupton Alsop. Early in his career, having qualified as a Barrister at the middle Temple in London, 1959, he returned to Kenya and joined the family practice of Ishani and Ishani Advocates. In 1972, he settled in the UK, joined the well-known City firm of Adlers Solicitors, and qualified as a Solicitor, in 1975. He became a Partner in 1989. In 1992, Mr. Ishani enjoyed the privilege of being the only consultant in the firm's London office. In 1977, he was appointed by His Highness to the diplomatic position of AKDN Resident Representative in Kenya and retired in 2007. He now resides in Kenya and works as a consultant. He is a Council Member of the SuperbrandsLtd. He holds a Bachelor of Commerce Degree and a Diploma in Banking.

4 Mr. Richard Omwela

Mr. Richard Omwela holds a law degree from the University of Nairobi and a diploma from the Kenya School of Law. He is an advocate of the High Court of Kenya and a partner in the leading Nairobi law firm of Hamilton Harrison & Mathews Advocates, where he is in charge of the Commercial & Conveyance Department. He is also a member of the Chartered Institute of Secretaries of Kenya. He has been a Director of the Bank since 2000 and is the Chairman of the Audit Committee. Mr. Omwela sits on the boards of several other companies and is a former Chairman of Kenya Rugby Football Union and was in the past the Chairman of Westlands Rotary Club of Nairobi.

5 Mr. Ashraf Savani

Chairman

Mr. Ashraf Savani is the Chairman of African Banking Corporation Ltd. He has 45 years of experience in the banking industry and is the founding Managing Director of ABC Bank having started it in 1984 first as a financial institution before converting it to a fully-fledged bank in 1994. He started his banking career in 1964 with Habib Bank Ltd rising to the position of Vice President at Habib Bank A.G. Zurich. In 1984 he left to form the Consolidated Finance Company now known as African Banking Corporation Ltd. He holds a Bachelor of Commerce Degree and a Diploma in Banking.

African Banking Corporation Limited is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the banks business is conducted in accordance with high standards of corporate governance.

Of particular importance to the bank are the observance of shareholders interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 5.

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

The Board comprises four non-executive Directors and the Group Managing Director. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and Chairmen of Board committees are non-executive Directors.

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

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

a. Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 35(e) to the financial statements for the year ended 31 December 2012. The bank advanced loans to Directors and their associated companies as disclosed in Note 35(a).

b. Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the bank and its Directors or Management except those disclosed in Note 35 to the financial statements for the year ended 31 December 2012.

c. Board and Director Evaluation

Both peer and self evaluations of the Board members including the Chairman have been done.

2. BOARD COMMITTEES

The Board has in place three main committees, namely the Board Audit Committee, the Board Credit Committee and the Risk and Compliance Committee. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the banks objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the bank is delegated to the Group Managing Director.

a) Board Audit Committee

The Audit Committee is chaired by a non-executive director (Mr. J. Muiruri) and meets on a quarterly basis. Other members are two non-executive directors (Mr. R. Omwela and Mr.A Ishani) . The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of Central Bank.

b) Risk and Compliance Committee

The Risk and Compliance Committee is chaired by a non-executive Director (Mr. J. Muiruri).The other members are two non-executive appointees of the Board (Mr. R. Omwela and Mr.A. Ishani). The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the bank are properly established, monitored and reported on. The committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the bank.

c) Board Credit Committee

The Credit Committee is chaired by a non-executive Director (Mr. R. Omwela) and meets on a quarterly basis or as need arises to review credit policies, facilities granted and other credit related issues that require Board deliberation. Other members are the Group Chairman (Mr. A. Savani) and Group Managing Director (Mr. S. Savani).

d) Executive Committee (Exco)

The Executive Committee chaired by the Group MD, is comprised of Unit Heads. This committee has overall responsibility for risk management, monitoring and evaluation of performance and strategy formulation and implementation. The committee advises and assists the Group MD in making decisions that define the direction the bank takes.

e) Assets and Liabilities Management Committee (ALCO)

The Group Chief Executive Officer chairs this committee and its membership comprises business heads,Head of Finance Strategy & CMAC and Head of Credit & Legal. The committee meets monthly and is responsible for the monitoring and management of the statement of financial position, including liquidity risk, maturity risk, interest rate risk, and exchange rate risk, compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, investment policies and the setting of interest rates.

f) Other Committees

Other management support structures revolve around committees set up to support the Group Managing Director in the day-to-day management of the bank and the group and include the Credit Committee (CC), the Non-Performing Loans Committee (NPL), Management

ABC Bank staff members dance in celebration at the launch of the Bank's change management programme 'Nyota Mpya' which has three pillars - people pillar, process pillar and customer centricity pillar.

ABC Bank was a multiple award winner at the Annual Banking Awards in 2012, winning: Best Bank among banks with total assets greater than Kshs 10 billion but less than Kshs 40 billion; Best Bank in SME Banking (2nd runner up) and Best Bank in Product Innovation (2nd runner up)

committee (MANCO) ,Purchase and Tendering Committee (PTC),Health and Safety Committee (HSC) and the Human Resources Committee (HRC). The CC meets at least weekly to review credit applications, pending disbursements and credit risk. The other committees meet at least monthly.

3. RISK MANAGEMENT AND INTERNAL CONTROL

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

4. BUSINESS ETHICS

The bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arms length, with integrity and transparency.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

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

6. SHAREHOLDERS

The composition of shareholders and their individual holdings at the year ended 2012 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines. There was change in the share holding structure in 2012 .

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board meets quarterly for scheduled meetings to review the Groups performance against business plans as well as to formulate and implement strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. During the year, the Board held six ordinary meetings. Details of attendance for each member of board are as below.

Director	No of meetings attended
1. Ashraf Savani	6
2. Richard Omwela	6
3. Joseph Muiruri	6
4. Anil Ishani	5
5. Shamaz Savani	6

The Executive Committee and ALCO convened during each month and held twelve meetings each whereas the Board Audit Committee, the Board Credit Committee and the Board Risk and Compliance Committee convened and held four meetings each. All the meetings convened had sufficient quorum and all the board members required to attend were present at each meeting. As part of corporate governance, board assessments are performed annually per the regulator's requirements.

8. COMPLIANCE

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

Director

Director

26th March 2013

The directors have the pleasure of submitting their report together with the audited financial statements for the year ended 31 December 2012, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and the bank.
For purposes of reporting under the Kenyan Companies Act, the balance sheet in the accompanying financial statements is represented by the statement of financial position and the profit and loss account is included by the statement of comprehensive income.

ACTIVITIES
The principal activities of the Group are the provision of banking, stock brokerage, financial and related services.

RESULTS

	Sh'ooo
Profit before taxation	525,539
Taxation expense	(144,896)
Retained profit for the year	380,643
Attributable to:	
Equity holders of the parent company	382,281
Non-controlling interests	(1,638)
	380,643

DIVIDENDS
An interim and final dividend of Sh 0.80 per share (2011 – 0.80) amounting to Sh 84,000,000 (2011 – 84,000,000) was paid during the year.

DIRECTORS
The present members of the Board of Directors are shown on page 5.

AUDITORS
Deloitte & Touche have expressed their willingness to continue in office in accordance with section 159 (2) of the Kenyan Companies Act and subject to approval by the Central Bank of Kenya in accordance with section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

For Livingstone Associates,
Secretary,
Nairobi

26th March 2013

Julius Juma (L), Branch Manager, ABC Bank Nakuru Branch, presents a gift to a customer, Paul Muraya (R) of SGM Investments during the Bank's annual Customer Focus Week. Looking on is ABC Bank's Solomon Gachungwa.

ABC Bank Lamu branch opened in 2012 to serve customers in the coastal town.

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

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. 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 and of their operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the bank and its subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.

Director

Director

26th March 2013

Independent Auditor's Report

Report on Financial Statements

We have audited the financial statements of African Banking Corporation Limited and its subsidiary set out on pages 34 to 109 which comprise the consolidated and bank statements of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, consolidated and bank statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiaries as at 31 December 2012 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

Report on Other Legal Requirements

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

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

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

iii) the bank's statement of financial position (balance sheet) is in agreement with the books of account.

Mr Samuel Hawala (R) of ABC Bank Mombasa Branch, explains a point to a participant who visited the Bank's stand during the 1st African-Caribbean Pacific Economic Zones Convention 2012 held in Mombasa on May 23-25, 2012. Appearing in the picture is Mr Shamaz Savani (2nd L), the Group MD. The Bank was one of the sponsors of the convention.

George Wanga (L), ABC Bank Koinange Branch Manager, leads the Bank's staff in donating reading materials, including books, to Rose Ayuma (3rd R), the founder of Huruma Community School – Imara Daima, Nairobi. Looking on are staff members and pupils of the school.

Report on Other Legal Requirements

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

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

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

iii) the bank's statement of financial position (balance sheet) is in agreement with the books of account.

Deloitte & Touche

Certified Public Accountants(Kenya)

26th March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	2012 Sh'000	2011 Sh'000
INTEREST INCOME	5	2,265,054	1,267,014
INTEREST EXPENSE	6	(1,354,464)	(513,294)
NET INTEREST INCOME		910,590	753,720
Fees and commission income		279,198	240,971
Foreign exchange trading income		161,864	144,636
Other operating income	7	49,017	88,051
OPERATING INCOME		1,400,669	1,227,378
Operating expenses	8	(844,017)	(714,014)
Impairment charge on loans and receivables	18(d)	(31,113)	(11,603)
Share of results of associate	22	-	6,244
PROFIT BEFORE TAXATION		525,539	508,005
TAXATION EXPENSE	10(a)	(144,896)	(138,039)
PROFIT FOR THE YEAR		11 380,643	369,966
OTHER COMPREHENSIVE INCOME			
Fair value gain/(loss) on available for sale investments	16(ii)	60,403	(187,788)
Realised on disposal of available for sale investments	16(ii)	9,236	(30,088)
Exchange differences on translating foreign operations		(30,808)	-
		38,831	(217,876)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		419,474	152,090
PROFIT ATTRIBUTABLE TO:			
Equity holders of the parent company		382,281	371,001
Non-controlling interests		(1,638)	(1,035)
		380,643	369,966
OTHER COMPREHENSIVE INCOME/(LOSS) ATTRIBUTABLE TO:			
Equity holders of the parent company		51,256	(217,876)
Non-controlling interests		(12,425)	-
		38,831	(217,876)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent company		433,537	153,125
Non-controlling interests		(14,063)	(1,035)
		419,474	152,090
Earnings per share – Basic & Diluted	13	3.63	3.52

ABC Bank Chairman, Ashraf Savani (L) signs documents with Nikolaos Milianitis, Senior Loan Officer, European Investment Bank after ABC Bank secured a Euro 7 million loan agreement to lend to SMEs.

ABC Group

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 2012

Mr. Shamaz Savani (L), ABC Bank Group Managing Director, exchanges documents with Dr. Richard Mutule Kilonzo, Chief Executive Officer, EPZA, after the two institutions signed an MoU. Looking on is Mr. Manson Nyamweya (C), the Assistant Minister, Ministry of Trade.

	Note	2012 Sh'000	2011 Sh'000
ASSETS			
Cash and balances with Central Banks	14	1,787,780	850,481
Deposits and balances due from banking institutions	15	1,081,520	502,060
Government securities	16	5,233,728	2,601,282
Corporate bonds	17	328,607	375,483
Loans and advances to customers	18(a)	10,133,792	7,073,553
Tax recoverable	10(c)	28,665	18,562
Other assets	19(a)	334,000	256,017
Due from related parties	19(b)	-	1,611
Property and equipment	20(a)	481,200	430,074
Intangible assets	21(a)	59,421	277,899
Investment in Nairobi Securities Exchange	21(c)	223,700	-
Investment in associate	22	-	174,058
Goodwill	24(a)	660	-
Deferred tax asset	28(c)	4,762	5,007
TOTAL ASSETS		19,697,835	12,566,087
LIABILITIES			
Balances due to banking institutions	25	652,025	50,055
Customer deposits	26	15,529,235	10,442,446
Other liabilities	27	385,431	300,931
Tax payable	10(c)	7,083	-
Long term loan	29	759,919	-
TOTAL LIABILITIES		17,333,693	10,793,432
SHAREHOLDERS' FUNDS			
Share capital	30	1,050,000	1,050,000
Retained earnings		961,531	698,206
Investment revaluation reserve		(4,919)	(74,558)
Statutory reserve	31	102,736	67,780
Translation reserve		(18,383)	-
Attributable to equity holders of the parent company		2,090,965	1,741,428
Non-controlling interests	32	273,177	31,227
TOTAL SHAREHOLDERS' FUNDS		2,364,142	1,772,655
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		19,697,835	12,566,087

The financial statements on pages 36 to 109 were approved and authorised for issue by the board of directors on **26th March 2013** and signed on behalf by:

Director ____________ Director ____________ Chief Executive Officer ____________ Company Secretary ____________

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2012

	Note	Share capital	Retained Earnings	Investment revaluation reserve	Statutory reserve	Translation reserve	Attributable to equity	Non Controling interest holders of parent	Total
		Sh' 000	Sh' 000	Sh' 000	Sh' 000		Sh' 000	Sh' 000	Sh' 000
At 1 January 2011		1,050,000	422,837	143,318	56,148	-	1,672,303	32,262	1,704,565
Profit for the year		-	371,001	-	-	-	371,001	(1,035)	369,966
Other comprehensive income		-	-	(217,876)	-		(217,876)	-	(217,876)
Total comprehensive income for the year 152,090				-	371,001	(217,876)	-	- 153,125	(1,035)
Transfer to statutory reserve -	31		-	(11,632)	-	11,632	-	-	-
Interim dividends paid	12		(84,000)	-	-	-	(84,000)	-	(84,000)
At 31 December 2011		1,050,000	698,206	(74,558)	67,780	-	1,741,428	31,227	1,772,65
At 1 January 2012		1,050,000	698,206	(74,558)	67,780	-	1,741,428	31,227	1,772,655
Profit for the year		-	382,281		-		382,281	(1,638)	380,643
Other comprehensive income			-	69,639	-	(18,383)	51,256	(12,425)	38,831
Total comprehensive income for the year		-	382,281	69,639	-	(18,383)	433,537	(14,063)	419,474
Non-controlling interests arising on the acquisition of control in associate	24 (a)	-	-	-	-	-	-	256,013	256,013
Transfer to statutory reserve	31	-	(34,956)	-	34,956	-	-	-	-
Interim dividend paid 2012		-	(84,000)	-	-	-	(84,000)	-	(84,000)
At 31 December 2012		1,050,000	961,531	(4,919)	102,736	(18,383)	2,090,965	273,177	2,364,142

The statutory reserve relates to the excess provisions for impairments for loans and receivables as computed per the Central Bank of Kenya Prudential guidelines over that computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.
The Investment revaluation reserve represents the net cumulative surplus (deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

	Share capital Sh'000	Retained earnings Sh' 000	Revaluation reserve Sh' 000	Statutory reserve Sh' 000	Total Sh' 000
At 1 January 2011	1,050,000	381,105	143,318	56,148	1,630,571
Profit for the year	-	373,392	-	-	373,392
Other comprehensive income	-	-	(217,876)	-	(217,876)
Total comprehensive income	-	373,392	(217,876	-	155,516
Transfer to statutory reserve	-	(11,632)	-	11,632	-
Interim dividend paid	-	(84,000)	-	-	(84,000)
At 31 December 2011	1,050,000	658,865	(74,558)	67,780	1,702,087
	==========	==========	==========	==========	==========
At 1 January 2012	1,050,000	658,865	(74,558)	67,780	1,702,087
Profit for the year	-	423,883	-	-	423,883
Other comprehensive income	-	-	69,639		69,639
Total comprehensive income	-	423,883	69,639	-	493,522
Transfer to statutory reserve	-	(26,242)	-	26,242	-
Interim dividends paid	-	(84,000)	-	-	(84,000)
At 31 December 2012	1,050,000	972,506	(4,919)	94,022	2,111,609
	==========	==========	==========	==========	==========

The statutory reserve relates to the excess provisions for impairments for loans and receivables as computed per the Central Bank of Kenya Prudential guidelines over the loans and receivables impairment provision as computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.
The investment revaluation reserve represents the net cumulative surplus (deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

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	Note	2012 Sh'000	2011 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	33(a)	1,667,187	38,080
Taxation paid	10(c)	(150,653)	(197,755)
Cash generated from/(used in) operating activities		1,516,534	(159,675)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	20(a)	(108,379)	(79,349)
Purchase of intangible assets	21(a)	(7,533)	(7,036)
Proceeds on sale of property and equipment		-	2,129
Cash inflow from acquisition of subsidiary	24(a)	419,424	-
Acquisition of additional interest in associate	22	-	(83,916)
Proceeds on sale of quoted shares		-	10,022
Purchase of quoted shares		-	(1,994)
Cash used in investing activities		303,512	(160,144)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	12	(84,000)	(84,000)
Increase/(decrease) in cash and cash equivalents		1,736,046	(403,819)
Cash and cash equivalents at 1 January		804,917	1,208,736
Cash and cash equivalents at 31 December	33(b)	2,540,963	804,917

1. ACCOUNTING POLICIES

Statement of compliance

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

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

(a) New standards and amendments to published standards effective for the year ended 31 December 2012

The following new and revised IFRSs were effective in the current year and have not affected the amounts reported in these financial statements.

Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	The amendments regarding the removal of fixed dates provide relief to first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRSs
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets.	The amendments to IFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions where a financial asset is transferred but the transferor retains some level of continuing exposure in the asset.
Amendments to IAS 12: Deferred Tax – Recovery of Underlying Assets	The amendments to IAS 12 provide an exception to the general principle set out in IAS 12, Income Taxes, that the measurement of deferred tax should reflect the manner in which an entity expects to recover the carrying amount of an asset. Specifically, the amendments establish a rebuttable presumption that the carrying amount of an investment property measured using the fair value model in IAS 40, Investment Property, will be recovered entirely through sale.

(b) New and revised IFRSs in issue but not yet effective for the year ended 31 December 2012

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

	Effective for annual periods beginning on or after
IFRS 9, Financial Instruments - Classification and Measurement	1 January 2013
IFRS 10 - Consolidated financial statements. IFRS 10 replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements	1 January 2013
IFRS 11, Joint Arrangements	1 January 2013
IFRS 12, Disclosure of Interests in Other Entities	1 January 2013
IFRS 13, Fair Value Measurement	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to IAS 12 - Deferred Tax -Recovery of Underlying Assets	1 January 2012
IAS 19 (as revised in 2011) - Employee Benefits	1 January 2013

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(c) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

IFRS 9: Financial Instruments

IFRS 9 issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2011 includes the requirements for the classification and measurement of financial liabilities and for derecognition.
Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value.Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

The directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and that the application of IFRS 9 may have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed

1. ACCOUNTING POLICIES (Continued)

Adoption of new and revised International Financial Reporting Standards (IFRSs) (Continued)

(c) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* has been withdrawn upon the issuance of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.
In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IAS 27 (as revised in 2012) - Separate Financial Statements

IAS 27 has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements.

IAS 28 (as revised in 2012) - Investments in Associates and Joint Ventures

IAS 28 has been amended for conforming changes based on issuance of IFRS 10 and IFRS 11.

The directors anticipate that IFRS 10, IFRS 11, IFRS 12, IAS 27 and IAS 28 as detailed above will be adopted in the Group's financial statements for the annual period beginning 1 January 2013 and that the application of the new Standards may affect amounts and disclosures in the financial statements. However, it is not practicable to provide a reasonable estimate of that effect until a detailed review has been completed.

(c) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2012 and future annual periods

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more

1. ACCOUNTING POLICIES (Continued)

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

extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 *Financial Instruments: Disclosures* will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors anticipate that the application of the new Standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements, however, the Group is yet to assess IFRS 13's full impact and intends to adopt the standard no later than the accounting period beginning on or after 1 January 2013.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.
The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

Amendments to IAS 12 -Deferred Tax -Recovery of Underlying Assets

The amendments to IAS 12 provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with IAS 40 *Investment Property* are presumed to be recovered through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.
The above amendments are effective for annual periods beginning on or after 1 January 2012. The Group will apply this amendment prospectively. The directors anticipate no material impact to the Group's financial statements currently. However, the Group would have to apply this standard to any such arrangements entered into in the future.

(d) Early adoption of standards

The Group did not early-adopt any new or amended standards in the period.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain intangible assets and financial instruments which are accounted for at fair value.

Basis of consolidation

Subsidiaries

Subsidiary undertakings, being those companies in which the bank either directly or indirectly has an interest of more than 50% of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated as from the date of disposal. All inter-company transactions balances and unrealised surpluses and deficits on transactions with the subsidiary companies have been eliminated.

The consolidated financial statements incorporate the financial statements of

1. ACCOUNTING POLICIES (Continued)

the bank and its subsidiaries, ABC Capital Limited and ABC Capital Bank Uganda Limited both having financial year end 31 December 2012.

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss.

Non-controlling interests in subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another standards.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the group's share of the net assets of the acquired subsidiary as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent periods.

1. ACCOUNTING POLICIES (Continued)
Basis of consolidation (Continued)

Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5, Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a Group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as at fair value through profit and loss, are recognized within interest income and interest expense in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. Interest income includes interest on loans and receivables, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

Fees and commissions

In the normal course of business, the Group earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.
Fees and commission income, including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to

1. ACCOUNTING POLICIES (Continued)

result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.
Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Statutory reserve

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

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset (costs of bringing the assets to its location and working condition).
Depreciation is calculated on a pro-rata basis at the following annual rates estimated to write off the cost of property and equipment over their expected useful lives, on the following bases:

	Rate	Basis
Buildings	2%	Straight line basis
Office renovations	Over the lease period of the building	Straight line basis
Motor vehicles	20%	Straight line basis
Furniture and equipment	12.5%	Reducing balance basis
Computers, copiers and faxes	30%	Reducing balance basis

Intangible assets

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 10 years.
The investment in the Nairobi Securities Exchange seat is initially recognised at cost. After initial recognition, the seat is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated impairment losses. The fair value is determined by reference to the latest auction price for a similar seat.

Impairment of tangible and intangible 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). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Offsetting

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

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.
Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation.
Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their 1.

ACCOUNTING POLICIES (Continued)

carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax losses and unused tax credits can be utilised.

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the end of the reporting period. Transactions in foreign currency during the period are translated at the rates of exchange ruling at the dates of the transactions. The resulting gains or losses are dealt with in profit or loss.

Employee entitlements

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

Retirement benefits

The Group's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.
In Kenya the Group operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Sh 200 per employee per month.
In Uganda, the Group contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The institution's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The institution's contributions are charged to profit or loss in the year in which they relate

Financial instruments

Financial assets

Classification

A financial asset or liability is recognised when the Group becomes party to the contractual provisions of the instrument. As at the reporting date, the classification of the Group's financial assets was as follows:

- Fair value through profit or loss:
  - Quoted equity investments
- Loans and receivables:
  - Cash and balances with Central Banks, deposits and balances due from banking institutions,
  loans and receivables to customers, due from related parties and trade and other receivables.
- Held to maturity:
  - Treasury bonds, treasury bills and corporate bonds.
- Available for sale:
  - Treasury bonds designated as available for sale.

Management determines the appropriate classification of its investments at initial recognition.

(i) Financial assets at fair value through profit or loss
This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

(ii) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

1. ACCOUNTING POLICIES (Continued)

(iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixedor determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale.

(iv) Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity are classified as available-for-sale.

Recognition and derecognition of 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. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings through profit or loss. Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment.

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

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

Identified provisions are recognised for loans and receivables that are individually significant. Unidentified provision is measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. This is estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year.

1. ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the profit or loss for the year.

Financial liabilities

After initial recognition, the Group measures all financial liabilities including customer deposits other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Leasing

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

The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The Group as lessee

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

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of

Contingent liabilities

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

Fiduciary activities

Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Group acts in a fiduciary capacity such as nominee, trustee or agent.

Comparatives

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

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Introduction and overview

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

- credit risk
- liquidity risk
- market risk

Risk management framework

The Board Risk and Compliance and the Board Audit Committees are responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. These Committees are assisted in these functions by the Risk and Compliance and Internal Audit units. The units undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk and Compliance and the Board Audit Committees.

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and receivables to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

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

Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head of Credit, Credit Committee or the Board of Directors as appropriate.

Reviewing and assessing credit risk. Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

Limiting concentrations of exposure to counterparties, geographies and industries (for loans and receivables), and by issuer, credit rating band, market liquidity and country (for investment securities).

Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group credit committee.

Reviewing compliance of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit on the credit quality of local portfolios and appropriate corrective action is taken.

Providing advice, guidance and specialist skills to business units to promote best practice throughout the bank in the management of credit risk.

Credit risk on financial assets other than loans

The Group is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Group's management reviews information on significant amounts. The Group's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions, corporate bonds, government securities and balances with Central Bank of Kenya and Bank of Uganda is limited because the counterparties are banks, the governments and corporations with high credit ratings.

The amount that best represents the Group's such exposure to credit risk, at the end of the reporting period is made up as follows:

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES(Continued)

a) Credit risk (Continued)

	2012 Sh'000	2011 Sh' 000
Cash and balances with Central Banks	1,787,780	850,481
Deposits due from banking institutions	1,081,520	502,056
Government securities	5,233,728	2,601,282
Corporate bonds	328,607	375,483
Due from related parties	-	1,611
Loans and receivables	10,133,792	7,073,553
	18,565,427	11,404,466

Classification of loans and receivables

Loans and receivables to customers	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
31 December 2012				
Neither past due nor impaired	9,915,418	-	9,915,418	97.9
Past due but not impaired	202,926	-	202,926	2.0
Impaired	209,903	194,455	15,448	0.1
Total	10,328,247	194,455	10,133,792	100
31 December 2011				
Neither past due nor impaired	6,856,150	-	6,856,150	97
Past due but not impaired	176,909	-	176,909	2
Impaired	208,305	167,811	40,494	1
Total	**7,241,364**	**167,811**	**7,073,553**	**100**

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

a) Credit risk (Continued)

Neither past due nor impaired

The Group classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to be repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank of Kenya Prudential Guidelines and per Bank of Uganda guidelines. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory reserves.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group. These loans are categorised as watch (category 2) in accordance with the Central Bank of Kenya Prudential Guidelines and Bank of Uganda guidelines and per the Bank of Uganda guidelines.

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3, 4 and 5 in accordance with the Central Bank of Kenya Prudential Guidelines and non - perfoming loans per Bank of Uganda guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed. However the amounts involved are insignificant.

Allowances for impairment

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to exposures classified as nonperforming, and a collective loan loss allowance established for Groups of homogeneous assets in respect of losses inherent in the performing portfolio.

Write-off policy

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

Collateral held

The Group holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at 31 December 2012 (2011: Nil).

2. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
a) Credit risk (Continued)

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

Loans and receivables to customers:

	2012 Shs'000	2011 Shs'000
Against individually impaired		
Property	303,213	411,059
Other	-	27,221
Against collectively impaired		
Property	1,775,548	1,622,619
Other	1,199,842	1,096,499
Against past due but not impaired		
Property	626,422	250,998
Other	40,058	25,966
Against neither past due nor impaired		
Property	6,204,766	4,709,691
Other	3,482,569	3,182,613
Total	13,632,418	11,326,666

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

a) Credit risk (Continued)

Concentrations of risk

The Group monitors concentrations of credit risk by sector. Details of significant concentrations of the bank's liabilities and items off the statement of financial position by industry Groups are as detailed below:

(i) Advances to customers

	2012 Sh'000	2012 %	2011 Sh'000	2011 %
Manufacturing	766,588	8	1,142,628	16
Wholesale, retail trade and hotels	4,101,745	40	1,874,159	26
Transport and communications	1,178,663	12	838,329	12
Agriculture	82,529	1	48,966	1
Business service	1,031,788	10	607,137	9
Building, constructions and real estate	2,101,516	20	1,837,248	26
Social, community and personal service	162,788	2	177,731	3
Foreign trade	190,482	2	318,151	4
Individuals, non-profit making	174,571	2		
organisations and others	343,122	3	229,204	3
	10,133,792	100	7,073,553	100

(ii) Customer deposits

	2012 Sh'000	2012 %	2011 Sh'000	2011 %
Non-profit institutions and individuals	7,697,632	49	5,975,910	57
Private enterprises	5,674,380	36	3,474,025	33
Insurance companies	1,291,294	8	751,968	7
Others	865,929	6	240,543	3
	15,529,235	100	10,442,446	100

(iii) Off balance sheet items

	2012 Sh'000	2012 %	2011 Sh'000	2011 %
Manufacturing	139,965	3.56	313,138	10
Wholesale, retail trade and hotels	1,189,780	30.27	876,774	28
Transport and communications	239,335	6.09	290,682	9
Agriculture	2,500	0.06	35,230	2
Business service	333,593	8.49	289,210	9
Building, constructions and real estate	678,501	17.26	421,974	13
Financial service	1,237,294	31.48	761,145	24
Foreign trade	60,836	1.55	96,433	3
Individuals, non-profit making				
organisations and others	48,834	1.24	44,866	2
	3,930,639	100	3,129,452	100

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

b) Liquidity risk

The Group is exposed to the risk that the Group will encounter difficulty in raising funds to meet commitments associated with customer requirements as and when they fall due.

Management of liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2012	2011
At 31 December	42.50%	34.61%
Average for the period	41.64%	43.09%
Maximum for the period	46.90%	49.40%
Minimum for the period	35.40%	34.61%

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

b) Liquidity risk (Continued)

Residual contractual maturities of financial liabilities

The table below analyses the Group's financial assets and financial liabilities into the relevant maturity Groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
At 31 December 2012						
FINANCIAL ASSETS						
Cash and balances with Central Banks	1,612,732	171,171	-	-	-	1,787,903
Deposits and balance due from banking institutions	1,081,774	-	-	-	-	1,081,774
Government securities	248,430	573,234	1,370,620	2,036,864	3,377,312	7,606,460
Corporate bonds	-	-	52,752	272,172	165,510	490,134
Loans and receivables to customers	1,698,895	1,246,343	1,678,857	3,313,084	4,407,405	12,344,584
Total financial assets	4,641,831	1,990,748	3,102,229	5,622,120	7,950,227	23,310,855
Deposits and balance due to banking institutions	42,986	627,310	-	-	-	670,296
Customer deposits	6,814,991	4,096,990	4,351,596	297,876	-	15,561,453
Long term debt	38,995	-	104,028	655,526	94,940	893,489
Total financial liabilities	6,896,972	4,724,300	4,455,624	953,402	94,940	17,125,238
Net liquidity gap	(2,255,141)	(2,733,552)	(1,353,395)	4,668,718	7,855,287	6,185,617
At 31 December 2011						
Total financial assets	2,276,143	1,316,302	3,646,820	3,803,461	3,491,662	14,534,388
Total financial liabilities	3,647,489	4,231,463	2,742,562	169,011	-	10,790,525
Net liquidity gap	(1,371,346)	(2,915,161)	904,258	3,634,450	3,491,662	3,743,863

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

FINANCIAL LIABILITIES

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

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

c) Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with ALCO. The Group's Risk Compliance Department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

i. Interest rate risk

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the Group's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the Group's base lending or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

The table below summarises the exposure to interest rate risk at the end of the reporting period. Included in the table are the Group's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

	Non Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	interest bearing Sh'000	Total Sh'000
At 31 December 2012							
FINANCIAL ASSETS							
Cash and balances with Central Banks	550,434	-	-	-	-	1,237,346	1,787,780
Deposits and balance due from banking institutions	508,619	-	-	-	-	572,901	1,081,520
Government securities	248,430	602,605	1,181,569	1,324,840	1,876,285	-	5,233,729
Corporate bonds			52,757	183,900	91,950	-	328,607
Loans and receivables to customers	1,677,112	1,658,996	1,186,386	2,571,707	3,039,591	-	10,133,792
Total financial assets	2,984,595	2,261,601	2,420,712	4,080,447	5,007,826	1,810,247	18,565,428
FINANCIAL LIABILITIES							
Deposits and balance due to banking institutions	-	652,029	-	-	-		652,029
Customer deposits	4,260,928	7,788,302	3,267,984	212,021	-	-	15,529,235
Long term debt	31,390	-	74,719	538,002	115,808	-	759,919
Total financial liabilities	4,292,318	8,440,331	3,342,703	750,023	115,808	-	16,941,183
Interest sensitivity gap	(1,837,154)	(5,728,336)	(921,991)	3,298,206	4,892,100	1,810,247	1,624,245
At 31 December 2011							
Total financial assets	1,259,258	887,493	1,891,161	2,670,674	3,464,310	1,229,959	11,402,855
Total financial liabilities	2,029,005	4,134,374	2,556,571	154,067	-	1,618,484	10,492,501
Interest sensitivity gap	(769,747)	(3,246,881)	(665,410)	2,516,607	3,464,310	(388,525)	910,354

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

i. Interest rate risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group.

Interest rate risks – Increase / Decrease of 10% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

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

The table below sets out the impact on future net interest income of an incremental 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2012.

	Amount Sh'000 31 December 2012 margin	Scenario 1 10% Increase in net interest margin	Scenario 2 10% Decrease in net interest
Profit before tax	525,539	640,370	465,308
Adjusted Core Capital	1,644,815	1,706,087	1,583,543
Adjusted Total Capital	1,738,837	1,800,109	1,677,565
Risk Weighted Assets (RWA)	12,078,548	12,078,548	12,078,548
Adjusted Core Capital to RWA	13.62%	14.12%	13.11%
Adjusted total Capital to RWA	14.40%	14.90%	13.89%

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2012 by Sh 75 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 14.12% and 14.90% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 13.11% and 13.89% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

i2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

i. Foreign exchange risk

The Group operates in Kenya and Uganda and its assets and liabilities are carried in Kenya shilling and Uganda shilling. The Group maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The Group's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management. The table below summarises the Group's exposure to foreign exchange rate risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts categorised by currency.

Concentrations of currency risk on financial instruments on and off the statement of financial position:

At 31 December 2012

	KES Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
FINANCIAL ASSETS						
Cash and balance with Central Bank	1,529,025	168,162	24,921	32,836	32,836	1,787,780
Government securities	5,182,313	-	-	-	51,420	5,233,733
Deposit and balances due from banking institution	71,558	565,706	264,081	23,254	156,921	1,081,520
Loans and receivables to customers	7,066,045	2,722,453	1	4,803	340,490	10,133,792
Corporate bonds	328,607	-	-	-	-	328,607
Total financial assets	14,177,548	3,456,321	289,003	60,893	581,667	18,565,432
FINANCIAL LIABILITIES						
Customer deposits	13,234,541	1,828,301	174,597	164,069	127,727	15,529,235
Deposit due to banking institutions	100,674	551,351	-	-	-	652,025
Long term debt financing	636,598	123,321	-	-	-	759,919
Total financial liabilities	13,971,813	2,502,973	174,597	164,069	127,727	16,941,179
Net on statement of financial position	205,735	953,348	114,406	(103,176)	453,940	1,624,253
Off balance sheet position	1,484,429	1,327,497	2,404	132,567	-	2,946,897
At 31 December 2011						
Total financial assets	9,600,149	1,551,260	130,641	108,979	11,826	11,402,855
Total financial liabilities	8,972,006	1,232,516	130,593	157,364	22	10,492,501
Net on statement of financial position	628,143	318,744	48	(48,385)	11,804	910,354
Off balance sheet position	1,456,924	887,969	3,293	33,839	4,165	2,386,190

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

ii. Foreign exchange risk (Continued)

Foreign exchange risk – Appreciation/Depreciation of Sh against other currencies by 10%

The Foreign Exchange risks sensitivity analysis is based on the following assumptions;

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- The Currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The Base currency in which the Group's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2012.

Assuming no management actions, a series of such rises and falls would impact the future earnings and capital as illustrated in the table below;

	31 December 2012 Amount	Scenario 1 10% appreciation	Scenario 2 10% depreciation
	Sh' 000	Sh' 000	Sh' 000
Profit before tax	525,539	602,272	503,406
Adjusted Core Capital	1,644,815	1,679,418	1,610,212
Adjusted Total Capital	1,738,837	1,773,440	1,704,234
Risk Weighted Assets (RWA)	12,078,548	12,078,548	12,078,548
Adjusted Core Capital to RWA	13.62%	13.90%	13.33%
Adjusted total Capital to RWA	14.40%	14.68%	14.11%

Assuming no management actions, a series of such appreciation would increase earnings for 2012 by Sh 25 million, while a series of such falls would decrease net interest income for 2012 by Sh 25 million.
Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 17.24% and 17.68% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 16.84% and 17.28% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8.00% and 12.00% respectively.

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

iii. Price risk

The Group is exposed to equity securities price risk as a result of its holdings. Equity investments held are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risk in aggregate is monitored in order to ensure compliance

with the relevant regulatory limits for solvency purposes.
The Group has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group�s price risk arising from its investments in equity securities.
If equity market indices had increased/decreased by 10%, with all other variables held constant, and all the Group�s equity investments moving according to the historical correlation with the index, the profit before tax for the year would increase/decrease by Sh Nil (2011: Sh Nil).

iv. Fair value of financial assets and liabilities
Financial instruments measured at fair value

Determination of fair value and fair values hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The bank considers relevant and observable market prices in its valuations where possible.

2. FINANCIAL RISK MANAGEMENT OBJECTIVE AND POLICIES (Continued)

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

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 31 December 2012				
Treasury bonds	1,609,883	-	-	1,609,883
Investment in NSE	-	-	223,700	223,700
Total financial liabilities	-	-	-	-
Net position	1,609,883	-	223,700	1,833,583
At 31 December 2011				
Treasury bonds	900,237	-	-	900,237
Total financial liabilities	-	-	-	-
Net position	900,237	-	-	900,237

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by our regulators within the markets that the Group operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Group may incur in adverse market scenarios during the course of its business

The Group's objective when managing capital is broadly covered as follows:

Banking

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the Central Bank of Kenya (CBK) and the Bank of Uganda (BOU).

3. CAPITAL MANAGEMENT

Both CBK and BOU largely segregate the total regulatory capital into two tiers;

- Tier 1 Capital (Core Capital), means permanent shareholders equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets. It includes ordinary share capital, share premium and retained earnings.
- Tier 2 Capital (Supplementary Capital) includes among others, property revaluation reserves (up to a certain level subject to regulatory approval) and collective impairment allowances.

Kenya

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

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

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

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

- A minimum level of regulatory capital of Shs 1 billion (2011: Shs 700 million).
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 8%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 12% of risk-weighted assets plus risk-weighted off-statement of financial position items.
-

Regulatory capital (Continued)

The Central Bank of Kenya amended the Banking Act in 2011 to require banks to increase their core capital as follows:
The bank has complied with all externally imposed capital requirements throughout the period.
There have been no material changes in the bank's management of capital during the period.

3. CAPITAL MANAGEMENT (Continued)

The bank's regulatory capital position at 31 December was as follows:

As per Central Bank of Kenya:

	2012 Shs'000	2011 Shs'000
Tier 1 capital		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	972,506	658,865
Investment in associate	-	(177,482)
Investment in subsidiary	(377,691)	-
Total	1,644,815	1,531,383
Tier 2 capital		
Collective allowances for impairment	94,022	67,780
Total regulatory capital	1,738,837	1,599,163
	=========	=========
Risk-weighted assets (page 70)		
On balance sheet items	11,080,196	8,037,877
Off balance sheet items	998,354	1,048,051
Retail bank, corporate bank and central treasury	12,078,550	9,085,928
	=========	=========
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	14.40%	17.60%
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 8 %)	13.62%	16.85%
	=========	=========

Uganda

The bank monitors the adequacy of its capital using ratios established by the Bank of Uganda, which are in line with those established by the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the bank's eligible capital with its balance sheet assets, off-balance sheet commitments, market and other risk positions at a weighted amount to reflect their relative risk.

The market risk approach covers the general market risk and the risk of open positions in currencies, debt and equity securities. 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%, 70% and 100%) are applied; for example cash and money instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to at least 12% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet related commitments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital (core capital) consists of shareholders, equity. Tier 2 capital includes the bank's general provisions.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of the credit risk associated with each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

The Bank of Uganda requires each bank to: (a) hold the minimum level of regulatory capital of Ushs 10 billion (Kshs 319,898,000) as at 31 December 2012; (b) maintain core capital of not less than 8% of risk weighted assets and off balance sheet items; and (c) maintain total capital of not less than 12% of risk weighted assets plus risk-weighted off balance sheet items.

3. CAPITAL MANAGEMENT (Continued)

As per Bank of Uganda:

Tier 1 capital	2012
	Shs'000
Share capital fully paid up	585,413
Prior year retained earnings/(accumulated losses)	(14,281)
Net after tax profits (50%)	37,430
Movement in general reserves	(8,714)
Unrealised foreign exchange gains	(6,455)
Intangible assets	(298)
	593,095
	========
Supplementary Capital Tier 2	
Regulatory reserve	11,286
Total Supplementary Capital Tier 2	11,286
	========
On balance sheet items	987,565
Off balance sheet items	2,834
	990,399
	========
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	126.57%
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	128.98%

3. CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The risk weighted assets are as follows:

ON - BALANCE SHEET ASSETS	2012 AMOUNT	2012 WEIGHT	2012 RISK WEIGHTED	2011 AMOUNT	2011 WEIGHT	2011 RISK WEIGHTED
	(Shs. `000)		(Shs.`000')	(Shs. `000)		(Shs.`000')
Cash (including foreign notes and coins)	171,683	0	-	167,704	0	-
Balances with Central Bank of Kenya	1,572,266	0	-	682,773	0	-
Treasury bills	1,101,768	0	-	-	0	-
Kenya treasury bonds	4,080,545	0	-	2,601,282	0	-
Deposits and balances due from local institutions	86,167	0.2	17,233	89,542	0.2	17,908
Deposits and balances due from foreign institutions	458,064	0.2	91,613	405,080	0.2	81,016
Lending fully secured by cash	299,949	0	0	283,642	0	-
Loans and receivables Secured by residential property	657,979	0.5	328,990	675,839	0.5	337,920
Other Loans and receivables (net of provisions)	9,160,337	1.0	9,160,337	6,114,072	1.0	6,114,072
Investment in subsidiaries	612,519	1.0	612,519	217,850	1.0	217,850
Investment in associate	0	1.0	0	177,482	1.0	177,482
Fixed Assets (net of depreciation)	527,988	1.0	527,988	428,313	1.0	428,313
Amounts due from Group companies	10,979	1.0	10,979	8,390	1.0	8,390
Other assets	330,537	1.0	330,537	237,652	1.0	237,652
TOTAL	19,070,781		11,080,196	12,089,621		7,620,603
OFF BALANCE SHEET ASSETS						
Local bank	14,196	0.2	2,839	9,323	0.2	1,865
Foreign banks and foreign government	5,047	0.2	1,009	1,343	0.2	267
Others	994,505	1.0	994,505	1,045,919	1.0	1,045,919
TOTAL	1,013,748		998,354	1,056,585		1,048,051

3. CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Risk and Compliance and Credit, and is subject to review by the Credit Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Brokerage

Stock brokerage entities in Kenya are governed by the Capital Markets Act and as such are subject to solvency regulations which specify the minimum amount and type of capital that must be held. The company manages capital in accordance with these rules. The Capital Markets (Licensing Requirements) (General) Regulations, 2002 contains the following regulations relevant to ABC Capital Limited:

- The level of paid-up share capital for a stockbroker shall not be financial below Shs 50,000,000 at any time during the license period. The company maintained capital well above the minimum requirement.
- The minimum paid up share capital shall always be unimpaired and shall not be advanced to the directors or
- associates of the stockbroker. No such advances were issued and neither did the share capital suffer any impairment.
- The working capital shall not be below twenty percent of the prescribed minimum shareholders' funds or three times the average monthly operating costs whichever is higher. This was fully complied with in the period.
- Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed ten percent of the prescribed minimum shareholders funds at any time provided that such loans are with respect to any amount in excess of the minimum paid up capital. No such advances were issued.
- The ratio of the stockbroker's bank overdraft to the paid-up capital shall not exceed twenty percent at any time. The company does not have any bank overdrafts.

3. CAPITAL MANAGEMENT (Continued)

	2012	2011
	Sh' 000	Sh' 000
Minimum prescribed capital	50,000	50,000
Shareholders' funds		
Share capital	106,978	90,000
Share premium	100	100
Revaluation reserve	201,000	201,000
Capital reserve	15,000	15,000
Accumulated deficit	(37,859)	(14,260)
	285,219	291,840
Working capital		
Current assets	70,592	53,242
Current liabilities	45,348	(28,142)
	115,940	25,100
Total expenses	22,041	25,949
Average monthly expenses	1,837	2,162
20% of minimum shareholders' funds	10,000	10,000

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY.

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

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

Impairment losses on loans and receivables

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

Held -to-maturity investments

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

(ii) Key sources of estimation uncertainty

Property, plant and equipment

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

	2012 Shs'000	2011 Shs'000
5. INTEREST INCOME		
Loans and advances to customers	1,739,704	949,467
Government securities – held to maturity	192,252	136,366
Government securities – available for sale	230,014	129,515
Corporate bonds – held to maturity	43,629	45,975
Deposits and placements with banking institutions	59,455	5,691
	2,265,054	1,267,014
6. INTEREST EXPENSE		
Customer deposits	1,330,726	498,809
Deposits and placements from banking institutions	7,668	14,485
Interest on long term loan	16,070	-
	1,354,464	513,294
7 . OTHER OPERATING INCOME		
Gain on disposal of government securities	63,423	32,418
Realised gain/(loss) on sale of available for sale Investments (note 15)	19,502	(17,697)
Cumulative gain reclassified from equity on disposal of available for sale investments (note 16)	(9,236)	30,088
Rental income	973	551
Dividend income	315	371
Brokerage commission	-	10,095
Gain on disposal of property and equipment	-	2,097
Miscellaneous income	1,340	30,128
Fair value loss on investment in NSE shares (note 21 (c))	(27,300)	-
	49,017	88,051

	2012 Shs'000	2011 Shs'000
8. OPERATING EXPENSES		
Staff costs (note 9)	466,037	350,765
Depreciation of property and equipment (note 20)	37,176	26,608
Amortisation of intangible assets (note 21)	9,211	6,681
Auditors' remuneration - parent	2,756	2,756
- subsidiaries	982	281
Contribution to deposit protection fund	14,508	11,417
Directors' emoluments - fees	4,210	3,980
- other	20,262	19,200
Operating lease rentals	63,587	42,732
Advertising costs	14,125	31,951
Communication	40,772	28,372
Printing and stationery	15,054	10,416
Computer and software maintenance	17,812	10,246
Travelling and vehicle running expenses	37,144	18,500
Legal and professional fees	13,848	7,095
Security	19,235	20,755
Insurance	9,550	8,438
Bank charges	12,102	9,859
Office expenses	30,282	28,140
Other expenses	15,364	75,822
	844,017	714,014
	=========	=========
9. STAFF COSTS		
Salaries and allowances	384,892	293,509
Staff training	3,491	6,067
NSSF contribution	568	486
Pension contribution – defined contribution	8,618	6,746
Leave pay provision	3,809	7,473
Medical expense	13,873	10,372
Other	50,786	26,112
	466,037	350,765
	=========	=========
10. TAXATION		
(a) Taxation expense:		
Income tax based on taxable profit for the year at 30%	147,363	145,693
Deferred tax charge/ (credit) (note 28)	3,889	(7,931)
Prior year under /(over)provision – deferred tax	(6,356)	(647)
Income charge based on separate income assessment	-	331
Prior year under provision- current	-	593
	144,896	138,039
	=========	=========

10. TAXATION(Continued)

	2012 Shs'000	2011 Shs'000
(b) Reconciliation of tax expense to the expected tax		
based on accounting profit:		
Accounting profit before taxation	552,839	508,005
	=========	=========
Tax at 30%	165,852	152,402
Tax effect of expenses not deductible for tax	5,122	2,101
Tax effect of income not subject to tax	(26,078)	(16,410)
Prior year (under provision)/overprovision – deferred	-	(647)
Prior year under provision - current	-	593
	144,896	138,039
	=========	=========

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Shooo
(c) Taxation (recoverable)/payable				
At 1 January	(18,562)	32,576	(16,880)	33,197
Current tax charge for the year	147,363	146,024	130,402	145,693
Paid in the year	(150,653)	(197,755)	(140,327)	(195,770)
Prior year under provision - current	-	593	-	-
At 31 December	(21,852)	(18,562)	(26,805)	(16,880)
	========	========	========	========

10. TAXATION (Continued)

(c) Taxation (recoverable)/ payable (continued)

	GROUP		BANK	
	2012	2011	2012	2011
	Sh'000	Sh'000	Sh'000	Sh'000
Comprising:				
Income tax recoverable	(28,665)	(18,562)	(26,805)	(16,880)
Income tax payable	7,083	-	-	-
At 31 December	(21,852)	(18,562)	(26,805)	(16,880)
	=========	=========	=========	=========

These balances receivable and payable have not been offset in the statement of financial position as the Group does not have a legal right of offset.

11. PROFIT FOR THE YEAR

A profit after taxation of Sh 380,643 ,000 (2011: Sh 369,966,000) has been dealt with in the separate financial statements of the parent company, African Banking Corporation Limited.

12. DIVIDENDS

An interim and final dividend of Sh 0.80 per share (2011 – Sh 0.80) on 105,000,000 shares, (2011 – 105,000,000 shares) was paid during the year amounting to Sh 84,000,000 (2011 – Sh 84,000,000).

13. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to shareholders by the number of ordinary shares in issue during the year.

	GROUP	BANK
	2012	2011
Earnings		
Earnings for purposes of basic and diluted		
earnings per share (Sh'000)	380,643	369,966
	=========	=========
Number of shares		
Weighted average number of ordinary shares (thousands)	105,000	105,000
	=========	=========
Earnings per share		
Basic and diluted (Sh)	3.63	3.53
	=========	=========

The diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive shares as at 31 December 2012 or 31 December 2011.

14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Cash in hand	192,060	167,708	171,683	167,704
Balances with Central Bank of Kenya				
- Cash reserve ratio requirement	778,080	497,569	1,028,340	497,569
- Other – available for use by the bank	817,640	185,204	543,926	185,204
	1,787,780	850,481	1,743,949	850,477
	=========	=========	=========	=========

14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA (Continued)

The cash reserve ratio requirement is non interest bearing and is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya and Bank of Uganda requirements. As at 31 December 2012 the cash reserve ratio requirement was 5.25% (2011: 4.5%) of all customer deposits. These funds are not available for the day to day operations of the Group.

15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Deposits with banking institutions	507,392	129,059	86,166	129,059
Balances with banking institutions	574,128	373,001	458,064	365,563
	1,081,520	502,060	544,230	494,622

The weighted average effective interest rate at 31 December 2012 for deposits due from banking institutions in Kenya was 9.48 % (2011 – 3.5%) and 2.17 % for deposits due from banking institutions outside Kenya (2011 – 0.1%).

16. GOVERNMENT SECURITIES

(i) HELD TO MATURITY

	2012 Sh'000	2011 Sh'000
(a) Treasure bills at amortised cost - GROUP AND BANK		
Maturing within 90 days of the end of the reporting period		
Face value	1,140,000	-
Less: unearned discount	(38,232)	-
	1,101,768	-

16. GOVERNMENT SECURITIES

(b) Treasury bonds at amortised cost

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Maturing within 1 year	216,356	-	164,936	-
Maturing after 1 year but within 5 years	740,802	595,201	740,802	595,201
Maturing after 5 years	1,564,924	1,105,844	1,564,924	1,105,844
	2,522,082	1,701,045	2,470,662	1,701,045

Treasury bonds available for sale

	2012 Sh'000	2011 Sh'000
At 1 January 2012	900,237	1,603,483
Purchases	1,121,833	-
Disposals	(481,826)	(515,458)
Fair value gain/(loss)	69,639	(187,788)
At 31 December 2012	1,609,883	900,237

16.

(ii) AVAILABLE FOR SALE – GROUP AND BANK

The movement of the disposal during the year was as follows:

	2012	2011
Cost	165,829	485,370
Proceeds	176,095	497,761
Gain on disposal of available for sale treasury bonds	10,266	12,391
Cumulative gain reclassified from fair value reserve on disposal (now realised)	(9,236)	(30,088)
Profit/(loss) during the year (note 7)	19,502	(17,697)

GOVERNMENT SECURITIES (Continued)

The total investment in government securities at the end of the reporting period was as follows:

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
Treasury bills at amortised cost	1,101,768	-	1,101,768	-
Treasury bonds at amortised cost	1,609,883	1,701,045	2,470,662	1,701,045
Treasury bonds available for sale	2,522,077	900,237	1,609,883	900,237
	5,233,728	2,601,282	5,182,313	2,601,282

Treasury bonds of an equivalence of Kshs 80,000,000 has been issued as lien for financial guarantee of a similar amount from Citibank. A guarantee has been issued on behalf of the group to Standard chartered bank for Kshs 80,000,000 expiring on 30 June 2013.
Treasury bills and bonds are debt securities issued by the Governments of Kenya and Uganda and are classified as held to maturity and available for sale. The weighted average effective interest rate on treasury bills at 31 December 2012 was 5.43% (2011 – 6.90%) and the rate for the treasury bonds was 9.3% (2011 – 9.58%).

17. CORPORATE BONDS – HELD TO MATURITY

GROUP AND BANK

	2012 Sh'000	2011 Sh'000
Maturing after 1 year but within 5 years	-	237,559
Maturing after 5 years – At amortised cost	328,607	137,924
	328,607	375,483

The weighted average effective interest rate on the corporate bond as at 31 December 2012 was 13.6% (2011 – 12.5%).

18. LOANS AND RECEIVABLES

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
(a) Loans and receivables	6,955,837	4,537,180	6,694,880	4,537,180
Bills discounted	234,194	326,507	235,054	326,507
Overdrafts	3,138,216	2,377,677	3,048,962	2,377,677
	10,328,247	7,241,364	9,978,896	7,241,364
Provision for impaired loans and receivables (note 18(d))	(194,455)	(167,811)	(189,238)	(167,811)
	10,133,792	7,073,553	9,789,658	7,073,553

(b) The weighted average effective interest rate on loans and receivables to customers as at 31 December 2012 was 27.74% (2011 – 17.8%). The weighted average effective interest rate on overdrafts as at 31 December 2012 was 27.31% (2011 – 18.35%). The weighted average effective interest rate on bills discounted at 31 December 2012 was 28.39% (2011 – 17.10%).

The interest rate on loans and receivables to customers are either pegged to the bank's base lending rate or the treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. Included in net advances of Sh 10,133,869,000 (2011 – Sh 7,073,553,000) are loans and receivables amounting to Sh 208,761,349 (2011 – Sh 40,494,000) net of specific provisions, which have been classified as non-performing.

18. LOANS AND RECEIVABLES TO CUSTOMERS –GROUP AND BANK (Continued)

GROUP AND BANK

(c) Analysis of gross advances by maturity:

	2012 Shs'000	2011 Shs'000
Maturing within one month	2,400,516	1,044,439
Maturing within 90 days	1,750,763	879,810
Maturing after 90 days and within one year	1,538,912	1,682,425
Maturing after one to five years	2,678,230	1,914,393
Over five years	1,959,826	1,720,297
	10,328,247	7,241,364

The related party transactions and balances are covered under note 35 and concentrations of advances to customers are covered under Financial Risk Management Objectives and Policies in note 2.

(d) Provisions for impaired loans and receivables:

	2012 Sh'000	2011 Sh'000
At 1 January	167,811	204,913
Provisions in the year	31,113	11,603
Written off	(4,469)	(48,705)
At 31 December	194,455	167,811

19. (a) OTHER ASSETS

	GROUP		BANK	
	2012	2011	2012	2011
	Sh'000	Sh'000	Sh'000	Sh'000
Prepayments	55,784	38,731	46,753	38,126
ATM deposits	3,914	3,728	3,914	3,728
Trade receivables	24,215	7,277		-
Other	250,087	206,281	244,213	195,798
	334,000	256,017	294,880	237,652
(b) DUE FROM RELATED PARTIES				
ABC Capital Kenya Limited	-	-	7,382	6,779
ABC Capital Bank Uganda Limited	-	1,611	3,597	1,611
	-	1,611	10,979	8,390
(c) DUE TO RELATED PARTIES				
ABC Capital Kenya Limited	-	-	32,190	28,833
ABC Capital Bank Uganda Limited	-	1,611	-	-
	-	1,611	32,190	28,833

20. (a) PROPERTY AND EQUIPMENT - GROUP

	Buildings	Office renovations	Computers, copiers and faxes	Motor vehicles	Furniture and equipment	Capital work in progress	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
COST							
At 1 January 2011	223,600	20,732	112,337	8,567	153,755	62,073	581,064
Additions	-	-	10,449	7,750	6,146	55,004	79,349
Transfers	-	-	-	-	4,473	(6,449)	(1,976)*
Disposals	-	-	-	(4,712)	(191)	-	(4,903)
At 31 December 2011	223,600	20,732	122,786	11,605	164,183	110,628	653,534
At 1 January 2012	223,600	20,732	122,786	11,605	164,183	110,628	653,534
Additions	-	-	7,610		13,122	87,647	108,379
Transfers	-	-	73,273	-	17,150	(90,423)	-
Transfer to intangible assets (note 21 (a))	-	-	-	-	-	(35,311)	(35,311)
On acquisition of subsidiary	7,769	-	14,240	4,157	16,404	-	42,570
Translation adjustment	(256)	-	(633)	(95)	(910)	-	(1,894)
At 31 December 2012	231,114	20,732	217,276	15,667	209,949	72,541	767,279

20. (a) PROPERTY AND EQUIPMENT - GROUP

	Buildings	Office renovations	Computers, copiers and faxes	Motor vehicles	Furniture and equipment	Capital work in progress	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
COST							
DEPRECIATION							
At 1 January 2011	5,848	15,708	82,816	5,409	91,942	-	201,723
Charge for the year	4,472	593	9,156	1,949	10,438	-	26,608
Eliminated on disposal	-	-	-	(4,712)	(159)	-	(4,871)
At 31 December 2011	10,320	16,301	91,972	2,646	102,221	-	223,460
At 1 January 2012	10,320	16,301	91,972	2,646	102,221	-	223,460
On acquisition of subsidiary	3,579	-	12,300	1,089	13,099	-	30,068
Charge for the year	4,583	515	13,467	2,209	11,803	-	32,576
Translation adjustment	(2)	-	(14)	(1)	(9)	-	(26)
At 31 December 2012	18,480	16,816	117,725	5,943	127,114	-	286,078
NET BOOK VALUE							
At 31 December 2012	210,606	3,916	99,550	7,697	86,890	72,541	481,200
At 31 December 2011	213,280	4,431	30,812	8,959	61,962	110,630	430,074

The work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of the head office building in Westlands.

* This represent transfers to intangible asset for computer software to be used in the operations for the bank.

20. (b) PROPERTY AND EQUIPMENT – BANK

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST							
At 1 January 2011	223,601	20,732	108,791	8,567	151,563	62,073	575,327
Additions	-	-	10,449	7,750	6,129	55,004	79,332
Transfers	-	-	-	-	4,473	(6,449)	(1,976)*
Disposals	-	-	-	(4,712)	(191)	-	(4,903)
At 31 December 2011	223,601	20,732	119,240	11,605	161,974	110,628	647,780
At 1 January 2012	223,601	20,732	119,240	11,605	161,974	110,628	647,780
Additions -	-	7,603	-	13,097	87,647	108,347	
Transfers -	-	73,273	17,150		(90,423)	-	
Transfers to intangible assets (note 21(b))	-	-	-	-	-	(35,311)	(35,311)
At 31 December 2012	223,601	20,732	200,116	11,605	192,221	72,541	720,816

20. (b) PROPERTY AND EQUIPMENT – BANK

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST							
DEPRECIATION							
At 1 January 2011	5,848	15,708	80,387	5,409	90,781	-	198,133
Charge for the year	4,472	593	8,864	1,949	10,313	-	26,191
Eliminated on disposals	-	-	-	(4,712)	(159)	-	(4,871)
At 31 December 2011	10,320	16,301	89,251	2,646	100,935	-	219,453
At 1 January 2012	10,320	16,301	89,251	2,646	100,935	-	219,453
Charge for the year	4,472	515	12,574	2,160	11,267		30,987
At 31 December 2012	14,792	16,816	101,825	4,806	112,202	-	250,440
NET BOOK VALUE							
At 31 December 2012	208,809	3,916	98,291	6,799	80,019	72,541	470,376
At 31 December 2011	213,280	4,431	29,989	8,953	61,032	110,628	428,313

The work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of the head office building in Westlands.

* This represent transfers to intangible asset for computer software to be used in the operations for the bank.

21. (a) INTANGIBLE ASSETS – GROUP

	NSE seat costs Sh'000	Software development Sh'000	Total Sh'000
COST			
At 1 January 2011	251,000	58,747	309,747
Additions	-	7,036	7,036
Transfers (note 20 (a))	-	1,976	1,976
At 31 December 2011	251,000	67,759	318,759
At 1 January 2012	251,000	67,759	318,759
Additions	-	7,533	7,533
Acquisition	-	5,324	5,324
Translation adjustment	-	(327)	(327)
Transfers	-	35,311	35,311
Transfer to investment (note 20(c))	(251,000)	-	(251,000)
At 31 December 2012	-	115,600	115,600

21. (a) INTANGIBLE ASSETS – GROUP

	NSE seat costs Sh'000	Software development Sh'000	Total Sh'000
COST			
AMORTISATION/IMPAIRMENT			
At 1 January 2011	-	34,179	34,179
Charge for the year	-	6,681	6,681
At 31 December 2011	-	40,860	40,860
At 1 January 2012	-	40,860	40,860
Acquisition	-	6,469	6,469
Charge for the year	-	9,149	9,149
Translation adjustment	-	(299)	(299)
At 31 December 2012	-	56,179	56,179
NET BOOK VALUE			
At 31 December 2012	-	59,421	59,421
At 31 December 2011	251,000	26,899	277,899

The Nairobi Securities Exchange (NSE) seat shown in 2011refers to the license held by the Group through ABC Capital Limited. This was based on the last auction price of a similar seat on 31 August 2007. As indicated under note 22 (c), the Group now own shares in NSE.

21. (b) INTANGIBLE ASSETS - BANK

	2012	2011
	Sh'000	Sh'000
COST		
At 1 January	63,661	56,648
Additions	5,300	5,037
Transfers from capital work in progress (note 20(b))	35,311	1,976
At 31 December	104,272	63,661
AMORTISATION		
At 1 January	38,750	32,747
Charge for the year	7,911	6,003
At 31 December	46,661	38,750
NET BOOK VALUE		
At 31 December	57,611	24,911

21. (b) INTANGIBLE ASSETS - BANK

	2012 Sh'000	2011 Sh'000
COST		

(c) INVESTMENT IN NAIROBI SECURITIES EXCHANGE LIMITED - GROUP

	2012	2011
	Sh'000	**Sh'000**
COST		
At 1 January	-	-
Transfers from intangible assets	251,000	-
	251,000	-
	=========	=========
VALUATION		
At 31 December	223,700	-
	=========	=========

Previously, the Nairobi Securities Exchange (NSE) was a company limited by guarantee and the licensed stock brokers were members of the NSE with a seat on the NSE. In 2012, the NSE became a company limited by shares and issued 1,000,000 shares each to its members. Consequently, there are no seats on the NSE and instead the group has shares in the NSE

The shares are shown at fair value using the discounted cash flow basis which has resulted in a fair value loss of Ksh 27,300,000 from previous valuation of the seat.

22. INVESTMENT IN ASSOCIATE

As of 31 December 2011, the Group owned 40% of the shareholding of ABC Capital Bank Uganda Limited, a company incorporated in Uganda whose principal activity is the provision of banking services within Uganda. The results of this associate were being accounted for using the equity method of accounting in the consolidated financial statements in the current period as this is when significant influence was obtained.

In 2012, the bank acquired additional of 19.67% shares which resulted to a control having 59.67% shareholding therefore the associate became a subsidiary as detailed under note 24.

BANK

	2012	2011
	Sh'000	Sh'000
At 1 January	177,482	3,566
Additional investments	-	83,916
Transfer through acquisition of control	(177,482)	-
	___________	___________
	-	177,482
	===========	===========

GROUP

The movement in the carrying value in the consolidated statement of financial position is as follows:

	Sh'000	Sh'000
At 1 January	174,058	83,898
Additional investment	-	83,916
Share of results of associate for the year	-	6,244
Disposal through acquisition of control in associate	(174,058)	-
	___________	___________
At 31 December	-	174,058
	===========	===========

23. INVESTMENT IN SUBSIDIARIES

	ABC Capital Uganda Limited		ABC Capital Limited	
	2012	2011	2012	2011
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	-	-	217,850	217,850
Additional investment	-	-	16,978	-
Investment previously held in associate	172,563	-	-	-
Acquisition of control in associate through business combination (Note 24(a))	205,128	-	-	-
At 31 December	377,691	-	234,828	217,850

Total investment is made up as follows:

	2012	2011
	Sh'000	Sh'000
ABC Capital Uganda Limited	377,691	-
ABC Capital Limited	234,828	217,850
	612,519	217,850

Details of the subsidiary companies are as follows:

Company	% holding	Country of incorporation	Principal activity
ABC Capital Limited	91.03	Kenya	Provision of stock brokerage.
ABC Capital Bank Limited	59.67	Uganda	Provision of banking and related services

24. (a) BUSINESS COMBINATION

During the year, the bank acquired a control in its associate ABC Capital Uganda Limited whose principal activity is the provision of banking services within Uganda. The control was acquired through the purchase of additional 19.67 % equity and effectively acquired control of the company. Prior to this acquisition the bank had a 40% shareholding in the associate making total equity interest of 59.67%. This acquisition has been accounted for as a step acquisition under IFRS 3 on business combinations.

Goodwill arising on acquisition:	**2012**
	Sh'000
Total purchase consideration	205,128
Fair value of previously held interest in ABC Capital Uganda Limited	172,563
Fair value of controlling interest in ABC Capital Uganda Limited at acquisition	(377,031)
	___________
Goodwill	660
	===========
Purchase consideration settled in cash (note 23 (a))	205,128
Less: cash and cash equivalents acquired from subsidiary	624,553
	___________
Cash inflow on acquisition, net of cash acquired	(419,425)
	===========

(b) GOODWILL

	2012	**2011**
	Sh'000	**Sh'000**
At cost	660	-
	===========	===========

The directors assessed the recoverable amount of goodwill and have determined that the goodwill is not impaired.

The goodwill arising on this acquisition is not expected to be deductible for tax purposes.

25. DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS – GROUP AND BANK

The weighted average effective interest rate at 31 December 2012 for balances due to banking institutions locally was 10.5% (2011: 3%) while that due to banking institutions abroad was 2.2% (2011: 2.2%).

	GROUP		BANK	
	2012 Shs'000	2011 Shs'000	2012 Shs,,000	2011 Shs'000
Amounts due to banks:				
In Kshs	100,674	55,055	100,674	55,055
In foreign currency	551,351	-	508,365	-
	652,025	55,055	609,039	55,055

26. CUSTOMER DEPOSITS

	GROUP 2012 Shs'000	GROUP 2011 Shs'000	BANK 2012 Shs,,000	BANK 2011 Shs'000
Current accounts	3,008,556	2,394,185	2,986,481	2,394,185
Savings accounts	903,726	850,683	875,571	850,683
Call deposits	246,008	273,340	216,410	273,340
Fixed deposits	10,859,022	6,707,472	10,711,169	6,707,472
Other	233,178	83,201	155,599	83,201
	15,250,490	10,308,881	14,945,230	10,308,881
Accrued interest	278,745	133,565	277,986	133,565
	15,529,235	10,442,446	15,223,216	10,442,446
Analysis of customer deposits by maturity:				
Payable up to one month	5,360,937	3,597,434	5,255,504	3,597,434
Payable within 90 days	6,161,092	4,134,374	6,039,921	4,134,374
Payable after 90 days and within one year	3,809,831	2,556,571	3,734,904	2,556,571
Payable after one to five years	197,375	154,067	192,887	154,067
	15,529,235	10,442,446	15,223,216	10,442,446

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2012 denominated in local and foreign currencies was 12.34% and 1.51% (2011 – 6.31% and 1.13%) respectively. The related party transactions and balances are covered under note 35 and concentrations of customer deposits are covered under Financial Risk Management Objectives and Policies in note 2.

	GROUP		BANK	
	2012	2011	2012	2011
	Sh'ooo	Sh'ooo	Sh'ooo	Sh'ooo
27. OTHER LIABILITIES				
Bills payable	9,302	388	9,302	388
Provision for leave pay	15,591	14,464	15,591	14,191
Trade payables	59,054	39,310	17,167	20,931
Other payables and accruals	301,484	246,769	292,746	244,850
	385,431	300,931	334,806	280,360

28. DEFERRED TAX LIABILITY-GROUP AND BANK

The deferred tax (asset)/liability is attributable to the following items:

	GROUP 2012	GROUP 2011	BANK 2012	BANK 2011
(a) Deferred tax asset:				
Leave pay provision	4,677	4,339	4,677	4,257
Tax losses	-	7,448	-	-
Other provision	16,084	1,455	20,486	1,456
	20,761	13,242	25,163	5,713
(b) Deferred tax liability:				
Excess capital allowances over depreciation	(15,999)	(8,235)	(16,311)	(8,827)
Net deferred asset/(liability)	4,762	5,007	8,852	(3,114)
(c)Movement in deferred tax liability is as follows:				
At 1 January	5,007	(3,571)	(3,114)	(6,733)
Credit to profit or loss (note 9)	(685)	7,931	9,634	3,568
Prior year under/(overprovision)	440	647	2,332	51
At 31 December	4,762	5,007	8,852	(3,114)

29. LONG TERM LOAN

	2012 Sh'000	2011 Sh'000
At 1 January	-	-
Received during the year	759,919	
At 31 December	759,919	-

The bank entered into a loan agreement with European Investment Bank (EIB) where the bank lends to specific sectors of the economy as specified in the agreement with EIB. The bank on periodic intervals sends a claim to EIB to be reimbursed and this forms part of the loan due to EIB. The loan disbursement is received in foreign currency but the agreement provides for repayment in both foreign currency and local currency. As at the year end, the balance outstanding for both Kenya Shillings and US Dollar were Sh 621,948,800 and US$ 1,415,805 respectively.

The interests rates for the Kenya Shilling and foreign currency are predetermined based on certain economic indicators. The average interest rates for the Kenya shilling was 10.61% while for the US$ was 4.6%. The loan is repayable in semi annual instalments for both principal and interest with the first instalment due in January 2013.

30. SHARE CAPITAL - GROUP AND BANK

	2012 Sh'000	2011 Sh'000
Authorised:		
110,000,000 ordinary shares of Sh 10 each	1,100,000	1,100,000
Issued and fully paid		
105,000,000 ordinary shares of Sh 10 each	1,050,000	1,050,000

31. STATUTORY RESERVE

	GROUP		BANK	
	2012 Sh'000	2011 Sh'000	2012 Sh'000	2011 Sh'000
At 1 January	67,780	56,148	67,780	56,148
Transfer from retained earnings	26,242	11,632	26,242	11,632
Arising from acquisition of subsidiary	8,714	-	-	-
	102,736	67,780	94,022	67,780

Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines requires the bank to make an appropriation to a statutory reserve for unforeseeable risks and future losses. The amount transferred is the excess of loan impairment provision computed in accordance with the Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines over the provision for impairment of loan and advances arrived at in accordance with IAS 39 on financial instruments.

32. NON-CONTROLLING INTERESTS – GROUP

	2012		2011	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
ABC Capital Uganda Limited	40.33%	246,470	-	-
ABC Capital Limited	9.07%	26,707	8.7	31,227
At 31 December		273,177		273,177

a) ABC Capital Uganda Limited

On 1 October 2012, the group acquired control in its associate ABC Capital Uganda Limited whose principal activity is the provision of banking services within Uganda. The control was acquired through the purchase of additional 19.67 % equity and effectively acquired control of the company by total of 59.9% ownership.

	2012 Shs'000	2011 Shs'000
Movement in non-controlling interests		
At acquistion	-	-
Non controlling interest arising from acquisition		
of control in associate (note 24)	256,013	-
Share of total comprehensive loss for the year	(9,543)	-
At December	246,470	-

b) ABC Capital Limited

	2012 Shs'000	2011 Shs'000
Movement in non-controlling interests		
At 1 January	31,227	30,192
Share of loss	(4,520)	(1,035)
At December	26,707	31,227

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2012 Sh'000	2011 Sh'000
(a) Reconciliation of profit before taxation to cash generated from operations		
Profit before tax	525,539	508,005
Adjustments for:		
Depreciation on property and equipment	32,576	26,608
Gain on disposal of property and equipment	(2,097)	
Amortisation of intangible assets	9,149 6,681	
Loss /(gain)on valuation of investments held for trading	69,639	(217,876)
Share of results of associated company	-	(6,244)
	------------------	------------------
Profit before working capital changes	636,903	315,077
Movements in:		
Balances with Central Bank of Kenya (cash reserve ratio)	(280,511)	(150,440)
Treasury bonds	(1,530,678)	(397,842)
Corporate bonds	46,876	(125)
Loans and advances to customers	(3,060,239)	(2,136,656)
Other assets	(77,983)	(138,546)
Customer deposits	5,086,789	1,986216
Other liabilities	84,500	59,315
Related party balances	1,611	(642)
Long term loan	759,919	-
	------------------	------------------
Cash generated from operations	1,667,187	38,080
	==========	==========

33. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

	2012 Sh'000	2011 Sh'000
(b) Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes		
Cash on hand	192,060	167,708
Balance with Central Bank of Kenya - other	543,926	185,204
Balances with Bank of Uganda – other	273,714	-
Treasury bills	1,101,768	-
Deposits and balances due from banking institutions	1,081,520	502,060
Deposits and balances due to banking institutions	(652,025)	(50,055)
	2,540,963	804,917

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

34. CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK

(a) Contingent liabilities

	2012 Sh'000	2011 Sh'000
Letters of credit	642,909	308,076
Letters of guarantee	1,550,553	1,397,145
Acceptances	684,532	567,897
Bills in course of collection	51,811	95,981
Others	17,091	17,091
	2,946,896	2,386,190

34. CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK (Continued)

(a) Contingent liabilities (Continued)

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the Group to make payments to third parties on production of documents. The amounts are subsequently reimbursed by customers.
Guarantees are generally written by a bank to support the performance of a customer to third parties. The Group will only be required to meet these obligations in the event of the customers'default.

	2012 Sh'000	2011 Sh'000
(b) Capital commitments		
Authorised but not contracted for	298,432	351,155
Authorised and contracted for	103,000	71,916
	401,432	423,071

(c) Commitments to extend credit

34. CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK (Continued)

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

(d) Operating lease arrangements

The Group as a lessor

Rental income earned during the year was Sh 1,009,839 (2011 – Sh 551,000). At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

	2012 Sh'000	2011 Sh'000
Within one year	468	468
In the second to fifth year inclusive	1,873	521
	2,341	989

Leases are negotiated for an average term of 5 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

The Group as a lessee

The future minimum lease payments under operating leases are as follows:

	2012 Sh'000	2011 Sh'000
Within 1 year	49,246	41,725
In the second to fifth year inclusive	272,134	135,983
After 5 years	53,152	44,613
	374,532	222,321

The directors are of the view that future net revenues and funding will be sufficient to cover these commitments.

35. RELATED PARTY TRANSACTIONS - GROUP AND BANK

Included in loans and receivables are amounts advanced to certain directors and to companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to associated companies. The following transactions were carried out with related parties:

	Directors		Related companies	
	2012	2011	2012	2011
	Sh'ooo	Sh'ooo	Sh'ooo	Sh'ooo
a) Outstanding loans and receivables				
At 1 January	25,593	27,393	59,962	55,436
Advanced during the year	-	-	1,267	-
Interest charged	2,718	1,997	3,534	9,428
Repayments during the year	(3,678)	(3,797)	(52,726)	(4,902)
At 31 December	24,632	25,593	12,037	59,962
Interest earned	2,718	1,997	3,534	9,428
b) Deposits				
At 1 January	65,670	21,057	74,407	90,235
At 31 December	73,880	65,670	127,279	74,407
Interest paid	5,383	340	5,289	2,159
c) Contingent liabilities	-	-	3,100	105,700

d) Loans and receivables to management staff

As at 31 December 2012 loans and receivables to management staff amounted to Sh 44,198,000 (2011 – Sh 57,914,000) and the interest earned thereon was Sh 3,470,000 (2011 – Sh 5,240,000).
The loans and receivables to related parties are performing and are fully secured. No provisions have been recognized in respect of the loans and receivables to directors, related parties or staff.

(e) Key management compensation

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

	2012 Sh'000	2011 Sh'000
(i) Key management		
Salaries and other short-term employment benefits	115,304	104,166
	=========	=========

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

(ii) Directors' remuneration		
Fees for services as directors	4,050	3,980
Other emoluments	19,200	19,200
	23,250	23,180
	=========	=========

36. ASSETS PLEDGED AS SECURITY - GROUP AND BANK

At 31 December 2012, treasury bonds worth Sh 80,000,000 (2011 - Sh 76,257,000) were pledged to secure a letter of credit opening facility with a correspondent bank as there were no liabilities outstanding in respect of those assets.

37. COUNTRY OF INCORPORATION

The bank is incorporated in Kenya under the Companies Act and is resident in Kenya.

38. CURRENCY

The financial statements are presented to the nearest Kenya Shillings thousands (Sh'000).

	2012 Sh'000	2011 Sh'000
INCOME		
Interest on loans and receivables	1,713,947	949,467
Interest on Government securities	420,940	265,866
Interest on placements	46,165	5,691
Other interest income	43,629	45,975
	2,224,681	1,266,999
INTEREST EXPENSE		
Interest on deposits	1,325,631	499,896
Interest on money markets	7,668	14,485
Interest on long term loan	16,070	-
	1,349,369	514,381
NET INTEREST INCOME	875,312	752,618
FEES AND COMMISSIONS	271,091	240,971
FOREIGN EXCHANGE TRADING INCOME	160,494	144,636
OTHER OPERATING INCOME (APPENDIX II)	75,014	77,437
OPERATING EXPENSES (APPENDIX II)	(800,447)	(688,593)
IMPAIRMENT LOSS ON LOANS AND RECEIVABLES	(24,219)	(11,603)
PROFIT BEFORE TAXATION	557,245	515,466
TAXATION CHARGE	(133,362)	(142,074)
PROFIT FOR THE YEAR	**423,883**	**373,392**

ABC Group

BANK DETAILED INCOME STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 APPENDIX

	2012 Sh'000	2011 Sh'000
OTHER OPERATING INCOME		
Rental income	1,010	551
Miscellaneous income	315	32,076
Gain on disposal of government bonds	73,689	44,810
	75,014	77,437
OPERATING EXPENSES		
Staff costs	436,162	333,141
Depreciation of property and equipment	30,987	26,191
Amortisation of intangible assets	7,973	6,003
Auditors' remuneration	2,756	3,420
Contribution to deposit protection fund	14,715	11,417
Directors' emoluments - fees	4,050	3,980
- other	19,200	19,200
Operating lease rentals	49,964	40,757
Advertising costs	13,524	31,521
Communication	40,267	28,051
Printing and stationery	14,503	9,856
Computer and software maintenance	16,836	9,988
Travelling and vehicle running expenses	36,265	18,355
Legal and professional fees	12,705	6,817
Loss on revaluation of equity investments	-	-
Security	18,942	20,755
Insurance	9,163	8,098
Bank charges	11,874	9,821
Office expenses	29,617	27,555
Other expenses	26,025	73,667
Loss on acquisition of control in Uganda subsidiary	4,919	-
	800,447	688,593
STAFF COSTS		
Salaries and allowances	358,823	276,420
Staff training	3,391	6,067
NSSF contribution	568	454
Pension contribution	8,618	6,746
Leave pay provision	3,729	7,199
Medical expense	13,352	10,143
Other	47,681	26,112
	436,162	333,141

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