2013

Annual Report

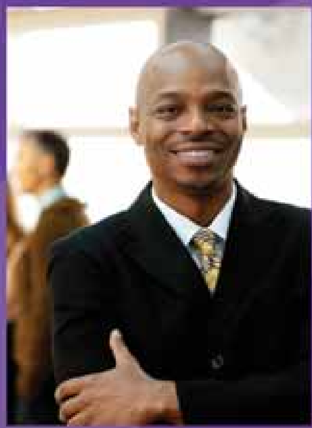
AND

Financial Statements

ECB

Equatorial Commercial Bank

Our
Pillars



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Board Members and Committees

Directors

Mr. Dan Ameyo, MBS, OGW - Chairman of the Board
Mr. Dan Ameyo serves as the Chairman of Equatorial Commercial Bank Limited. He is a practicing advocate and legal consultant on trade and integration law in Kenya and within the East African Community and COMESA region. Mr. Ameyo serves as Director of Mumias Sugar Company Limited. He is an advocate of the High Court of Kenya, a member of the Law Society of Kenya (LSK) and a Fellow of the Chartered Institute of Arbitrators in London. He served as a State Counsel in the Attorney General's chambers. He also served as the Post Master General and Chief Executive Officer of Postal Corporation of Kenya. Mr. Ameyo holds a Bachelor of Laws (LL.B) (Hons) Degree from the University of Nairobi and a Master of Laws (LL.M) from Queen Mary, University of London. He is currently pursuing his Doctorate degree in law at the University of Nairobi.

Board Members and Committees

Mr. Akif H. Butt - Non Executive Director
Mr. Butt serves as a Non Executive Director on the Board of Equatorial Commercial Bank. He is a fellow of the Association of Chartered Certified Accountants (ACCA), a Certified Public Accountant (CPA) and has over 25 years experience in financial management, corporate planning and strategic management. Mr. Butt initially trained and worked with PricewaterhouseCoopers in Kenya and the East African Region, Liberia and England. He currently holds the position of Finance Director at Sameer Group.

Mr. Martin Ernest - Non-Executive Director
Martin Ernest serves as a Non-Executive Director on the Board of Equatorial Commercial Bank. He holds a BA(Hons) in Finance and Administration and is an ICAEW Chartered Accountant. After 11 years with KPMG in the UK he has held senior positions in a number of multinational companies including Phillips Petroleum International and Del Monte Foods International. He has worked across several disciplines, including audit, corporate finance, insolvency services and risk management services. He currently holds the position of Executive Director at Sameer Group.

Mr. Abdulali Kurji - Non-Executive Director
Abdulali Kurji serves as a Non Executive Director on the Board of Equatorial Commercial Bank. He also serves as a Director at Fidelity Shield Insurance Company Limited. He holds a Master of Engineering (with Honours) in Manufacturing Engineering and Management (MEng) and has experience in financial services management. He currently holds the position of Managing Director at Meridian Holdings Limited.

Mr. Thomas Mutugu (Resigned 21 November 2013)
Non-Executive Director
Mr. Thomas Mutugu served as a Non Executive Director on the Board of Equatorial Commercial Bank and resigned on 21 December 2013. Mr. Thomas Mutugu also serves as Director of Advertising at Spread Marketing Advertising Agency. Mr. Mutugu advises the small scale manufacturers financed by the Kenya Industrial Estates Limited. He serves as a Director of The Kenya Post Office Savings Bank. He is a lead consultant for the Government of the Republic of Rwanda on rebuilding and revitalization of the Rwandese Co-operative Movement. Mr. Mutugu serves as a Lecturer at the University of Nairobi. He holds an MBA in Strategic Marketing and Management from St. Louis University (USA)

Ms. Shiru Mwangi (Appointed 30 May 2013)
Non-Executive Director
Ms. Shiru Mwangi serves as a Non Executive Director on the Board of Equatorial Commercial Bank and was appointed on 30 May 2013. Prior to joining the ECB Board, Ms. Mwangi had served as Director, Regional Head Global Markets East Africa at CFC Stanbic Bank Kenya. She has a wealth of experience in financial sector management both locally and offshore with leading banks including CFC Stanbic and CitiBank NA. Ms. Mwangi holds an MBA in Finance from the Wharton School, Pennsylvania, USA, and a BA from Amherst College, Massachusetts, USA.

Mr. Sammy A. S. Itemere (Appointed 12 April 2013)
Managing Director
Mr. Sammy Itemere serves as the Managing Director on the Board of Equatorial Commercial Bank and was appointed on 12 April 2013. Mr. Itemere is a seasoned banker with a career spanning over 20 years both locally and regionally. He has a wealth of diverse experience in Retail and Enterprise banking segments and has worked for Barclays Bank, KCB Kenya and South Sudan, Credit Bank and lastly Imperial Bank. Mr. Itemere holds a BA in Economics and an MBA (Marketing) both from the University of Pune.

Mr. Robert Shibutse - Executive Director
Mr. Robert Shibutse serves as the Executive Director on the Board of Equatorial Commercial Bank. He also serves as a Director at Fidelity Shield Insurance Company Limited and is an Associate member of the Institute of Directors (Kenya). Mr. Shibutse is a seasoned banker with a career spanning over 11 years. He has a wealth of diverse experience in Finance and Service Delivery functions having worked for CfC Stanbic and NIC Bank. Mr. Shibutse holds a BA in Economics is a CPS (K) & CPA (K) and is currently pursuing his MBA at ESAMI.

Ms. Jacqueline Hinga - Head-Governance & Company Secretary
Ms. Jacqueline Hinga serves as the Head of Governance and the Company Secretary at Equatorial Commercial Bank Ltd. Ms. Hinga joined ECB with a wealth of experience gained from her over 11 years experience in legal matters having worked at Hamilton Harrison and Mathews, Advocates, Ojiambo & Company Advocates, Commercial Bank of Africa Ltd and Middle East Bank Kenya Ltd. Ms. Hinga holds a LLB degree from University of Nairobi, Diploma in Law from Kenya School of Law, a CPS (K) holder and an MBA (Finance) from Swiss Management Academy.

BOARD AUDIT AND RISK COMMITTEE

Akif Hamid Butt	Chairman
Martin Ernest	
Abdulali Kurji	

BOARD CREDIT COMMITTEE

Martin Ernest	Chairman
Shiru Mwangi	

BOARD NOMINATIONS, COMPENSATION AND HR COMMITTEE

Shiru Mwangi	Chairperson
Dan Ameyo	
Abdulali Kurji	

Senior Management & Committees

Ms. Silpah A. Owich
Head - Consumer Banking

Ms. Silpah Owich serves as the Head of Consumer Banking at Equatorial Commercial Bank. Ms. Owich joined ECB with over 13 years experience in the banking sector both locally and regionally. She has a wealth of diverse experience in Retail and SME banking segments and has worked for Bank of Africa Kenya, UBA Uganda, KCB Kenya, Standard Chartered Bank of Kenya and Barclays Bank of Kenya. Ms. Owich holds a BA in Sociology & English, and a Global Executive MBA from Kenyatta University and U.S.I.U respectively. She also has an executive diploma in Marketing from the Marketing Society of Kenya.

Ms. Shamira Dostmohamed
Head - Corporate & Asset Finance

Ms. Shamira Dostmohamed serves as the Head of Corporate and Asset Finance at Equatorial Commercial Bank Ltd. She has over 20 years experience in the banking industry having previously worked for Southern Credit in various managerial positions. She also has a diverse working experience in project management, operations, Trade Finance and management of loan appraisals and legal portfolios.
Ms. Dostmohamed holds a Bachelor of Arts in Accounting and Finance from Dublin City University.

Ms. Anne Makau
Head - Credit Risk

Ms. Anne Makau serves as the Head of Credit Risk at Equatorial Commercial Bank Ltd. Ms. Makau joined ECB with 9 years experience in the banking sector on credit matters. She previously worked for NIC Bank. She holds a Bachelor of Commerce (Accounting and Marketing) from Daystar University and is currently pursuing her MBA (Finance and Strategic Management) at University of Nairobi.

Mr. Simeon C. Kisegei
Head - Human Resources

Mr. Simeon Kisegei serves as the Head of Human Resources at Equatorial Commercial Bank Ltd. Mr. Kisegei joined ECB with over 14 years of experience in the Banking sector both locally and regionally on HR matters. He has worked for KCB Kenya, Uganda, Rwanda, South Sudan and ILD Consulting. Mr. Kisegei holds a Bachelor of Commerce, Business Administration from Catholic University of Eastern Africa and is currently pursuing his MBA (Human Resource Management) at University of Nairobi.

Mr. Bernard Ojwach Omenda
Head - Treasury

Mr. Bernard Omenda serves as the Head of Treasury at Equatorial Commercial Bank Ltd. Mr. Omenda joined ECB with over 9 years of experience both locally and regionally. He has worked for Symbiosis International University-India, Doshi Group, KCB Kenya and KCB Burundi. He holds a Bachelor of Commerce from University of Pune, India, Master of Business Administration from Symbiosis Business School, SIU, Pune, CISA, Post graduate Diploma in Psychological Counselling and a Diploma in Human Resource Management.

The following management committees are in place to ensure that the Bank carries out its obligations efficiently and effectively:

- Assets and Liabilities Committee (ALCO)
- Management Risk Committee
- Information Communication and Technology Committee
- Business Development Committee
- Management Credit Risk Committee
- Management Committee

Corporate Information

NAIROBI BRANCHES

HEAD OFFICE AND WAIYAKI WAY BRANCH

Equatorial Fidelity Centre, Waiyaki Way
PO Box 66171 – 00800, Nairobi
Tel: +254 (20) 4981000
Fax: +254 (20) 4445987
Email: customerservice@ecb.co.ke

CHESTER HOUSE BRANCH

Chester House Ground Floor, Koinange Street
PO Box 1166 – 00400, Nairobi
Tel: +254 (20) 4981000,
Fax: +254 (20) 2246309
Email: customerservice@ecb.co.ke

WESTLANDS BRANCH

The Mall, Westlands (Ground Floor)
PO Box 39556 – 00623, Nairobi
Tel: +254(20) 4981000
Fax: +254(20) 4443505
Email: customerservice@ecb.co.ke

HURLINGHAM BRANCH

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PO Box 52467 – 00200, Nairobi
Tel: +254 (20) 4981000
Fax: +254 (20) 2719625
Email: customerservice@ecb.co.ke

MOMBASA ROAD BRANCH

Sameer Business Park, Mombasa Road
PO Box 27552 – 00506, Nairobi
Tel: +254(20) 4981000
Fax: +254(20) 3522619
Email: customerservice@ecb.co.ke

INDUSTRIAL AREA BRANCH

Avon Centre, Enterprise Road
PO Box 18142 – 00500, Nairobi
Tel: +254 (20) 4981000
Fax: +254 (20) 554128
Email: customerservice@ecb.co.ke

UPCOUNTRY BRANCHES

MOMBASA MOI AVENUE BRANCH

Equatorial Commercial Bank Building, Moi Avenue
PO Box 88608 - 80100, Mombasa
Tel: +254(20) 4981000
Fax: +254(41) 2222633
Email: customerservice@ecb.co.ke

NYALI BRANCH

Nyali Cinemax Complex, Kongowea Road
PO Box 34219 – 80118, Nyali
Tel: +254 (20) 4981000
Fax: +254 (41) 471004
Email: customerservice@ecb.co.ke

KISUMU BRANCH

Harley's House, Oginga Odinga Street
PO Box 2483 – 40100, Kisumu
Tel: +254 (20) 4981000
Fax: +254 (57) 2022744
Email: customerservice@ecb.co.ke

KAKAMEGA BRANCH

Jubilee Ironmongers Building,
Canon Awori Road
PO Box 825 – 50100, Kakamega
Tel: +254 (20) 4981000
Fax: +254 (56) 30032
Email: customerservice@ecb.co.ke

ELDORET BRANCH

Zion Mall, Uganda Road
PO Box 6443 – 30100, Eldoret
Tel: +254 (20) 4981000
Fax: +254 (53) 2063459
Email: customerservice@ecb.co.ke

NAKURU BRANCH

Apple House, Nakuru-Nairobi Highway
PO Box 66171 – 00800, Nairobi
Tel: +254 (20) 4981000
Fax: +254 (20) 4445987
Email: customerservice@ecb.co.ke

Corporate Information

Registered Office

Equatorial Fidelity Centre (HQ)
Waiyaki Way
PO Box 52467
00200 Nairobi GPO

Auditors

KPMG Kenya
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612
00100 Nairobi GPO

Correspondent Banks

Habib American Bank Limited, New York
Habibson Bank Limited, London
Standard Chartered Bank, New York
Standard Chartered Bank, London
Standard Bank of South Africa, Johannesburg
Standard Chartered Bank Kenya Limited, Nairobi
Standard Chartered Bank Limited, Tokyo
ICICI Bank, Mumbai
UBS AG, Zurich
Standard Chartered Bank, Frankfurt
National Australia Bank, Melbourne

Advocates

Aming'a, Opiyo, Masese & Co. Advocates
Anjarwalla & Khanna Advocates
Gathaiya & Associates Advocates
Gumbo & Associates Advocates
Iseme Kamau & Maema Advocates
J.Louis Onguto Advocates
Joseph Munyithya & Co. Advocates
Kwengu & Co. Advocates
Macharia-Mwangi & Njeru Advocates
Majanja Luseno & Co. Advocates
Muri Mwaniki & Wamiti Advocates
Muthaura Mugambi Ayugi & Njonjo Advocates
Ndung'u Njoroge & Kwach Advocates
Nyaundi Tuiyot & Company Advocates
Olel, Onyango Ingutia & Co. Advocates
Shapley Barret & Company Advocates
Sichangi & Co Advocates
Timamy & Co.
Wangai Nyuthe & Company Advocates

Corporate Governance

Equatorial Commercial Bank Limited is committed to continually improving its corporate governance for the benefit of all stakeholders.

The Bank's Board of Directors is focused on achieving compliance with the qualitative aspects of good governance while ensuring that implementation permeates throughout the business.

The Board has also established Board Committees with delegated authority from the Board to assist it in providing Board oversight on management functions and in fulfilling the stated objectives of the Board. The Committees' roles and responsibilities are set out in Terms of Reference and agreed mandates, which are reviewed periodically to ensure they remain relevant.

Codes and Regulations

As a licensed commercial bank, the Bank operates in a highly regulated industry and is committed to complying with the applicable legislation, regulations and codes of best practice while seeking to maintain the highest standards of transparency and accountability.

Board of Directors

The Bank is governed by the Board of Directors, which has ultimate responsibility for the management and strategic guidance of the company and assumes primary responsibility for the sustainability of the company's business.

Board Composition

There are currently seven directors on the Board of whom two are executive, five are non-executive and of the five non-executive two are independent directors including the Chairman. The Board is therefore compliant with Prudential Guidelines issued by the Central Bank of Kenya on composition of the Board.
The members of the Board have the right mix of skills, expertise, competencies and experience to effectively guide the Bank and ensure that the objective of shareholder value maximization is achieved.

The Board profile is regularly reviewed to ensure that the Board composition remains relevant given the dynamics of the banking industry.

Strategy

The Board is fully aware of its obligations in forging the strategic direction that the Bank will follow.
Currently, the Bank is pursuing the fulfillment of all aspects of the 5-year (2014-2018) Strategic Plan approved by the Board. Regular reports on progress are tabled at Board meetings for discussion while performance against financial objectives is monitored by the Board through management's monthly, quarterly and annual reporting.

Delegation and Effective Control

The ultimate responsibility for the Bank's operations rests with the Board. The Board retains effective control through a well developed structure of Board committees. These committees provide in-depth focus on specific areas.

Authority has been delegated to the Managing Director to manage the day to day activities of the business together with management committees comprised of senior managers and unit heads. Further delegated responsibilities are managed through a defined process.

The Managing Director is tasked with the implementation of Board decisions and there is a clear flow of information between management and the Board, which facilitates both the qualitative and quantitative evaluation of the Bank's performance.

Evaluation of Board Effectiveness

Annually, the Board carries out a self - review of its capacity, functionality and effectiveness. The evaluation measures the performance of the Board against its key duties and responsibilities.

Board Meetings

The Board meets once every quarter at a minimum with additional meetings scheduled when exigencies require. Directors are provided with comprehensive documentation at least seven days prior to each of the scheduled meetings.

Corporate Governance
Cont.

The following table shows attendance of the Board meetings held in 2013 by the current Directors:

Director's Name	Nationality	Executive/ Non-Executive	Appointment Date	Attendance of Board Meetings
Dan Ameyo (MBS)	Kenyan	Non Executive		5/5
Sammy Itemere	Kenyan	Executive	Appointed 12 April 2013	4/4
Martin Ernest	British	Non Executive		4/5
Akif Hamid Butt	Kenyan	Non Executive		4/5
Abdulali Kurji	Kenyan	Non Executive		3/5
Shiru Mwangi	Kenyan	Non Executive	Appointed 31 May 2013	3/3
Thomas Mutugu	Kenyan	Non Executive	Resigned 21 November 2013	-
Robert Shibutse	Kenyan	Executive		5/5

Board Committees

The Board has established the Board Audit and Risk Committee, Board Credit Committee and the Board Nominations and HR Committee to assist it in discharging its responsibilities.

The role of the Board Audit and Risk Committee is to review the Bank's financial position and make recommendations to the Board on all financial matters. This includes assessing the integrity and effectiveness of accounting, financial, compliance and other control systems. This committee also provides Board oversight of the Bank's risk management framework.

The role of the Board Credit Committee is to review the Bank's Credit Policy and ensure adherence to the same by Management. This Committee also reviews facilities that are beyond the discretionary limits of the Management Credit Risk Committee and ensures that measures are in place to mitigate, measure, monitor and manage credit risk at all times.

The role of the Board Nominations and HR Committee is to review the Bank's HR Policy and ensure adherence to the same by Management. This Committee also reviews recruitment, the staff remuneration process and provides guidance on HR related matters.

Directors' Fees

Non-executive directors receive fixed fees for their attendance at Board meetings. The Board reviews the non-executive directors' fees annually and makes appropriate recommendations to the Shareholders at the Annual General Meeting for approval.

The remuneration of the executive directors is fixed by the non–executive directors.

Company Secretary

The Company Secretary provides the Board with guidance on its responsibilities and keeps directors up-to-date with changes to relevant legislation as well as governance best practices.

All directors have access to the services of the Company Secretary.

Directors' Report
for the Year Ended 31 Dec 2013

The Directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2013.

1. Activities

The Bank is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya. The Bank has a 20 % (2012: 20%) investment in Equatorial Investment Bank Limited and 23.86% (2012: 23.86%) in Fidelity Shield Insurance Company Limited which have been accounted for as associate companies in the financial statements.

2. Results

The results for the year are set out on page 12.

3. Dividend

The Directors do not propose a dividend for the year (2013 - Nil).

4. Directors

The Directors who served during the year are set out on page 2 and 3.

5. Auditor

The auditor, KPMG Kenya, continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486) and subject to Section 24(1) of the Banking Act (Cap.488).

6. Approval of financial statements

The financial statements were approved at a meeting of the Directors held on 26 March 2014

BY ORDER OF THE BOARD

Robert Shibute
Executive Director
Date: 26 March 2014

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of Equatorial Commercial Bank Limited and its associates set out on pages 12 to 56 which comprise the statement of financial position of the Bank as at 31 December 2013 and the Bank's statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows, for the year then ended, and a summary of significant accounting policies and other explanatory notes.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of the operating results of the Bank for that year. It also requires the Directors to ensure the Bank keeps proper accounting records which disclose with reasonable accuracy the financial position of the Bank.

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 its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the Bank will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 26 March 2014 and were signed on its behalf by:

Chairman

Director

Director

Director

Report of The Independent Auditor
to the Members of Equatorial Commercial Bank Limited

We have audited the financial statements of Equatorial Commercial Bank Limited and its associates set out on pages 12 to 56 which comprise the statement of financial position of the Bank at 31 December 2013, and the Bank's statement of of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

As stated on page 10, the directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on 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 relevant 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 consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of Equatorial Commercial Bank Limited and its associates at 31 December 2013, and the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and 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 purpose 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 statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditor's report is CPA Eric Etale Aholi – P/1471.

KPMG Kenya

Date: 26th March 2014

Statement of Profit or Loss and other Comprehensive Income
for the Year Ended 31 December 2013

	Notes	2013 KShs'000	2012 KShs'000
Interest income	7	1,745,291	1,883,803
Interest expense	8	(916,786)	(1,540,673)
Net interest income		**828,505**	**343,130**
Fee and commission income		175,709	114,019
Foreign exchange trading income		46,478	55,632
Other operating income/(expense)	9	39,887	(18,454)
Operating income		**1,090,579**	**494,327**
Impairment losses on loans and advances	19(b)	(118,719)	(155,517)
Operating expenses	10	(879,163)	(1,017,983)
Share of profit of associate companies	23	20,112	23,173
Profit/(loss) before taxation	12	**112,809**	**(656,000)**
Income tax (charge)/credit	13	(57,159)	174,060
Profit/(loss) for the year and other comprehensive income		**55,650**	**(481,940)**
Earnings/(loss) per share	**14**	**0.13**	**(1.40)**

The notes on pages 16 to 56 form an integral part of these financial statements.

Statement of Financial Position
as at 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
ASSETS			
Cash and balances with Central Bank	16	826,230	1,007,088
Investments in government securities	17	2,758,508	2,949,561
Placements with other banks	18	1,184,717	701,668
Loans and advances to customers	19(a)	9,029,000	7,538,422
Non-current asset held for sale	20	414,510	-
Property and equipment	21	296,127	291,620
Intangible assets	22	28,730	22,902
Investment in associate companies	23	234,663	214,551
Deferred tax asset	24	540,101	597,260
Balance due from parent and related companies	25	98,218	506,679
Other assets	26	151,672	279,245
TOTAL ASSETS		**15,562,476**	**14,108,996**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Liabilities			
Deposits from banking institutions		-	82
Customers deposits	27	13,856,428	12,962,765
Borrowed funds	35	200,415	200,415
Other liabilities	28	134,151	223,420
Total liabilities		**14,190,994**	**13,386,682**
Shareholders' equity (Page 14)			
Share capital	29(a)	2,316,756	1,723,238
Retained earnings – deficit		(1,101,070)	(1,175,527)
Statutory credit risk reserve	29(b)	155,796	174,603
Total equity attributable to shareholders		**1,371,482**	**722,314**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**15,562,476**	**14,108,996**

The financial statements on pages 12 to 56 were approved by the Board of Directors on 26 March 2014 and were signed on its behalf by:

Chairman	Director	Director	Director

The notes on pages 16 to 56 form an integral part of these financial statements.

Statement of Changes In Equity
for the Year Ended 31 December 2013

2013:	Share Capital Kshs'000	Retained Earnings Kshs'000	Statutory Credit Risk Reserve Kshs'000	Total Kshs'000
Balance at 1 January 2013	1,723,238	(1,175,527)	174,603	722,314
Total comprehensive income				
Profit for the year	-	55,650	-	55,650
Transfer from statutory credit risk reserve	-	18,807	(18,807)	-
Total comprehensive income for the year	**-**	**74,457**	**(18,807)**	**55,650**
Transactions with owners recorded directly in equity				
Shares issues, net of issue costs	593,518	-	-	593,518
Total contributions by and distributed to owners	**593,518**	**-**	**-**	**593,518**
At 31 December 2013	**2,316,756**	**(1,101,070)**	**155,796**	**1,371,482**
2012:				
Balance at 1 January 2012	1,723,238	(672,143)	153,159	1,204,254
Total comprehensive income for the year				
Loss for the year	-	(481,940)	-	(481,940)
Transfer to statutory credit risk reserve	-	(21,444)	21,444	-
Total comprehensive income for the year	-	(503,384)	21,444	(481,940)
At 31 December 2012	**1,723,238**	**(1,175,527)**	**174,603**	**722,314**

The notes on pages 16 to 56 form an integral part of these financial statements.

Statement of Cashflows
for the Year Ended 31 December 2013

	Note	2013 KShs'000	2012 KShs'000
Cash flows from operating activities			
Profit/(loss) before taxation		112,809	(656,000)
Adjustments for non cash items in profit	30(a)	38,896	39,561
Increase in operating assets	30(a)	(647,084)	(544,867)
Increase in operating liabilities	30(a)	804,394	3,250,184
Net cash used in operating activities		**309,015**	**2,088,878**
Cash flows from investing activities			
Purchase of property and equipment	21	(497,654)	(99,518)
Purchase of software	22	(12,953)	-
Proceeds from disposal of property and equipment		5,248	575
Dividends received		21,506	9,679
Net cash used in investing activities		**(483,853)**	**(89,264)**
Cash flows from financing activities			
Proceeds from issue of shares	29(a)	593,518	-
Net cash from financing activities		**593,518**	**-**
Increase in cash and cash equivalents	30(b)	**418,680**	**1,999,614**

The notes on pages 16 to 56 form an integral part of these financial statements.

1. Reporting Entity

Equatorial Commercial Bank Limited (the Bank) is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows:

Equatorial Commercial Bank Centre (HQ)
Equatorial Fidelity Centre
Waiyaki Way
PO Box 52467 - 00200 Nairobi GPO

The financial statements of the Bank as at and for the year ended 31 December 2013 comprise the Bank and its associates.

2. Basis of Preparation

(a). Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards and the Kenyan Companies Act. For Kenyan Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of comprehensive income in these financial statements.

(b). Basis of measurement

The financial statements are prepared under the historical cost basis.

(c). Use of estimates and judgments

The preparation of financial statements in conformity with International Financial Reporting Standards requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of current events and actions, actual results may differ from the estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in financial statements are described in Note 5.

(d). Functional and presentation currency

The financial statements are presented in Kenya shillings which is also the Bank's functional currency, the currency of the primary economic environment in which the entity operates. Except as otherwise indicated, financial information presented in Kenya shillings (KShs) has been rounded to the nearest thousand.

3. Significant Accounting Policies

The principal accounting policies adopted in the preparation of these financial statements are set out below:

(a). Revenue recognition

Revenue is derived substantially from banking business and related activities and comprises net interest income and non-interest income. Income is recognised on an accrual basis in the period in which it is earned.

(I). Interest

Interest income and expense for all interest bearing instruments are recognised in profit or loss as it accrues, taking into account the effective interest rate of the asset or an applicable floating rate. The effective interest rate is the rate that exactly discounts the estimated future cash flows through the expected life of the financial asset or liability to the carrying amount of the financial asset or liability. Interest income and expense includes the amortisation of any discount or premium or other differences between the initial carrying amount of an interest bearing instrument and its amount at maturity calculated on an effective interest rate basis.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii). Fees and commission income

Fees and commission income is recognised on an accrual basis when the service is provided.

This income comprises of appraisal and facility fees charged on advances, commissions charged on use of channels and ledger fees levied on current and savings accounts.

(iii). Foreign exchange trading income

Foreign exchange trading income comprises gains less losses related to trading assets and liabilities and includes all realized and unrealized exchange gains or losses.

(b). Financial assets and financial liabilities

(I). Recognition

The Bank initially recognises loans and advances, deposits, debt securities issues and subordinated liabilities on the date on which they originated. All other financial instruments are recognised on the trade date, which is the date the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii). Classification

The Bank classifies its financial assets into one of the following categories:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market.

They arise when the Bank provides money directly to borrowers, other than those created with the intention of short-term profit taking. They are recognised at the date money is disbursed to the borrower or when they are transferred to the Bank from a third party.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Loan origination fees together with related direct costs are treated as part of the cost of the transaction.

Amortised cost is calculated using the effective interest method. The amortisation and accretion of premiums and discounts is included in interest income.

Held-to-maturity

These are financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. The sale of a significant amount of held-to-maturity assets would taint the entire category leading to reclassification as available-for-sale.

Subsequent to initial recognition, these are carried at amortised cost, which is the present value of the expected future cash flows, discounted at the instrument's original effective interest rate.

Amortised cost is calculated using the effective interest rate method. The amortisation and accretion of premiums and discounts is included in interest income.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost.

(iii) Derecognition

A financial asset is derecognised when the Bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when its contractual obligations are discharged or cancelled, or expires.

Held-to-maturity instruments and loans and receivables are derecognised on the day they are repaid in full or when they are transferred by the Bank to a third party.

(iv) Offsetting

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

(c). Identification and measurement of impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset than can be estimated reliably.

The Bank considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar risk characteristics.

Objective evidence that financial assets are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated cash flows discounted at the assets' original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset continues to be recognised through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through the profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

(d). Impairment for non-financial assets

The carrying amounts of the Bank's non-financial assets, other than deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(e). Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Foreign currency monetary assets and liabilities are translated at the exchange rate ruling at the reporting date. Resulting exchange differences are recognised in profit or loss in the year in which they arise.

Non monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the transaction date.

(f). Property and equipment

(i). Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii). Depreciation

Depreciation is recognised on a straight-line basis over the estimated useful lives of the assets. The rates of depreciation used are based on the following estimated useful lives applicable to the current and prior year:

• Motor vehicles (New)	7 years
• Motor vehicles (Used)	5 years
• Computer equipment	4 years
• Office equipment	8 years
• Fixtures and fittings	12 years
• Office furniture	8 years
• Leasehold improvements	12 years
• Buildings on leasehold	44 years

Depreciation methods, useful lives and residual values are reassessed and adjusted, if appropriate, at each reporting date.

(iii). Subsequent costs

The cost of replacing a component of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss as incurred.

(iv). Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are recognised in profit or loss in the year in which they arise.

(g). Intangible assets - Software

Computer software licenses are stated at cost less accumulated amortisation and accumulated impairment.

The cost incurred to acquire and bring to use specific computer software licences are capitalised. The costs are amortised on a straight line basis over the expected useful lives, for a period not exceeding five years and are recognised in profit or loss. Costs associated with maintaining software are recognised as an expense as incurred.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(h). Operating leases

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

(i). Income tax expense

Income tax expense comprises current tax and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of a previous year.

Deferred tax is recognised on all temporary differences between the carrying amounts of financial assets and financial liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

Deferred tax is calculated on the basis of the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their assets and liabilities will be realised simultaneously.

(j). Employee benefits

(i). Defined contribution plan

The majority of the Bank's employees are eligible for retirement benefits under a defined contribution plan. A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Contributions to the defined contribution plan are recognised in profit or loss as incurred. Any difference between the amount recognised in profit or loss and the contributions payable is recognised in the statement of financial position under other receivables or other payables.

The company 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 KShs 200 per employee per month.

(ii). Leave accrual

The monetary value of the unutilised leave by staff as at reporting date is recognised in the accruals as a payable and the movement for the year is recognised in profit or loss.

(iii). Termination benefits

Termination benefits are recognised as an expense when the Bank is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the Bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(iv). Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k). Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Central Bank of Kenya available to finance the Bank's day-to-day operations, net balances from Banking institutions and treasury bills and bonds which mature within 90 days or less from the date of acquisition.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(l). Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(m). Related parties

In the normal course of business, transactions have been entered into with certain related parties. These transactions are at arm's length.

(n). Interests in equity accounted investees

Investments in associates are accounted for using the equity method of accounting in the financial statements. These are undertakings in which the Bank has between 20% and 50% of the voting rights and over which the Bank exercises significant influence but which it does not control. Under the equity method, the Bank's share of its associates' post-acquisition profits or losses is recognised in profit or loss and its share of other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition total comprehensive income or loss (including dividends received from the associate) are adjusted against the carrying amount of the investment.

Losses of an associate in excess of the Bank's interest in that associate are recognised only to the extent that the Bank has incurred legal or constructive obligations to make payments on behalf of the associate.

Unrealized gains arising from transaction with equity accounted investees are eliminated against the investment to the extent of the Bank's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Investments in associates are accounted at cost less impairment loss in the separate financial statements of the Bank. They are initially recognised at cost which includes transaction costs.

(o). Contingent liabilities

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

(p). Earnings per share

The Bank presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss for the year attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss for the year attributable to ordinary shareholders and the weighted average number of shares outstanding to the effects of all dilutive potential ordinary shares, if any.

(q). Non-current asset held for sale

Non-current assets, or disposal groups comprising assets and liabilities, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are re-measured in accordance with the Bank's accounting policies. Thereafter, generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell. For non-financial assets, fair value takes into account the highest and best use either on a standalone basis or in combination with other assets or other assets and liabilities. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to financial assets, deferred tax assets and employee benefit assets which continue to be measured in accordance with the Bank's accounting policies. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in profit or loss. Gains are not recognised in excess of any cumulative impairment loss.

(r). Sale and repurchase agreement

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.
Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

(s). New standards and interpretations

New standards and interpretations effective for the year ended 31 December 2013

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- IFRS 10 Consolidated Financial Statements (2011);
- IFRS 12 Disclosure of Interests in Other Entities;
- IFRS 13 Fair Value Measurement;
- Disclosures – Offsetting Financial Assets and

Financial Liabilities (Amendments to IFRS 7);
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1).

The nature and the effects of the changes are explained below.

Subsidiaries

As a result of IFRS 10 (2011), the Bank has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Bank has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Bank reassessed its control conclusions as of 1 January 2013. The Bank concluded that it does not control the associates and therefore no change to the consolidation conclusions in previous years'. Note 23 details the associates which are equity accounted investees.

Interests in other entities

As a result of IFRS 12, the Bank has expanded disclosures about its interests in associates (Note 23).

Fair value measurements

In accordance with the transitional provisions of IFRS 13, the Bank has applied the new definition of fair value, as set out in Note 3(b) and 5(b), prospectively. The change had no significant impact on the measurements of the Bank's assets and liabilities, but the Bank has included new disclosures in the financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Bank has provided the relevant comparative disclosures under those standards.

Offsetting financial assets and financial liabilities

As a result of the amendments to IFRS 7, the Bank has expanded disclosures about offsetting financial assets and financial liabilities.

Presentation of items of OCI

As a result of the amendments to IAS 1, the Bank has modified the presentation of items of other comprehensive income (OCI) in its statement of comprehensive income and OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information, where necessary, has been re-presented on the same basis.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Bank are set out below. The Bank does not plan to adopt these standards early.

New standards and interpretations in issue but not effective for the year ended 31 December 2013

- ***IFRS 9 Financial Instruments (2013), IFRS 9 Financial Instruments (2010) and IFRS 9 Financial Instruments (2009) (together, IFRS 9)*** *(effective 1 January 2018)*

  IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The IFRS 9 (2009) requirements represent a significant change from the existing requirements in IAS 39 in respect of financial assets. The standard contains two primary measurement categories for financial assets: amortised cost and fair value. A financial asset would be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and the asset's contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. All other financial assets would be measured at fair value. The standard eliminates the existing IAS 39 categories of held-to-maturity, available-for-sale and loans and receivables. For an investment in an equity instrument that is not held for trading, the standard permits an irrevocable election, on initial recognition, on an individual share-by-share basis, to present all fair value changes from the investment in other comprehensive income (OCI). No amount recognised in OCI would ever be reclassified to profit or loss at a later date. However, dividends on such investments would be recognised in profit or loss, rather than OCI, unless they clearly represent a partial recovery of the cost of the investment. Investments in equity instruments in respect of which an entity does not elect to present fair value changes in OCI would be measured at fair value with changes in fair value recognised in profit or loss.

The standard requires derivatives embedded in contracts with a host that is a financial asset in the scope of the standard not to be separated; instead, the hybrid financial instrument is assessed in its entirety for whether it should be measured at amortised cost or fair value.

IFRS 9 (2010) introduces a new requirement in respect of financial liabilities designated under the fair value option to generally present fair value changes that are attributable to the liability's credit risk in OCI rather than in profit or loss. Apart from this change, IFRS 9 (2010) largely carries forward without substantive amendment the guidance on classification and measurement of financial liabilities from IAS 39.

IFRS 9 (2013) introduces new requirements for hedge accounting that align hedge accounting more closely with risk management. The requirements also establish a more principles-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39.

The mandatory effective date of IFRS 9 is 1 January 2018. However, application of IFRS 9 is permitted.

The Bank has started the process of evaluating the potential effect of this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. Given the nature of the Bank's operations, this standard is expected to have a pervasive impact on the Bank's financial statements.

Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities
(effective 1 January 2014)
The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. The Bank is still evaluating the potential effect of the adoption of the amendments to IAS 32.

***IFRIC 21 - Levies* (effective 1 January 2014)**
IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Bank's financial statements.

***Amendments to IFRS 10, IFRS 12 and IAS 27 – Investment entities* (effective 1 January 2014)**

The amendments clarify that a qualifying investment entity is required to account for investments in controlled entities, as well as investments in associates and joint ventures, at fair value through profit or loss; the only exception would be subsidiaries that are considered an extension of the investment entity's investment activities. The consolidation exemption is mandatory and not optional.

The adoption of the amendments will not have a material impact on the Bank's financial statements.

***IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets* (effective 1 January 2014)**

The amendments reverse the unintended requirement in IFRS 13 Fair Value Measurement to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognised or reversed.

The adoption of the amendments will not have a material impact on the Bank's financial statements.

4. Financial Risk Management

(a). Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risks
- Operational risks

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

Risk management framework

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

(b). Credit risk

The Bank's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

The risk that counter-parties to trading instruments might default on their obligations is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value.

To manage the level of credit risk, the Bank deals with counter-parties of good credit standing, enters into master netting agreements whenever possible, and when appropriate, obtains collateral. An assessment of the extent to which fair values of collaterals cover existing credit risk exposures on loans and advances to customers is highlighted in the later part of this section.

The Bank also monitors concentrations of credit risk that arise by industry and type of customer in relation to the Bank loans and advances to customers by carrying a balanced portfolio. The Bank has no significant exposure to any individual customer or counter-party.

The Bank's maximum exposure to credit risk is analysed as follows:

(i). Loans and advances to customers

	2013 KShs'000	2012 KShs'000
Individually impaired		
Impaired (substandard)	830,212	428,305
Impaired (doubtful)	449,721	344,355
Impaired (loss)	91,292	32,423
Gross amount	1,371,225	805,083
Specific impairment	(463,760)	(355,049)
Carrying amount	**907,465**	**450,034**
Collectively impaired		
Neither past due nor impaired	7,305,028	6,567,885
Past due and not impaired	829,267	536,656
Gross amount	8,134,295	7,104,541
Portfolio impairment provision	(12,760)	(16,153)
Carrying amount	**8,121,535**	**7,088,388**
Net loans and advances	**9,029,000**	**7,538,422**

(ii). Other financial assets

	2013 KShs'000	2012 KShs'000
Neither past due nor impaired		
Investment in government securities	2,758,508	2,949,561
Placements with other banks	1,184,717	701,668
Balances due from parent and related companies	98,218	506,679
Other assets – items in transit	65,888	242,216

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Bank 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 substandard, doubtful and loss in the Bank's internal credit risk grading system.

Past due but not impaired loans

These are loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Loans with renegotiated terms

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

Allowances for impairment

The Bank 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 individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The Bank writes off the loan/security balance (and any related allowances for impairment losses) when the Board Credit Committee determines that the loans / securities are uncollectable. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

For smaller balance standardised loans, write off decisions generally are based on a product specific past due status.

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

Loans and advances to customers

	Gross KShs'000	Net KShs'000
31 December 2013:		
Impaired (substandard)	830,212	613,581
Impaired (doubtful)	449,721	246,595
Impaired (loss)	91,292	47,289
	1,371,225	**907,465**

	Gross KShs'000	Net KShs'000
31 December 2012:		
Impaired (substandard)	428,305	287,340
Impaired (doubtful)	344,355	156,080
Impaired (loss)	32,423	6,614
	805,083	**450,034**

Fair value of collaterals

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2013 or 2012.

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

Loans and advances to customers	2013 KShs'000	2012 KShs'000
Against individually impaired		
Property	135,800	168,000
Debt Securities	6,000	42,000
Other	2,000	17,000
Against collectively impaired		
Property	207,608	300,944
Debt Securities	-	65,754
Other	35,500	-
Against past due but not impaired		
Property	178,612	270,000
Debt Securities	11,779	10,604
Equities	-	25,431
Other	47,815	14,076
Against neither past due nor impaired		
Property	5,267,429	6,823,420
Debt securities	1,442,749	5,948,195
Equities	85,342	87,079
Other	1,220,690	1,080,488

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk at the reporting date is shown below:

Gross loans and advances to customers:

	2013 KShs'000	2012 KShs'000
Carrying amount		
Building and construction	1,715,336	2,283,358
Wholesale and retail trade, restaurants and hotels	3,657,819	2,162,805
Finance and insurance	41	5,477
Manufacturing	450,471	709,004
Social, community, personal services	1,226,591	880,255
Agriculture	1,363,933	995,662
Others	1,091,329	873,063
	9,505,520	**7,909,624**

Settlement risk

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

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

(c). Liquidity risk

Liquidity risk arises in the general funding of the Bank's activities and in the management of positions. It includes both the risk of being unable to fund assets at appropriate maturities and rates and the risk of being unable to liquidate an asset at a reasonable price and in an appropriate time frame.

The Bank has access to a diverse funding base. Funds are raised mainly from deposits and share capital. This enhances funding flexibility, limits dependence on any one source of funds and generally lowers the cost of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy.

In addition the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business.

Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to Banks and other inter-Bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Bank and operating subsidiaries. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

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

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

	2013	2012
At 31 December	34.6%	35.7%
Average for the period	35.4%	30.7%
Maximum for the period	37.9%	35.7%
Minimum for the period	34.1%	25.5%

The table below analyses financial liabilities of the Bank into relevant maturity Bankings based on the remaining period at 31 December 2013 to the contractual maturity date.

	On demand KShs'000	Due within 3 months KShs'000	Due between 3-12 months KShs'000	Due between 1-5 years KShs'000	Total KShs'000
31 December 2013:					
LIABILITIES					
Deposits from banking institutions	-	-	-	-	-
Customer deposits	4,736,752	3,000,991	6,115,709	2,976	13,856,428
Borrowed funds	-	-	-	200,415	200,415
Other liabilities – Bills payable	43,490	-	-	-	43,490
TOTAL LIABILITIES	**4,780,242**	**3,000,991**	**6,115,709**	**203,391**	**14,100,333**
31 December 2012:					
LIABILITIES					
Deposits from banking institutions	-	82	-	-	82
Customer deposits	4,807,445	2,771,837	5,302,411	81,072	12,962,765
Borrowed funds	-	-	-	200,415	200,415
Other liabilities – Bills payable	53,706	-	-	-	53,706
TOTAL LIABILITIES	**4,861,151**	**2,771,919**	**5,302,411**	**281,487**	**13,216,968**

(d). Market risk

Interest rate risk

The Bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the Bank's business strategies. The bank does not have any significant interest rate risk exposures.

This table shows the extent to which the Bank's interest rate exposures on assets and liabilities are matched. Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date:

31 Dec 2013:	Effective interest rate %	3 months or less KShs'000	Over 3 months KShs'000	Over 1Year KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS						
Cash and balances with Central Bank of Kenya	-	-	-	-	826,230	826,230
Investments in Government securities	8.50%	-	-	2,758,508	-	2,758,508
Placements with other banks	3.32%	1,184,717	-	-	-	1,184,717
Loans and advances to customers	18.00%	3,946,202	703,606	4,379,192	-	9,029,000
Balance due from Bank companies	-	-	-	-	98,218	98,218
Other assets - Items in transit	-	-	-	-	65,888	65,888
TOTAL ASSETS		**5,130,919**	**703,606**	**7,137,700**	**990,336**	**13,962,561**
Deposits from banking institutions	8.34%					
Customer deposits	7.34%	7,737,743	4,902,152	1,216,533	-	13,856,428
Borrowed funds	12.00%	-	-	200,415	-	200,415
Other liabilities – Bills payable	-	-	-	-	43,490	43,490
TOTAL LIABILITES		**7,737,743**	**4,902,152**	**1,416,948**	**43,490**	**14,100,333**
Asset – liability gap 2013		**(2,606,824)**	**(4,198,546)**	**5,720,752**	**946,846**	**(137,772)**

31 Dec 2012:	Effective interest rate %	3 months or less KShs'000	Over 3 months KShs'000	Over 1Year KShs'000	Non-interest bearing KShs'000	Total KShs'000
ASSETS						
Cash and balances with Central Bank of Kenya	-	-	-	-	1,007,088	1,007,088
Investments in Government securities	9.52%	-	474,477	2,475,084	-	2,949,561
Placements with other banks	2.92%	701,668	-	-	-	701,668
Loans and advances to customers	19.46%	1,268,406	431,781	5,838,235	-	7,538,422
Balance due from Bank companies	-	-	-	-	506,679	506,679
Other assets - Items in transit	-	-	-	-	242,216	242,216
TOTAL ASSETS		**1,970,074**	**906,258**	**8,313,319**	**1,755,983**	**12,945,634**
Deposits from banking institutions	15.05%	82	-	-	-	82
Customer deposits	11.40%	7,579,283	5,383,482	-	-	12,962,765
Borrowed funds	12.00%	-	-	200,415	-	200,415
Other liabilities – Bills payable	-	-	-	-	53,706	53,706
TOTAL LIABILITES		**7,579,365**	**5,383,482**	**200,415**	**53,706**	**13,216,968**
Asset – liability gap 2012		**(5,609,291)**	**(4,477,224)**	**8,112,904**	**1,702,277**	**(271,334)**

Sensitivity analysis on interest rates

An increase of 1 percentage point in interest rates for the period would have increased/ (decreased) profit and loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. This analysis is performed on the same basis for 2012.

Effect in Kenya shillings thousands	Profit or loss	
	2013	2012
Interest income	140,365	103,230
Interest expense	(141,003)	(131,141)
Net change in interest	**(638)**	**(27,911)**

A decrease of 1 percentage point in interest rates for the period would have had an equal but opposite effect on the profit and loss, on the basis that all other variables remain constant.

Currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Bank ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

The various currencies to which the Bank is exposed at 31 December 2013 are summarised in the table below (all expressed in Kenya Shillings thousands):

31 December 2013	USD	GBP	EURO	Total
ON BALANCE SHEET ITEMS				
ASSETS				
Cash and balances with Central Bank	62,261	57,222	83,010	202,493
Loans and advances to customers	1,611,779	257	150,510	1,762,546
Other assets	4,110	545	7	4,662
TOTAL ASSETS	**1,678,150**	**58,024**	**233,527**	**1,969,701**
Customer deposits	1,519,842	57,178	228,925	1,805,945
Deposits from banking institutions	-	-	-	-
Other liabilities	155,453	475	362	156,290
TOTAL LIABILITIES	**1,675,295**	**57,653**	**229,287**	**1,962,235**
Net currency exposure – on balance sheet position	**2,855**	**371**	**4,240**	**7,466**
OFF BALANCE SHEET ITEMS				
Contingent liabilities	**692,888**	**1,001**	**9,664**	**703,753**

31 December 2012	USD	GBP	EURO	Total
ON BALANCE SHEET ITEMS				
ASSETS				
Cash and balances with Central Bank	65,708	27,013	59,075	151,796
Loans and advances to customers	1,307,925	147	136,545	1,444,617
Other assets	13,656	-	-	13,656
TOTAL ASSETS	**1,387,289**	**27,160**	**195,620**	**1,610,069**
Customer deposits	1,276,809	28,226	197,166	1,502,201
Deposits from banking institutions	-	-	-	-
Other liabilities	104,180	395	336	104,911
TOTAL LIABILITIES	**1,380,989**	**28,621**	**197,502**	**1,607,112**
Net currency exposure – on balance sheet position	**6,300**	**(1,461)**	**(1,882)**	**2,957**
OFF BALANCE SHEET ITEMS				
Contingent Liabilities	**309,728**	**-**	**-**	**309,728**

The following exchange rates were applied during the year:

	Average rate		Closing rates	
	2013	2012	2013	2012
US Dollar	86.15	84.61	86.50	86.09
Sterling Pound	134.78	131.80	143.01	138.66
Euros	114.60	112.30	119.35	103.50

Sensitivity analysis

A 10 percent increase in the rate of the Kenya shilling against the following currencies at 31 December would have increased/(decreased) profit or loss for revaluation by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remains constant. The analysis is performed on the same basis as for 2012.

Effect in Kenya shillings thousands	Profit or loss	
	2013	2012
As at 31 December		
US Dollar	285	630
Sterling pound	37	(146)
Euros	424	(188)

A 10 percent decrease in the rate of the Kenya shilling against the above currencies at 31 December 2013 and 2012 would have had an equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e). Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This is supported by the development of overall standards for the management of operational risk in areas such as compliance with regulatory requirements, ethical and business standards, training and professional development, documentation of controls and procedures and requirements for the reconciliation and monitoring of transactions amongst others.

(f). Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Bank. The Bank's operations are directly supervised by local regulators.

In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank uses its internal grading as the basis for risk weightings for credit risk.

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

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes. A bank must maintain a minimum core capital of KShs 1,000 million.

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

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

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

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

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.

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

	2013 KShs'000	2012 KShs'000
Core capital (Tier 1)		
Ordinary share capital	2,316,756	1,723,238
Retained earnings	(1,101,070)	(1,175,527)
	1,215,686	547,711
Supplementary capital (Tier 2)		
Statutory credit risk reserve	139,353	119,450
Subordinated debt	130,270	180,373
	269,623	299,823
Total regulatory capital	**1,485,309**	**847,534**
Risk-weighted assets		
On balance sheet risk weighted assets	10,223,714	9,145,116
Off balance sheet risk weighted assets	924,506	410,875
Total risk-weighted assets	**11,148,220**	**9,555,991**
Capital ratios		
Percentage of total regulatory capital to Risk-weighted assets	12.25%	8.87%
Minimum requirement	**12.00%**	**12.00%**
Percentage of core capital to risk weighted assets	10.03%	5.73%
Minimum requirement	**8.00%**	**8.00%**
Percentage of core capital to deposits	8.77%	4.23%
Minimum requirement	**8.00%**	**8.00%**

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.

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.

The Bank was not compliant with the requirement to hold KShs 1,000 million as at 31 December 2012. This was regularised during the year with additional capital injection (Note 29).

5. Use Of Estimates and Judgements

(a). Impairment on loans and advances

The Bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

(b). Fair value of financial instruments

Fair value policy applicable from 1 January 2013 is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

Fair value policy applicable before 1 January 2013 is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Bank's financial instruments are carried at fair value, with changes in fair value either reported within the profit or loss or within equity until the instrument is sold or becomes impaired. Details of the type and classification of the Bank's financial instruments are set out in Note 6 to the financial statements.

(c). Depreciation of property and equipment

Critical estimates are made by the Directors in determining the useful lives of property and equipment.

(d). Taxes

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on tax losses not yet used and on temporary differences where it is probable that there will be taxable revenue against which these can be offset. Management has made judgments as to the probability of tax losses being available for offset at a later date.

6. Financial Assets and Liabilities and Their Fair Values

(a). Accounting classifications and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

	Held to maturity KShs'000	Loans and receivables KShs'000	Other amortized cost KShs'000	Total carrying amount KShs'000
As at 31 December 2013:				
Assets				
Cash and cash equivalents	-	-	826,230	826,230
Deposits and balances due from other banks	-	-	1,184,717	1,184,717
Investments in Government securities	2,758,508		-	2,758,508
Loans and advances to customers	-	9,029,000	-	9,029,000
Total assets	**2,758,508**	**9,029,000**	**2,010,947**	**13,798,455**
Liabilities				
Customers' deposits	-	-	13,856,428	13,856,428
Borrowed funds	-	-	200,415	200,415
Total liabilities	**-**	**-**	**14,056,843**	**14,056,843**
As at 31 December 2012:				
Assets				
Cash and cash equivalents	-	-	1,007,088	1,007,088
Deposits and balances due from other banks	-	-	701,668	701,668
Investments in Government securities	2,949,561	-	-	2,949,561
Loans and advances to customers	-	7,538,422	-	7,538,422
Total assets	**2,949,561**	**7,538,422**	**1,708,756**	**12,196,739**
Liabilities				
Deposits and balances due to banking institutions	-	-	82	82
Customers' deposits	-	-	12,962,765	12,962,765
Borrowed funds	-	-	200,415	200,415
Total liabilities	**-**	**-**	**13,163,262**	**13,163,262**

The following sets out the Bank's basis of establishing fair value of the financial instruments:

Cash and balances with Central Bank of Kenya

The fair value of cash and bank balances with the Central Bank of Kenya approximates their carrying amount.

Deposits and advances to banks

The fair value of floating rate placements and overnight deposits approximates their carrying amounts.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances reprice within 12 months and hence the carrying amount is a good proxy of the fair value.

Investments in government securities

Investments in government securities are measured at amortised cost using the effective interest method. The estimated fair value represents the discounted amount of future cash flows expected to be received.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits mature within 6 months and hence the carrying amount is a good proxy of the fair value.

7. Interest Income

	2013 KShs'000	2012 KShs'000
Loans and advances to customers	1,527,476	1,611,104
Government securities	202,886	266,365
Placements with other banks	14,929	6,334
	1,745,291	**1,883,803**

8. Interest Expense

	2013 KShs'000	2012 KShs'000
Customer deposits	900,633	1,333,988
Deposits and other interest from other banks and financial institutions	16,153	206,685
	916,786	**1,540,673**

9. Other Operating Income/(Expense)

	2013 KShs'000	2012 KShs'000
(Loss)/profit on sale of property and equipment	(27,831)	575
Bond trading loss	-	(37,643)
Other income	67,718	18,614
	39,887	**(18,454)**

10. Operating Expenses

	2013 KShs'000	2012 KShs'000
Salaries and employee benefits	340,632	361,047
Occupancy expenses	172,420	159,028
Deposit protection fund contribution	16,226	13,593
Other provisions	35,479	143,651
Premerger expenses	-	186
Other expenses	314,406	340,478
	879,163	**1,017,983**

Included in other expenses are support services payable to a related company of KShs 5,975,835 (2012 – KShs 7,780,443).

11. Staff Costs

	2013 KShs'000	2012 KShs'000
Salaries and wages	240,223	267,947
Contributions to defined contribution scheme	11,482	17,576
Social security contributions	418	152
Staff welfare	88,509	75,372
	340,632	**361,047**

The average numbers of employees engaged during the year were:	2013	2012
Management staff	179	184
Unionisable	4	5
	183	**189**

12. Profit/(Loss) Before Taxation

	2013 KShs'000	2012 KShs'000
Profit/(loss) before taxation is arrived at after recognising the following:		
Depreciation expense	45,558	42,289
Amortisation of intangible assets	7,125	7,061
Directors' emoluments:		
Non-executives – Fees	1,598	910
Executives – Remuneration	19,135	17,923
Auditors' remuneration – Current year	4,411	4,010
Loss/(profit) on sale of property and equipment	27,831	(575)

Notes to the Financial Statements
for the Year Ended 31 December 2013

13. Taxation

	2013 KShs'000	2012 KShs'000
Current tax at 30% on adjusted profit for tax purposes	-	-
Deferred tax movement (Note 24)	62,517	(182,650)
Prior year (under)/over provision of deferred tax asset	(5,358)	8,590
Tax charge/(credit) for the year	**57,159**	**(174,060)**

The tax on the Bank's profit/(loss) differs from the theoretical amount using the basic tax rate as follows:

	2013 KShs'000	2012 KShs'000
Accounting profit/(loss) before tax	**112,809**	**(656,000)**
Computed tax using the applicable tax rate of 30%	33,843	(196,800)
Non-deductible expenses and non-taxable income	17,958	31,330
Prior year under/(over) provision of deferred tax asset	5,358	(8,590)
Income tax charge/(credit)	**57,159**	**(174,060)**

14. Basic and Diluted Earnings Per Share

The calculation of basic and diluted earnings per share is based on:	2013	2012
Net profit/(loss) for the year attributable to shareholders – KShs'000	**55,650**	**(481,940)**
Weighted average number of ordinary shares in issue at 31 December	**428,483**	**344,648**
Basic and diluted earnings per share (KShs)	**0.13**	**(1.40)**

15. Dividends Per Share

No dividends were declared in 2013 (2012 - Nil).

16. Cash and Balances With Central Bank of Kenya

	2013 KShs'000	2012 KShs'000
Cash on hand	232,387	211,378
Balances with Central Bank of Kenya:		
- Cash reserve ratio	550,617	667,024
- Other	43,226	128,686
	826,230	**1,007,088**

The cash ratio reserve with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. At 31 December 2013, the cash reserve ratio requirement was 5.25% of eligible deposits (2012 – 5.25%). The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

17. Investments Held To Maturity

	2013 KShs'000	2012 KShs'000
Government securities		
Treasury bonds	2,758,508	2,949,561
Total investments	**2,758,508**	**2,949,561**

The weighted average effective interest rate on government securities for the year 2013 was 8.5 % (2012 – 9.35%).

18. Placements With Other Banks

	2013 KShs'000	2012 KShs'000
Due within 90 days	1,184,717	701,668

The weighted average effective interest rate on placements with other banks for the year 2013 was 3.32 % (2012 - 2.92%).

19. Loans and Advances To Customers

	2013 KShs'000	2012 KShs'000
(a). Overdrafts	2,502,733	3,217,500
Loans	5,529,340	4,234,747
Bills discounted	3	30,570
Others	1,473,444	426,807
Gross loans and advances	9,505,520	7,909,624
Less: Impairment losses on loans and advances	(476,520)	(371,202)
Net loans and advances	**9,029,000**	**7,538,422**

(b). Impairment losses on loans and advances

31 December 2013:	Specific impairment losses KShs'000	Portfolio impairment losses KShs'000	Total KShs'000
At 1 January 2013	355,049	16,153	371,202
Amounts written off during the year	(13,401)	-	(13,401)
	341,648	16,153	357,801
Allowances made during the year	122,112	(3,393)	118,719
At 31 December 2013	**463,760**	**12,760**	**476,520**
31 December 2012:			
At 1 January 2012	211,252	16,904	228,156
Amounts written off during the year	(12,471)	-	(12,471)
	198,781	16,904	215,685
Allowances made during the year	156,268	(751)	155,517
At 31 December 2012	**355,049**	**16,153**	**371,202**

The weighted average effective interest rate on loans and advances to customers for the year 2013 was 18% (2012 –19.46%).

(c). Non performing loans and advances

Gross loans and advances include an amount of KShs 1,371,225,000 (2012 – KShs 805,083,000) which has been determined as impaired. These loans have been written down to their recoverable amount.

20. Non-Current Asset Held For Sale

	2013 KShs'000	2012 KShs'000
At 1 January	-	-
Transfer from property and equipment (Note 21)	414,510	-
31 December	**414,510**	**-**

The non-current asset held for sale relates to a building owned by the Bank. This property has been placed on the market and sale is expected within the 2014 financial year.

21. Property and Equipment

2013:	Building on Leasehold KShs'000	Leasehold Improvements KShs'000	Motor vehicles KShs'000	Furniture, fixtures and fittings KShs'000	Computer hardware KShs'000	Office equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost:								
At 1 January 2013	-	205,755	14,257	48,464	84,653	80,063	3,033	436,225
Additions	414,510	-	-	-	-	-	83,144	497,654
Transfer to non-current asset held for sale (Note 20)	(414,510)	-	-	-	-	-	-	(414,510)
Transfer from WIP	-	21,649	2,900	22,828	8,084	13,148	(68,609)	-
Disposals	-	(29,994)	(4,802)	(10,642)	(1,939)	(7,620)	-	(54,997)
At 31 December 2013	-	197,410	12,355	60,650	90,798	85,591	17,568	464,372
Depreciation:								
At 1January 2013	-	33,743	5,987	25,046	50,567	29,262	-	144,605
Charge for the year	-	16,152	2,557	4,874	13,404	8,571	-	45,558
On disposal	-	(4,743)	(2,757)	(6,017)	(1,331)	(7,070)	-	(21,918)
At 31 December 2013	-	45,152	5,787	23,903	62,640	30,763	-	168,245
Net book value:								
At 31 December 2013	**-**	**152,258**	**6,568**	**36,747**	**28,158**	**54,828**	**17,568**	**296,127**

Notes to the Financial Statements
for the Year Ended 31 December 2013

2012:	Leasehold Improvements KShs'000	Motor vehicles KShs'000	Furniture, fixtures and fittings KShs'000	Computer hardware KShs'000	Office equipment KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost:							
At 1 January 2012	81,749	8,683	122,318	68,634	132,149	75,231	488,764
Additions	-	-	-	-	-	99,518	99,518
Transfer from WIP	79,493	4,650	13,015	30,739	25,482	(153,379)	-
Transfer from WIP to intangible assets	-	-	-	-	-	(18,337)	(18,337)
Reclassification	74,882	3,263	(72,977)	25,663	(30,831)	-	-
Reclassification to intangible assets	-	-	-	(10,642)	-	-	(10,642)
Disposals	-	(2,339)	-	-	-	-	(2,339)
Write off	(30,369)	-	(13,892)	(29,741)	(46,737)	-	(120,739)
At 31 December 2012	205,755	14,257	48,464	84,653	80,063	3,033	436,225
Depreciation:							
At 1January 2012	5,137	2,413	62,833	51,136	92,965	-	214,484
Charge for the year	15,154	3,470	4,447	12,094	7,124	-	42,289
Reclassification	29,714	1,510	(30,553)	28,586	(29,257)	-	-
Reclassification to intangible assets	-	-	-	(10,242)	-	-	(10,242)
On disposal	-	(2,339)	-	-	-	-	(2,339)
Write off/back	(16,262)	933	(11,681)	(31,007)	(41,570)	-	(99,587)
At 31 December 2012	33,743	5,987	25,046	50,567	29,262	-	144,605
Net book value:							
At 31 December 2012	**172,012**	**8,270**	**23,418**	**34,086**	**50,801**	**3,033**	**291,620**

22. Intangible Assets

	2013 KShs'000	2012 KShs'000
Cost		
At 1 January	57,315	36,599
Transfer from WIP	-	18,337
Additions	12,953	-
Reclassification	-	10,642
Write off	-	(8,263)
At 31 December	70,268	57,315
Amortisation		
At 1 January	34,413	22,887
Reclassification	-	10,242
Write off	-	(5,777)
Recognised for the year	7,125	7,061
At 31 December	41,538	34,413
Net carrying amount at 31 December	**28,730**	**22,902**

23. Investments In Associate Companies

The Bank's share of profit of its equity accounted investees for the year was KShs 20,112,000 (2012–KShs 23,173,000). The following is the movement in the Bank's investment in the associates:

	Equatorial Investment Bank KShs'000 KShs'000	Fidelity Shield Insurance Company KShs'000	Total
2013			
Balance as at 1st January 2013	16,948	197,603	214,551
Prior year over stated gains	-	(11,278)	(11,278)
Share of profits of associates	-	31,390	31,390
Net investment in associates 31 December 2013	**16,948**	**217,715**	**234,663**
2012			
Balance as at 1January 2012	16,948	174,430	191,378
Prior year understated gains	-	4,493	4,493
Share of profits of associates	-	18,680	18,680
Net investment in associates 31 December 2012	16,948	197,603	214,551

Notes to the Financial Statements
for the Year Ended 31 December 2013

Summary financial information for equity accounted investees, not adjusted for the percentage ownership held by the Bank:

	Fidelity Shield Insurance Company		Equatorial Investment Bank	
	2013	2012	2013	2012
Ownership	23.86%	23.86%	20%	20%
	KShs'000	KShs'000	KShs'000	KShs'000
Current assets	465,473	335,986	85,410	85,410
Non-current	1,534,543	1,510,140	-	-
Total assets	**2,000,016**	**1,846,126**	**85,410**	**85,410**
Current liabilities	126,044	176,511	670	670
Non-current liabilities	961,498	841,433	-	-
Total liabilities	**1,087,542**	**1,017,944**	**670**	**670**
Total equity	**912,474**	**828,182**	**84,740**	**84,740**
Revenues	219,823	162,594	-	-
Expenses	88,263	84,300	-	-
Profit/(loss)	**131,560**	**78,294**	**-**	**-**

24. Deferred Tax

Deferred tax assets at 31 December 2013 and 2012 are attributable to movements in temporary differences between calculations of certain items for accounting and for taxation purposes as specified below:

2013:	Balance at 01/01/2013 KShs'000	Prior year under provision KShs'000	Recognised in profit or loss KShs'000	Balance at 31/12/2013 KShs'000
Arising from:				
Plant and equipment	11,017	5,358	(4,057)	12,318
Carried forward tax loss	454,791	-	(74,876)	379,915
General provisions for loans and advances	111,361	-	31,596	142,957
Other provisions	20,091	-	(15,180)	4,911
	597,260	**5,358**	**(62,517)**	**540,101**

2012:	Balance at 01/01/2011 KShs'000	Prior year over provision KShs'000	Recognised in profit or loss KShs'000	Balance at 31/12/2011 KShs'000
Arising from:				
Plant and equipment	6,098	9,104	(4,185)	11,017
Carried forward tax loss	328,486	-	126,305	454,791
General provisions for loans and advances	86,141	(17,694)	42,914	111,361
Other provisions	2,475	-	17,616	20,091
	423,200	**(8,590)**	**182,650**	**597,260**

The tax losses expire from 2014 under the current tax legislation. The Bank is in discussions with the tax authorities on the possibility of extending the period within which the Bank can utilise these losses. A table showing the expiry of the tax losses and the requested extension date is set out below:

Date losses expire if not utilized	Relating to financial year	Tax losses KShs'000	Deferred tax thereon
31 December 2014	Residual 2009 & prior	634,516	190,355
31 December 2016	2011	210,852	63,255
31 December 2017	2012	421,017	126,305
		1,266,385	**379,915**

Notes to the Financial Statements
for the Year Ended 31 December 2013

25. Balances Due From Parent and Related Companies

	2013 KShs'000	2012 KShs'000
Equatorial Commercial Holding Limited	97,564	505,856
ECB Insurance Brokers Limited	654	823
	98,218	**506,679**

26. Other Assets

	2013 KShs'000	2012 KShs'000
Deposits and prepayments	85,784	37,029
Items in transit	65,888	242,216
	151,672	**279,245**

27. Customer Deposits

	2013 KShs'000	2012 KShs'000
From private sector and individuals		
Non-profit institutions and individuals	6,983,324	4,572,321
Private enterprises	5,065,820	6,886,868
Foreign currency accounts	1,807,284	1,503,576
	13,856,428	**12,962,765**

Included in customers' deposits is KShs 1,196,817,924 (2012 – KShs 630,102,388) due to related parties. Interest paid on those deposits during the year was at market rates and amounted to KShs 87,846,435.66 (2012 – KShs 66,799,460).

The weighted average cost of deposits was 7.43% (2012 – 11.40%).

28. Other Liabilities

	2013 KShs'000	2012 KShs'000
Bills payable	43,490	53,706
Sundry creditors	90,661	169,714
	134,151	**223,420**

29. Share Capital and Reserves

(a). Share capital

All shares rank equally with regard to the Banks residual asset. The holders of ordinary and special shares are entitled to receive dividends as declared from time to time and are entitled to 1 vote per share at meetings of the Bank.

Authorised	2013	2012
Number of shares is as follows:		
Ordinary Shares - par value KShs 5	528,000,000	528,000,000
Special class 'A' ordinary shares- par value KShs 1	600,000,000	600,000,000
	1,128,000,000	1,128,000,000

Authorised share capital is as follows:	2013 KShs'000	2012 KShs'000
Ordinary shares	2,640,000	2,640,000
Special class 'A' ordinary shares	600,000	600,000
	3,240,000	3,240,000
Issued and fully paid		
463,351,255 (2012 - 344,647,555)		
Ordinary shares of Kshs 5 each	**2,316,756**	**1,723,238**
The movement in issued and fully paid share capital is as follows:		
As at 1 January	1,723,238	1,723,238
Increase during the year		
(118,703,700 shares at KShs 5 each)	593,518	-
As at 31 December	**2,316,756**	**1,723,238**

Issued but not paid

Ordinary shares amounting to KShs 6,481,500 (1,296,300 shares at KShs 5 each) were issued during the year but had not been paid up at 31 December 2013.

(b). Statutory credit risk reserve

Where impairment losses required by legislation or regulations exceed those computed under International Financial Reporting Standards (IFRSs), the excess is recognised as a statutory reserve and accounted for as an appropriation of retained profits. These reserves are not distributable.

30. Notes To The Statement Of Cash Flows

	2013 KShs'000	2012 KShs'000
(a). Adjustment for non cash items in profit or loss		
Share of profit of associates	(20,112)	(23,173)
Dividend income	(21,506)	(9,679)
Depreciation	45,558	42,289
Amortisation of intangible assets	7,125	7,061
Write off property and equipment	-	21,152
Write off intangible assets	-	2,486
Loss/(gain) on disposal of property and equipment	27,831	(575)
	38,896	39,561
Decrease/(increase) in operating assets		
Central Bank of Kenya cash reserve	116,407	(160,307)
Investment in government securities maturing after 90 days	191,053	681,307
Loans and advances to customers	(1,490,578)	(903,228)
Balances due from parent and related companies	408,461	(8,217)
Other assets	127,573	(154,422)
	(647,084)	**(544,867)**
Increase/(decrease) in operating liabilities		
Increase in customers deposits	893,663	3,128,780
Other liabilities	(89,269)	121,404
	804,394	**3,250,184**
Net cash inflow from operations	**196,206**	**2,744,878**
Tax paid	**-**	**-**
Net cash flow from operating activities	**196,206**	**2,744,878**

(b). Analysis of the balance of cash and cash equivalents

	2013 KShs'000	2012 KShs'000	Change in the year KShs'000
Cash and balances with Central Bank of Kenya	275,613	340,064	(64,451)
Balances due from Banking institutions	1,184,717	701,668	483,049
Deposits and Balances due to banking Institutions	-	(82)	82
	1,460,330	1,041,650	418,680

31. Retirement Benefit Obligations

The Bank has been contributing to two provident funds for former SCBC and former ECB employees established for the benefit of its employees till mid 2013 when they were merged into one. These schemes are classified as defined contribution schemes, whereby the Bank matches contributions to the funds made by employees at 5%. During the year, the Bank incurred costs of KShs 11,481,667 as contributions payable (2012 – KShs 17,576,384).

32. Contingent Liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. The amounts reflected below for guarantees and letters of credit represent the maximum accounting loss that would be recognised at the reporting date if counter parties failed completely to perform as contracted.

	2013 KShs'000	2012 KShs'000
Commitments with respect to:		
Forwards and swaps	178,770	-
Irrevocable letters of credit	237,796	57,309
Guarantees	761,074	276,693
Acceptances	112,575	-
Inward foreign documentary bills	8,199	98,266
	1,298,414	**432,268**

Nature of contingent liabilities

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

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

An acceptance is an undertaking by the Bank to pay a bill of exchange drawn on a customer. The Bank expects most of the acceptances to be presented, and reimbursement by the customer is almost immediate.

Bills for collection are cheques, drawn against foreign or local banks, deposited by the Bank's customers, which are in the process of clearing with the correspondent banks.

Inward foreign documentary bills are extended by the Bank to its customers to enable them import goods from overseas suppliers. The Bank however does not pay the exporters if the importer does not meet his/her contractual obligations.

33. Assets Pledged As Security

	2013	2012
Cash pledged to Central Bank domestic foreign currency clearing	**USD 100,000**	**USD 100,000**

The above funds pledged as security are not available to finance the Bank's day-to-day operations.

34. Related Party Transactions

In the ordinary cause of business, transactions are entered into with Equatorial Commercial Holding Limited, the parent company, other subsidiaries and other companies related to Equatorial Commercial Bank through common shareholders or common directorship. The Bank has also entered into transactions with some of its directors, affiliates and employees.

The aggregate amount of loans:	2013 KShs'000	2012 KShs'000
Directors and affiliates		
Balance at the beginning of the year	19,803	24,335
Loans advanced during the year	88,614	3,001
Interest charged during the year	51,038	5,007
Loans repayments received	(10,470)	(12,540)
	148,985	**19,803**
Guarantees	**6,500**	**38,662**

	2013 KShs'000	2012 KShs'000
Employees:		
Balance at the beginning of the year	125,407	72,614
Loans advanced and interest charged during the year	91,235	85,268
Interest charged during the year	14,149	9,036
Loans repayments received	(48,772)	(41,511)
	182,019	**125,407**

The loans to related parties were given on commercial terms and conditions.

The management fees paid to a related entity have been included in other expenses (Note 10).

The directors emoluments paid during the year have been included in the operating expenses (Note 11).

The Bank pays rent to a related party. In 2013, the amount paid out in rent was KShs 25,758,934 (2012 – 32,905,404).

35. Borrowed Funds

	2013 KShs'000	2012 KShs'000
Borrowed funds	**200,415**	**200,415**

The Bank entered into a loan arrangement in August 2011 of KShs 200,415,000 at a fixed rate of 12%.
It matures on 30 April 2017.

36. Operating Lease

Operating lease rentals are payable as follows:	2013 KShs'000	2012 KShs'000
Tenancy:		
Less than one year	72,345	76,262
Between one and five years	191,560	240,360
Due after five years	2,742	30,241
	266,647	**346,863**

The Bank leases a number of Bank premises under operating leases. The leases typically run for an initial period of between five and eight years with an option to renew the lease after that date. None of the leases include contingent rentals. During the year ended 31 December 2013, KShs 94,792,303 (2012 – KShs 82,176,457) was recognised as an expense in the profit or loss in respect of operating leases.

37. Capital Commitments

Capital commitments of KShs 10,376,352 (2012 – KShs 36,195,803) were outstanding at the year end.

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