



PSC/TR002/2014

**XYZ BANK LIMITED
ILLUSTRATIVE FINANCIAL STATEMENTS
FOR BANKS
31 DECEMBER 2013**

The information contained in this publication is the property of the Institute of Certified Public Accountants of Kenya. Reproduction in any form whatsoever without prior authority is prohibited.

© ICPAK January 2014

INTRODUCTION

This publication provides an illustrative set of financial statements prepared in accordance with International Financial Reporting Standards and the reporting requirements of the Kenya Companies Act for accounting periods beginning on or after 1 January 2013 for a fictitious Kenyan Bank with subsidiaries. The presentation format in the illustrative financial statements is not the only acceptable form of presentation. The form and content of a reporting entity's financial statements are the responsibility of the entity's management, and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in International Financial Reporting Standards.

These illustrative financial statements are not a substitute for reading the Standards themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by International Financial Reporting Standards. Depending on the circumstances, further specific information may be required in order to ensure fair presentation under International Financial Reporting Standards.

The specimen does not cover the following standards:

- IAS 2 Inventories
- IAS 11 Construction contracts
- IAS 20 Accounting for government grants and disclosures of government assistance
- IAS 26 Accounting and reporting by retirement benefits plans
- IAS 28 Investments in associates and joint ventures
- IAS 29 Financial reporting in hyperinflationary economies.
- IAS 33 Earnings per share
- IAS 41 Agriculture
- IFRS 1 First time adoption of international financial reporting standards
- IFRS 2 Share-based payment
- IFRS 3 Business combinations
- IFRS 4 Insurance contracts
- IFRS 5 Non-current assets held for sale and discontinued operations.
- IFRS 6 Exploration for and evaluation for mineral resources
- IFRS 9 Financial instruments
- IFRS 11 Joint arrangements

The references in the left margin of the financial statements represent the paragraph of the Standards in which the disclosure requirements appear- for example '1p17' or IAS 1.17 indicates IAS 1 Paragraph 17. Additional notes and explanations are shown in italics.

| Table of contents | <u>Page No</u> |
|--|-----------------------|
| Corporate information * | - |
| Report of the directors | 3 |
| Statement of directors' responsibilities | 4 |
| Statement of corporate governance * | |
| Report of the independent auditor | 5 |
| Financial statements: | |
| Consolidated statement of profit or loss | 7 |
| Consolidated statement of comprehensive income | 8 |
| Consolidated statement of financial position | 9 |
| Company statement of financial position | 10 |
| Consolidated statements of changes in equity | 11 |
| Company statements of changes in equity | 12 |
| Consolidated statement of cash flows | 13 |
| Notes | 14 - 85 |
| Supplementary information * | xx - xx |

*** Not illustrated – would need to be tailored to describe individual circumstances**

XYZ Bank Limited
Report of directors
For the year ended 31 December 2013

The directors submit their report together with the audited financial statements for the year ended 31 December in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses the state of affairs of the Group and Company.

1. Activities

IAS1.138(b)

The Group is engaged in the business of banking and provision of related services and is licensed under the Banking Act.

2. Results

The profit for the year of KShsXXX (2012: KShsXXX) has been added to retained earnings.

3. Dividends

During the year, an interim dividend of KShsXXX each for every ordinary share of KShsXXX was paid. The directors recommend the approval of a final dividend for the year ended 31 December 2013 of KShsXXX for every ordinary share of KShsXXX. The total dividend for the year, therefore, is ShsXXX (2012: KShs XXX) for every one ordinary share amounting to KShsXXX (2012: KShsXXX).

.

4. Directors

The directors who served during the year and to the date of this report are set out on page xx.

5. Auditor

The company's auditor, XXX, has indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

6. Approval of financial statements

The financial statements were approved by the Board of Directors on XXX2014.

BY ORDER OF THE BOARD

Company Secretary

----- 2014

XYZ Bank Limited
Statement of directors' responsibilities
For the year ended 31 December 2013

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

The directors accept responsibility for the preparation and fair presentation of financial statements that are free from material misstatements whether due to fraud or error. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
- (ii) Selecting and applying appropriate accounting policies;
- (iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the group and the company at 31 December 2013 and of the group financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on -----2014 and signed on its behalf by:

Director

Director

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF XYZ BANK LIMITED

Report on the financial statements

We have audited the accompanying consolidated financial statements of XYZ Bank Limited (the company) and its subsidiaries (together, the group) as set out on pages 7 to 85. These financial statements comprise the consolidated statement of financial position at 31 December 2013 and the consolidated statement of profit or loss, and consolidated statements of comprehensive income, changes in equity and cashflows for the years then ended, together with the statement of financial position of the company standing alone at 31 December 2013 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of 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 misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion the accompanying financial statements give a true and fair view of the financial position of the group and the company at 31 December 2013 and of the financial performance and cash flows of the group for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF XYZ BANK LIMITED (Continued)

CA

Report on other legal requirements

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Andrew Bramwel Charles – P/No 4567.

[Signature of the firm]

**Certified Public Accountants
Nairobi**

.....2014

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| Consolidated statement of profit or loss | | | | |
|---|---|-------------|-------------|-------------|
| For the year ended 31 December 2013 | | | | |
| <i>Reference</i> | <i>In millions of Kenya Shillings</i> | <i>Note</i> | 2013 | 2012 |
| | | | | (restated) |
| <i>IFRS 7.20(b)</i> | Interest income | 7 | | |
| <i>IFRS 7.20(b)</i> | Interest expense | 7 | | |
| | Net interest income | | | |
| <i>IFRS 7.20(c)</i> | Fee and commission income | 8 | | |
| <i>IFRS 7.20(c)</i> | Fee and commission expense | 8 | | |
| | Net fee and commission income | | | |
| <i>IFRS 7.20(a)</i> | Net foreign exchange income | | | |
| <i>IFRS 7.20(a)</i> | Net income from financial instruments carried at fair value through profit or loss | 10 | | |
| <i>IFRS 7.20(a)</i> | Other operating income | 11 | | |
| <i>IFRS 7.20(e)</i> | Credit impairment charges and other provisions on financial assets | 21 | | |
| <i>IAS 1.85</i> | Net operating income | | | |
| <i>IAS 1.99</i> | Employee benefits | 12 | | |
| <i>IAS 1.99, IAS 1.130</i> | Administration and general expenses | | | |
| <i>IAS 17.35(c)</i> | Operating lease expenses | | | |
| <i>IAS 1.99</i> | Depreciation of property plant and equipment | 23 | | |
| <i>IAS 1.99, 38.118(d)</i> | Amortisation of intangible assets | 24 | | |
| <i>IAS 1.99</i> | Other expenses | 13 | | |
| <i>IAS 1.85</i> | Profit before income tax | | | |
| <i>IAS 1.82(d), 12.77</i> | Income tax expense | 14 | | |
| <i>IAS 1.81 A(a)</i> | Profit for the year | | | |
| | Profit attributable to: | | | |
| <i>IAS 1.81 B(a)(iii)</i> | Equity holders of the Bank | | | |
| <i>IAS 1.81 B(a)(i)</i> | Non-controlling interest | | | |
| <i>IFRS12.12 (e)</i> | | | | |
| | Earnings per share: | 15 | | |
| <i>IAS 33.66)</i> | Basic and diluted | | | |
| | Dividends: | 16 | | |
| <i>CA</i> | Interim paid | | | |
| | Proposed final | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| <i>Reference</i> | Consolidated statement of comprehensive income | | | |
|----------------------------|--|--------------|-------------|-------------|
| | For the year ended 31 December 2013 | | | |
| <i>IAS 1.10(b), 81 (a)</i> | <i>In millions of Kenya Shillings</i> | Notes | 2013 | 2012 |
| | | | | (restated) |
| <i>IAS 1.82(f)</i> | Profit for the year | | | |
| | Other comprehensive income, net of income tax | | | |
| <i>IAS 1.82A</i> | Items that will not be reclassified to profit or loss | | | |
| <i>IAS19.93B</i> | Remeasurements on post-employment benefit obligations | 31 | | |
| <i>IAS 1.82A</i> | Items that may be subsequently reclassified to profit or loss | | | |
| <i>IFRS7.20 (a) ii</i> | Net fair value movements on available-for-sale instruments | | | |
| <i>IAS 21.52(b)</i> | Foreign currency translation differences for foreign operations | | | |
| <i>IAS 1.85</i> | Net gain (loss) on hedges of net investments in foreign operations | | | |
| | Other comprehensive income for the year, net of income tax | | | |
| | Total comprehensive income for the year | | | |
| | Attributable to: | | | |
| <i>IAS 1.81 B(b)(ii)</i> | Equity holders of the Bank | | | |
| <i>IAS 1.81(b)(i)</i> | Non-controlling interest | | | |
| | Total comprehensive income for the year | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| <i>Reference</i> | Consolidated statement of financial position | | | | |
|-----------------------------|---|-------------|-------------|-------------|-------------|
| | At 31 December 2013 | | | | |
| 38, 113 | <i>In millions of KShs</i> | <i>Note</i> | 2013 | 2012 | 2011 |
| | | | | (restated) | (restated) |
| | Assets | | | | |
| IAS 1.54(i) | Cash and balances with central bank | 17 | | | |
| IAS 1.54(i) | Items in the course of collection from banks | | | | |
| IAS 1.54(d), IAS 1.54(d) | Financial assets held for trading | 18 | | | |
| IAS 1.54(d) | Financial assets available for sale | 19 | | | |
| IAS 1.54(d) | Financial assets held to maturity | 20 | | | |
| IAS 1.54(d), | Loans and advances to banks | | | | |
| IAS 1.54(d), | Loans and advances to customers | 21 | | | |
| IAS 1.54(i) | Other assets and prepayments | 22 | | | |
| IAS 1.54(a) | Property and equipment | 23 | | | |
| IAS 1.54(c) | Intangible assets | 24 | | | |
| IAS 1.54 (n)) | Deferred income tax | 25 | | | |
| | Total assets | | | | |
| | Liabilities | | | | |
| IAS 1.54(m) | Deposits from banks | 26 | | | |
| IAS 1.54(m) | Items in the course of collection from banks | | | | |
| IAS 1.54(m) | Deposits from customers | 27 | | | |
| IAS 1.54(m) | Financial liabilities held for trading | 18 | | | |
| IAS 1.54(k) | Other liabilities and accrued expenses | 28 | | | |
| IAS 1.54(m) | Borrowings | 29 | | | |
| IAS 1.54(l) | Provisions for liabilities | 30 | | | |
| IAS 1.54(n) | Current income tax | | | | |
| IAS 1.78(d) | Retirement benefits obligations | 31 | | | |
| | Total liabilities | | | | |
| | Equity | | | | |
| IAS 1.54(r) | Share capital | 32 | | | |
| IAS 1.78 (e) | Share premium | 32 | | | |
| IAS 1. 55 | Regulatory reserve | 33 | | | |
| IAS 1. 55 | Other reserves | 34 | | | |
| IAS 1. 55 | Retained earnings | | | | |
| CA | Proposed dividends | 16 | | | |
| IAS 1. 54(r) | Total equity attributable to equity holders of the Bank | | | | |
| IAS 1.54(q) | Non-controlling interest | | | | |
| | Total equity | | | | |
| | Total liabilities and equity | | | | |

The financial statements on pages 5 to 96 were approved for issue by the board of directors on _____ and were signed on its behalf by:

Director Director Director Secretary

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference
IAS 1.39

Company statement of financial position
At 31 December 2013

| 38, 113 | <i>In millions of KShs</i> | <i>Note</i> | 2013 | 2012 | 2011 |
|----------------------------|--|-------------|-------------|-------------|-------------|
| | | | | (restated) | (restated) |
| | Assets | | | | |
| IAS 1.54(i) | Cash and balances with central bank | 17 | | | |
| IAS 1.54(i) | Items in the course of collection from banks | | | | |
| IAS 1.54(d), IAS1.54(d) | Financial assets held for trading | 18 | | | |
| IAS1.54(d) | Financial assets available for sale | 19 | | | |
| IAS1.54(d) | Financial assets held to maturity | 20 | | | |
| IAS 1.54(d), | Loans and advances to banks | | | | |
| IAS1.54(d), | Loans and advances to customers | 21 | | | |
| IAS 1.54(i) | Other assets and prepayments | 22 | | | |
| IAS 1.54(a) | Property and equipment | 23 | | | |
| IAS 1.54(c) | Intangible assets | 24 | | | |
| IAS 1.54 (n)) | Deferred income tax | 25 | | | |
| | Investment in subsidiaries | 37 | | | |
| | Total assets | | | | |
| | Liabilities | | | | |
| IAS 1.54(m) | Deposits from banks | 26 | | | |
| IAS 1.54(m) | Items in the course of collection from banks | | | | |
| IAS 1.54(m) | Deposits from customers | 27 | | | |
| IAS 1.54(m) | Financial liabilities held for trading | 18 | | | |
| IAS 1.54(k) | Other liabilities and accrued expenses | 28 | | | |
| IAS 1.54(m) | Borrowings | 29 | | | |
| IAS 1.54(l) | Provisions for liabilities | 30 | | | |
| IAS 1.54(n) | Current income tax | | | | |
| IAS 1.78(d) | Retirement benefits obligations | 31 | | | |
| | Total liabilities | | | | |
| | Equity | | | | |
| IAS 1.54(r) | Share capital | 32 | | | |
| IAS 1.78 (e) | Share premium | 32 | | | |
| IAS 1. 55 | Regulatory reserves | 33 | | | |
| IAS 1. 55 | Other reserves | 34 | | | |
| IAS 1. 55 | Retained earnings | | | | |
| C A | Proposed dividends | 16 | | | |
| IAS 1. 54(r) | Total equity | | | | |
| | Total liabilities and equity | | | | |

The financial statements on pages 5 to 96 were approved for issue by the board of directors on _____ and were signed on its behalf by:

Director

Director

Director

Secretary

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| <i>Reference</i> | Consolidated statement of changes in equity | | | | | | |
|-------------------------------|--|---------------|---------------|----------------|--------------------|--|--------------------------|
| | For the year ended 31 December 2013 | | | | | | |
| | <i>In millions of Kenya Shillings</i> | | | | | | |
| | At 1 January 2012 | | | | | | |
| | Total comprehensive income for the year | | | | | | |
| <i>IAS 1.106(d)(i)</i> | Profit for the year | Share capital | Share premium | Other reserves | Regulatory reserve | Attributable to equity holders of the Bank | |
| <i>IAS 1.106(d)(ii, 106A)</i> | Other comprehensive income, net of tax | | | | Retained earnings | Proposed dividends | Non-controlling interest |
| <i>IAS 1.06(a)</i> | Total comprehensive income for the year | | | | | Total | Total equity |
| <i>IAS 1.106(d)(iii)</i> | Transactions with owners, recorded directly in equity | | | | | | |
| | Contributions by and distributions to owners of the Group | | | | | | |
| | Dividends to equity holders | | | | | | |
| | Dividends to non-controlling interests | | | | | | |
| | Issue of bonus shares | | | | | | |
| | Total transactions with owners | | | | | | |
| | At 31 December 2012 | | | | | | |
| | At 1 January 2012 | | | | | | |
| | Total comprehensive income for the year | | | | | | |
| <i>IAS 1.106(d)(i)</i> | Profit for the year | | | | | | |
| <i>IAS 1.106(d)(ii, 106A)</i> | Other comprehensive income, net of tax | | | | | | |
| <i>IAS 1.06(a)</i> | Total comprehensive income for the year | | | | | | |
| <i>IAS 1.106(d)(iii)</i> | Transactions with owners, recorded directly in equity | | | | | | |
| | Contributions by and distributions to owners of the Group | | | | | | |
| | Dividends to equity holders | | | | | | |
| | Dividends to non-controlling interests | | | | | | |
| | Proceeds from shares issued | | | | | | |
| | Total transactions with owners | | | | | | |
| | Balance at 31 December 2013 | | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| Company statement of changes in equity | | | | | | |
|---|--|--|--|--|--|--|
| Reference | For the year ended 31 December | | | | | |
| | <i>In millions of Kenya Shillings</i> | | | | | |
| | At 1 January 2012 | | | | | |
| | Total comprehensive income for the year | | | | | |
| <i>IAS 1.106(d)(i)</i> | Profit for the year | | | | | |
| <i>IAS 1.106(d)(ii, 106A)</i> | Other comprehensive income, net of tax | | | | | |
| <i>IAS 1.06(a)</i> | Total comprehensive income for the year | | | | | |
| <i>IAS 1.106(d)(iii)</i> | Transactions with owners, recorded directly in equity | | | | | |
| | Contributions by and distributions to owners of the Group | | | | | |
| | Dividends to equity holders | | | | | |
| | Issue of bonus shares | | | | | |
| | Total transactions with owners | | | | | |
| | At 31 December 2012 | | | | | |
| | At 1 January 2012 | | | | | |
| | Total comprehensive income for the year | | | | | |
| <i>IAS 1.106(d)(i)</i> | Profit for the year | | | | | |
| <i>IAS 1.106(d)(ii, 106A)</i> | Other comprehensive income, net of tax | | | | | |
| <i>IAS 1.06(a)</i> | Total comprehensive income for the year | | | | | |
| <i>IAS 1.106(d)(iii)</i> | Transactions with owners, recorded directly in equity | | | | | |
| | Contributions by and distributions to owners of the Group | | | | | |
| | Dividends to equity holders | | | | | |
| | Proceeds from shares issued | | | | | |
| | Total transactions with owners | | | | | |
| | At 31 December 2013 | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| Reference | Consolidated statement of cash flows | | | |
|--------------------|---|-------|------|------|
| IAS 1.10(d),38,113 | For the year ended 31 December 2013 | | | |
| | In millions of Kenya Shillings | Note | 2013 | 2012 |
| IAS7.18(b) | Cash flows from operating activities | | | |
| IAS 7.31,33 | Interest income | | | |
| IFRS 7.31,33 | Fee and commission income | 9 | | |
| IAS 7.31,33 | Interest paid | 8 | | |
| | Foreign exchange income | | | |
| IAS7.16 (f) | Recoveries on loans previously written off | | | |
| IAS7.16 (f) | Cash payments to employees and suppliers | | | |
| IAS 7.31,33 | Dividends received | | | |
| IAS 7.35 | Income tax expense | 15 | | |
| | Cash flows from operating profits before changes in operating assets and liabilities. | | | |
| | Changes in operating assets and liabilities: | | | |
| | - trading assets | | | |
| | - loans and advances to banks | | | |
| | - loans and advances to customers | | | |
| | - other assets and prepayments | | | |
| | - deposits from other banks | | | |
| | - other deposits | | | |
| | - trading liabilities | | | |
| | - amounts due to customers | | | |
| | - other liabilities and accrued expenses | | | |
| IAS 7.10 | Net Cash flows generated from operating activities | | | |
| IAS 7.21 | Cash flows from investing activities | | | |
| IAS 7.16(c) | Purchase of investment securities | 19,20 | | |
| IAS 7.16(d) | Proceeds from sale of investment securities | 19,20 | | |
| IAS 7.16(a) | Purchase of property, plant and equipment (PPE) | 23 | | |
| IAS 7.16 (b) | Proceeds from the sale of property and equipment | | | |
| IAS 7.16(a) | Purchase of intangible assets | 24 | | |
| | Net cash used in investing activities | | | |
| IAS 7.21 | Cash flows from financing activities | | | |
| IFRS 7.17(a) | Proceeds from issuance of shares | 32 | | |
| IAS 7.17(c) | Proceeds from borrowings | | | |
| IAS 7.17(d) | Repayments of borrowings | | | |
| IAS 7.31, 34 | Dividends paid to company's shareholders | 16 | | |
| IAS 7.31, 34 | Dividends paid to non-controlling interest | | | |
| | Net cash from financing activities | | | |
| | Net increase / (decrease) in cash and cash equivalents | | | |
| | Cash and cash equivalents at start of year | 38 | | |
| IAS 7.28 | Effect of exchange rate fluctuations on cash held | | | |
| | Cash and cash equivalents at 31 December | 38 | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES

1 General information

IAS 1.51 (a) XYZ Bank Limited (The "Bank") is a company domiciled in Kenya. The registered address of the company is [address]. The ultimate holding company of the Bank is XXX Limited, which is a limited liability company incorporated and domiciled in XXX. The consolidated financial statements of the Bank as at and for the year ended 31 December 2013 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in corporate and retail banking.

IAS 1.138
b- (c)

For the Kenya Companies Act reporting purposes, the balance sheet is represented by the statement of financial position and profit or loss account by the statement of profit or loss in these financial statements.

2 Summary of significant accounting policies

IAS 1.112(a) The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

IAS 1.117(b)

2.1 Basis of preparation

IAS 1.116 The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS.

IAS 1.117(a)

(a) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

IFRS 13.9 For those assets and liabilities measured at fair value, fair value 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. When measuring the fair value of an asset or a liability, the company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

IFRS 13.61-67

IFRS 13.72
IFRS 13.76
IFRS 13.81-86

Fair values are categorised into three levels of fair value hierarchy based on the degree to which the inputs to the measurements are observable and the significance of the inputs to the fair value measurement in its entirety:

Level 1 – fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – fair value measurements are derived from inputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the bank at the end of the reporting period during which the change occurred.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures

IAS8.28

Adoption of new and revised standards

All new and revised standards and interpretations that have become effective for the first time in the financial year beginning 1 January 2013 have been adopted by the company. Of those, the following have had an effect on the group and company's financial statements:

- IAS 1 (Amendment), *Presentation of financial statements*: the amendment requires entities to group items of other comprehensive income according to whether or not they will be subsequently reclassified to profit or loss.
- IAS 19 (Amendment), *Employee benefits*: the key amendments include the elimination of the "corridor approach", modification of accounting for termination payments, and changes to the disclosure requirements for defined benefit plans. The revised accounting policy is set out in 2.11 below and has been applied retrospectively in accordance with IAS 8 (except for changes to the carrying value of assets that include employee benefit cost in the carrying amount). Besides the more extensive disclosures, the amendments have had an impact on the company's financial statements set out in Note 30.
- IFRS 7 (Amendment), *Financial Instruments*: disclosures: The amendment provides new guidance on offsetting financial assets and financial liabilities. It allows investors to bridge differences in the offsetting reporting requirements of IFRS and US GAAP and introduces new disclosures that provide better information on how entities mitigate credit risk, including related collateral pledged.
- IFRS 10 *Consolidated financial statements*: The new standard replaces all the guidances on control and consolidation in IAS 27, *Consolidated and separate financial statements* and SIC-12, *Special purpose entities*. IFRS 10 introduces a single consolidation model that identifies control as the basis for consolidation for all types of entities, where control is based on whether an investor has power over the investee, exposure/rights to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the returns.
- IFRS 13, *Fair value measurement*: the new standard defines fair value, set out a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other standards require or permit fair value measurements; it does not introduce any new requirements to measure an asset or liability at fair value.

[This section should only include the standards and interpretations that have had an effect on the entity]

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

IAS 8.30,31 New and revised standards and interpretations which have been issued but are not yet effective
The company has not applied the following revised standards and interpretations that have been published but are not yet effective for the year beginning 1 January 2013.

- Amendments to IAS 32 titled Offsetting Financial Assets and Financial Liabilities (issued in December 2011) – The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32, mainly by clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement. They are effective for annual periods beginning on or after 1 January 2014, with retrospective application.
- Amendments to IAS 36 titled Recoverable Amount Disclosures for Non-Financial Assets (issued in May 2013) – The amendments reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique. They are effective for annual periods beginning on or after 1 January 2014. Amendments to IAS 39 titled Novation of Derivatives and Continuation of Hedge Accounting (issued in June 2013) – The amendments permit the continuation of hedge accounting in a situation where the counterparty to a derivative designated as a hedging instrument is replaced by a new central counterparty (known as ‘novation of derivatives’), as a consequence of laws or regulations, if specific conditions are met. They are effective for annual periods beginning on or after 1 January 2014.
- Amendments to IFRS 10, IFRS 12 and IAS 27 titled Investment Entities (issued in October 2012) – The amendments define “investment entities” and provide them an exemption from the consolidation of subsidiaries; instead, an investment entity is required to measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 / IAS 39 (the exception does not apply to subsidiaries that provide services relating to the investment entity’s investment activities). An investment entity is required to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements, and additional disclosures are introduced. The amendments are effective for annual periods beginning on or after 1 January 2014, retrospectively with some transitional provisions. The Directors do not anticipate any effect on the company’s consolidated financial statements as the parent company is not an investment entity
- IFRIC 21 Levies (issued in May 2013) – The interpretation provides guidance on when to recognise a liability for a levy imposed by a government. The obligating event for the recognition of a liability is the activity that triggers the payment of the levy in accordance with the relevant legislation. It also provides guidance on recognition of a liability to pay levies: the liability is recognised either progressively if the obligating event occurs over a period of time, or when the minimum threshold is reached if an obligation is triggered on reaching that minimum threshold. The interpretation is effective for annual periods beginning on or after 1 January 2014.
- IFRS 9 - *Financial Instruments* it replaces parts of IAS 39 - *Financial Instruments, Recognition and Measurement* that relate classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 requires financial assets to be classified, at initial recognition as either measured at fair value or at amortised cost. The classification depends on the entity’s business model for managing its financial instruments and the characteristics of the contractual cash flows of the instrument. For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in cases where the fair value option is applied for financial liabilities,, the part of a fair value change arising from a change in an entity’s own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

2 Summary of significant accounting policies (continued)

- Amendments to IFRS 9 - *Financial Instruments, hedge accounting*: it replaces parts of IAS 39 - *Financial Instruments, Recognition and Measurement* that relate hedge accounting. The changes align hedge accounting closely to entity risk management policy, replaces the bright line under IAS 39 for hedge effectiveness and eligibility for hedge accounting, changes what qualifies as a hedged item removing the restrictions under IAS 39 and relaxes the rules on the use of some hedging instruments such as purchased options and non-derivative financial items. The standard has no mandatory effective date but it is available for immediate application.

The Directors have assessed the potential impact of the above and expect that they will not have a significant impact on the company's financial statements for 2014.

[The above list of revised standards and interpretations was drafted in November 2013. It should be extended to include all such changes up to the date of approval of the financial statements. It is applicable for 31st December 2013 year ends only and may need to be amended for later periods.]

1p119

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

IFRS10.7
IFRS10.20
IFRS10.25

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

IFRS3.5
IFRS3.37
IFRS3.39
IFRS3.18
IFRS3.19

Acquisition-related costs are expensed as incurred.

IFRS3.53

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

IFRS3.42

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

IFRS3.58

IFRS3.32
IFRS3B63(a)
36p80

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss (note 2.6)

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) Changes in ownership interests

IFRS10.23 Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

IFRS10.25
IFRS10B98
IFRS10B99 When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1p119 **2.3 Foreign currency translation**

(a) Functional and presentation currency

21p17
21p9,18
1p51(d) Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which entity operates ('the functional currency'). The consolidated financial statements presented in Kenya shillings, which is the group's presentation currency.

(b) Transactions and balances

21p21,28
21p32
39p95(a)
39p102(a) Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

39AG83 Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

21p30 Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Group companies

21p39 The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

21p47 Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

1p119 **2.4 Sale and repurchase agreements**

39AG51
39p37 Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1p119 **2.5 Financial assets and liabilities**

2.5.1 Financial assets

39p9
39p38 The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity and available-for-sale financial assets. The directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

(a) Financial assets at fair value through profit or loss

39p9 This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

39p9 The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and an embedded derivatives that must be separated.

39p43
39p17

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively¹. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'

(b) Loans and receivables

39p9

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

- (a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank upon initial recognition designates as available-for-sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

39p43
39p46(a)

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

1p119
39p9

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to maturity, other than:

39p43

- (a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
- (b) those that the Bank designates as available-for-sale; and
- (c) those that meet the definition of loans and receivables.

Held-to-maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

1p119
39p9

(d) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

39p46

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income and cumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss.

2.5.2 Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

2.5.3 Determination of fair value

IFRS13p76

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

IFRS13p78-80

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions

IFRS13p81-86

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 3

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the Bank's credit spreads widen, the Bank recognises a gain on these liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Bank holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

39p17 In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

1p119 **2.5.4 Derecognition**

39p50(c)
39p50B
39p50F Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished

2.5.5 Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

39p50(c)
39p50B
39p50F Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

IFRIC9p7 On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

2.5.6 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table as follows:

IFRS7AppxB1

| Category (as defined by IAS 39) | | Class (as determined by the Bank) | | Subclasses | |
|---|--|--|---|--------------|--|
| Financial assets | Financial assets at fair value through profit or loss | Financial assets held for trading | Debt securities | | |
| | | | Equity securities | | |
| | | | Derivatives – non-hedging | | |
| | | Financial assets designated at fair value through profit or loss | Debt securities | | |
| | | | Equity securities | | |
| | | | Loans and advances to banks | | |
| | Loans and advances to customers | | | | |
| | Loans and receivables | Loans and advances to banks | | | |
| | | Loans and advances to customers | Loans to individuals (retail) | Overdrafts | |
| | | | | Credit cards | |
| | | | Loans to corporate entities | Term loans | |
| | | | | Mortgages | |
| | | Investment securities - debt instruments | Large corporate customers | | |
| | | | SMEs | | |
| | | Held-to-maturity Investments | Investment securities - debt securities | Listed | |
| | Unlisted | | | | |
| | Available-for-sale financial assets | Investment securities - debt securities | | Listed | |
| | | Investment securities - equity securities | | Listed | |
| | Financial liabilities at amortised cost | Deposits from banks | | | |
| | | Deposits from customers | Retail customers | | |
| | | | Large corporate customers | | |
| SMEs | | | | | |
| Off-balance sheet financial Instruments | Loan commitments | | | | |
| | | | | | |
| | Guarantees, acceptances and other financial facilities | | | | |

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

2.6 Impairment of financial assets

(a) Assets carried at amortised cost

39p58
39p59

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

IFRS7 AppxB5(f)

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

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties;
- or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

39p64

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

39p63
39AG84

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

39AG84 The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

39AG87 For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

39AG89 Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

39AG89 Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

IFRS7AppxB5(d) When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

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

(b) Assets classified as available-for-sale

39p58 In the case of equity investments classified as available-for-sale, a significant or prolonged
39p67 decline in the fair value of the security below its cost is objective evidence of impairment
39p68 resulting in the recognition of an impairment loss. If any such evidence exists for available-for-
39p69 sale financial assets, the cumulative loss – measured as the difference between the acquisition
39p70 cost and the current fair value, less any impairment loss on that financial asset previously
recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

2.7 Offsetting financial instruments

32p42 Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

1p119 **2.8 Cash and cash equivalents**

7p45 Cash and cash equivalents include cash in hand, deposits held at call with banks and other
7p46 short-term highly liquid investments with original maturities of three months or less.

1p119 **2.9 Property and equipment**

16p15 Land and buildings comprise mainly branches and offices. All equipment used by the Bank is
16p30 stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

16p12 Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

16p73(b) Land is not depreciated. Depreciation of other assets is calculated using the straight-line method
16p50 to allocate their cost to their residual values over their estimated useful lives, as follows:
16p73(c)

| | |
|--------------------------------|---|
| – Buildings | 25-40 years |
| – Leasehold improvements | 25 years, or over the period of the lease if less than 25 years |
| – Equipment and motor vehicles | 3-8 years |

16p51 The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the
36p59 end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

16p71 Gains and losses on disposals are determined by comparing proceeds with carrying amount.
16p68 These are included in 'other operating expenses' in profit or loss.

1p119 **2.9 Intangible assets**

38p57 Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

38p66 Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

38p68,71 Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

38p97
38p118(a)(b) Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

38p4
38p118(a)(b) Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

1p119 **2.10 Impairment of non-financial assets**

36p9
36p10 Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1p119 **2.11 Employee benefits**

(a) Pension obligations

19p27
19p25
19p7 The Bank operates various pension schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Bank has both defined benefit and defined contribution plans.

19p120A(b)

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

19Rp57,
19Rp58,
19Rp59,
19Rp60,
19Rp67,
19Rp68,
19Rp83 The liability recognised in the statement of the financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the Kenya shillings or the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In the event that there is no deep market in such bonds, the market rates on government bonds are used.

19Rp57(d) Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

19Rp103 Past-service costs are recognised immediately in income

19Rp51 For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

19Rp155 (b) Other post-employment obligations

The Bank provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

1p119 **2.12 Provisions for liabilities**

37p14 Provisions for restructuring costs and legal claims are recognised when: the Bank has a present
 37p72 legal or constructive obligation as a result of past events; it is probable that an outflow of
 37p63 resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

37p24 Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

37p45 Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

1p119 **2.13 Income tax**

(a) Current income tax

12p58 The tax expense for the period comprises current and deferred income tax. Tax is recognised
 12p61A in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

12p12 The current income tax charge is calculated on the basis of tax laws enacted or substantively
 12p46 enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

(b) Deferred income tax

12p24
12p15
12p47
Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

12p24
12p34
12p34
Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

1p119
2.14 Dividend payable

10p12
Dividends on ordinary shares are charged to equity in the period in which they are declared.

2.15 Share capital

IFRS7p21
Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.

1p119
2.16 Leases

17p8
Leases are divided into finance leases and operating leases.

(a) The Bank is the lessee

17p4
17p33
17p15A
(i) Operating lease
Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

Finance lease

17p4
17p20

17p25

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The leases entered into by the Bank are primarily operating leases.

(b) The Bank is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases

17p52

The Bank makes payments to agents for services in connection with negotiating lease contracts with the Bank's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset, and depreciated over the life of the lease.

2.17 Interest income and expense

18p30(a)
IFRS7AppxB5(e)

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

39p9

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

39AG93

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.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

2.18 Fee and commission income

18IE14 Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.19 Dividend income

18p30(c) Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

1p119 **2.20 Acceptances and letters of credit**

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

NOTES (CONTINUED)

3. Financial risk management

IFRS7p31 The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which includes credit risk, liquidity risk and market risk.

3.1 Credit risk

IFRS7p33(a) Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.1 Credit risk measurement (continued)

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Bank considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee) and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model') rather than expected losses (Note 3.1.3).

IFRS7IG23,25 (b)

(i) Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. The Bank's rating method comprises 4 rating levels for loans. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The Bank's internal ratings scale and mapping of external ratings as supplemented by the Bank's own assessment through the use of internal rating tools are as follows:

| Bank's rating | S&P | Description of the grade |
|---------------|--|--------------------------|
| 1 | AAA, AA+, AA, AA-, A+, A, A- | Investment grade |
| 2 | BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B- | Standard monitoring |
| 3 | CCC+, CCC to CC- | Special monitoring |
| 4 | C, D-I, D-II | Default |

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.1 Credit risk measurement (continued)

(ii) Exposure at default ("EAD")

EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default/loss severity

Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II.

(b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Bank Treasury for managing of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal ratings tools.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

NOTES (CONTINUED)

3. Financial risk management (continued)

IFRS7p36(b)

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

IFRS7AppxB10
(b)

(b) Lending limits (for derivative and loan books)

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

IFRS7p36(b)

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

NOTES (CONTINUED)

3. Financial risk management (continued)

IFRS7AppxB10
(c)(d)

(d) Financial covenants (for credit related commitments and loan books)

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards (often referred to as financial covenants).

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The internal and external rating systems described in Note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the statement of financial position at year-end is derived from each of the four internal rating grades. However, the largest component of the impairment allowance comes from the default grade. The table below shows the percentage of the Bank's on- and off-balance sheet items, like financial guarantees, loan commitments and other credit related obligations, relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.3 Impairment and provisioning policies (continued)

[Present the analysis for both Group and Bank]

IFRS7IG25(b)

Bank's rating

| | 2013 | | 2012 | |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| | Credit risk exposure (%) | Impairment allowance (%) | Credit risk exposure (%) | Impairment allowance (%) |
| 1. Investment grade | 24 | 0.2 | 26 | 0.1 |
| 2. Standard monitoring | 52 | 0.7 | 59 | 0.6 |
| 3. Special monitoring | 21 | 7.1 | 14 | 6.9 |
| 4. Default | 3 | 42.0 | 1 | 36.1 |
| | 100 | | 100 | |

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

IFRS7p36(a)

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note XX.

75% of the total maximum exposure is derived from loans and advances to banks and customers (2012: 76%); 6% represents investments in debt securities (2012: 4%).

The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

76% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2012: 85%);

Mortgage loans, which represents the biggest group in the portfolio, are backed by collateral;

81% of the loans and advances portfolio are considered to be neither past due nor impaired (2012: 76%);

The Bank has introduced a more stringent selection process upon granting loans and advances; and

More than 90% of the investments in debt securities and other bills have at least an A-credit rating.

IFRS7p31-33

All credit exposures arise in Kenya. The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

Concentration of risks of financial assets with credit risk exposure

[Present the analysis for both Group and Bank]

At 31 December 2013

| <i>In millions of Kenya Shillings</i> | Financial institutions | Manu- facturing | Real estate | Whole-sale and retail trade | Public sector | Other | Individuals | Total Shs |
|--|------------------------|--------------------|-------------|-----------------------------|---------------|-------|-------------|-----------|
| Balances with the Central Bank and other money-market placements | | | | | | | | |
| Loans and advances to Banks | | | | | | | | |
| Loans and advances to customers: | | | | | | | | |
| Loans to individuals: | | | | | | | | |
| – Overdrafts | | | | | | | | |
| – Credit cards | | | | | | | | |
| – Term loans | | | | | | | | |
| – Mortgages | | | | | | | | |
| Loans to corporate entities: | | | | | | | | |
| – Large corporate Customers | | | | | | | | |
| – SMEs | | | | | | | | |
| – Other | | | | | | | | |
| Financial assets held for trading | | | | | | | | |
| – Debt securities | | | | | | | | |
| – Derivative financial instruments | | | | | | | | |
| Investment securities: | | | | | | | | |
| – Debt securities | | | | | | | | |
| Other assets ² | | | | | | | | |
| As at 31 December 2013 | | | | | | | | |

Credit risk exposures relating to off-balance sheet items are as follows:

| |
|------------------------------------|
| – Debt securities |
| – Derivative financial instruments |
| Investment securities |
| – Debt securities |
| Other assets |

At 31 December 2013

² Other assets exclude prepayments as they are not financial assets.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

Concentration of risks of financial assets with credit risk exposure

| 31 December 2012 | | | | | | | | | |
|--|------|-----|------------------------|--------------------|-------------|---------------------------------------|---------------|-------|-------------|
| <i>In millions of Kenya Shillings</i> | | | Financial institutions | Manu- facturing | Real estate | Whole- sale and retail trade | Public sector | Other | Individuals |
| Balances | with | the | | | | | | | Total |
| Central Bank and other money-market placements | | | | | | | | | |
| Loans and advances to Banks | | | | | | | | | |
| Loans and advances to customers: | | | | | | | | | |
| Loans to individuals: | | | | | | | | | |
| – Overdrafts | | | | | | | | | |
| – Credit cards | | | | | | | | | |
| – Term loans | | | | | | | | | |
| – Mortgages | | | | | | | | | |
| Loans to corporate entities: | | | | | | | | | |
| – Large corporate Customers | | | | | | | | | |
| – SMEs | | | | | | | | | |
| – Other | | | | | | | | | |
| Financial assets held for trading | | | | | | | | | |
| – Debt securities | | | | | | | | | |
| – Derivative financial instruments | | | | | | | | | |
| Investment securities: | | | | | | | | | |
| – Debt securities | | | | | | | | | |
| Other assets ³ | | | | | | | | | |
| As at 31 December 2012 | | | | | | | | | |

Credit risk exposures relating to off-balance sheet items are as follows:

| | Financial institutions Shs | Manu- facturing Shs | Real estate Shs | Whole- sale and retail trade Shs | Public sector Shs | Other ind- ustries Shs | Individuals Shs | Total Shs |
|---|-------------------------------|---------------------------|--------------------|--|----------------------|------------------------------|--------------------|--------------|
| Financial guarantees | | | | | | | | |
| Loan commitments and other credit related obligations | | | | | | | | |
| At 31 December 2012 | | | | | | | | |

³ Other assets exclude prepayments as they are not financial assets.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

Concentration of risks of financial assets with credit risk exposure

| | Loans and advances to customers | Loans and advances to banks | Loans and advances to customers | Loans and advances to banks |
|---------------------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|
| <i>In millions of Kenya Shillings</i> | | | | |
| Neither past due nor impaired | | | | |
| Past due but not impaired | | | | |
| Individually impaired | | | | |
| Gross | | | | |
| Less: allowance for impairment | | | | |
| Net | | | | |
| Portfolio allowance | | | | |
| Individually impaired | | | | |
| Total | | | | |

(a) Loans and advances neither past due nor impaired

IFRS7p36(c)
IFRS7 IG25(b)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

[Present the analysis for both Group and Bank]

| Loans and advances to customers | | | | | | | | |
|---------------------------------------|--|--|--|--|---------------------------|--------------|------------|---------------------------------------|
| Individual (retail customers) | | | | | Corporate entities | | | Total loans and advances to customers |
| | | | | | | | | Loans and advances to banks |
| | | | | | Large corporate customers | SMEs | Other | |
| | | | | | Over-drafts | Credit cards | Term loans | Mort-gages |
| <i>In millions of Kenya Shillings</i> | | | | | | | | |
| 31 December 2013 | | | | | | | | |
| Grades: | | | | | | | | |
| Investment grade | | | | | | | | |
| Standard monitoring | | | | | | | | |
| Special monitoring | | | | | | | | |
| Total | | | | | | | | |
| 31 December 2012 | | | | | | | | |
| Grades: | | | | | | | | |
| Investment grade | | | | | | | | |
| Standard monitoring | | | | | | | | |
| Special monitoring | | | | | | | | |
| Total | | | | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

IFRS7p38

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2013

| <i>In millions of Kenya Shillings</i> | Individual (retail customers) | | | | Total |
|---------------------------------------|-------------------------------|--------------|------------|-----------|-------|
| | Overdrafts | Credit cards | Term loans | Mortgages | |
| Past due up to 30 days | | | | | |
| Past due 30 - 60 days | | | | | |
| Past due 60-90 days | | | | | |
| Total | | | | | |

| <i>In millions of Kenya Shillings</i> | Corporate entities | | | Total |
|---------------------------------------|---------------------------|------|-------|-------|
| | Large corporate customers | SMEs | Other | |
| Past due up to 30 days | | | | |
| Past due 30-60 days | | | | |
| Past due 60-90 days | | | | |
| Total | | | | |

| <i>In millions of Kenya Shillings</i> | Individual (retail customers) | | | | Total |
|---------------------------------------|-------------------------------|--------------|------------|-----------|-------|
| | Overdrafts | Credit cards | Term loans | Mortgages | |
| Past due up to 30 days | | | | | |
| Past due 30-60 days | | | | | |
| Past due 60-90 days | | | | | |
| Total | | | | | |

| <i>In Shs millions</i> | Corporate entities | | | Total |
|------------------------|---------------------------|------|-------|-------|
| | Large corporate customers | SMEs | Other | |
| Past due up to 30 days | | | | |
| Past due 30-60 days | | | | |
| Past due 60-90 days | | | | |
| Total | | | | |

IFRS7p37(b),
IFRS7p38

(c) Loans and advances individually impaired

(i) Loans and advances to customers

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

The individually group impaired loans and advances to customers before taking into consideration the cash flows from collateral held is KShsXXX (2012: KShsXXX). The individually company impaired loans and advances to customers before taking into consideration the cash flows from collateral held is KShsXXX (2012: KShsXXX).

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

[Present the analysis for both Group and Bank]

| | | Individual | | | Corporate entities | | | Total |
|-------------|---------------------------------------|------------|--------------|------------|--------------------|---------------------------|------|--------|
| | | Overdrafts | Credit cards | Term loans | Mortgages | Large corporate customers | SMEs | Others |
| | <i>In millions of Kenya Shillings</i> | | | | | | | |
| | <hr/> | | | | | | | |
| | 31 December 2013 | | | | | | | |
| IFRS7.37(b) | Gross amount | | | | | | | |
| IFRS7.20(e) | Individually impaired loans | | | | | | | |
| | 31 December 2012 | | | | | | | - |
| IFRS7.37(b) | Gross amount | | | | | | | |
| IFRS7.20(e) | Individually impaired loans | | | | | | | |

(ii) Loans and advances to banks

IFRS7.37(b), IFRS7p38 The total amount of individually Group impaired loans and advances to banks as at 31 December 2013 was KShsXXX (2012: KShsXXX).

3.1.6 Debt securities

IFRS7p36(c) The tables below present an analysis of debt securities by rating agency designation at 31 December 2013 and at 31 December 2012, based on Standard & Poor's ratings or their equivalent: ***[Present the analysis for Group and Bank]***

| | Trading securities | Investment securities | Total |
|---------------------------------------|--------------------|-----------------------|-------|
| <i>In millions of Kenya Shillings</i> | | | |
| At 31 December 2013 | | | |
| AAA | | | |
| AA- to AA+ | | | |
| A- to A+ | | | |
| Lower than A- | | | |
| Total | | | |
| At 31 December 2012 | | | |
| AAA | | | |
| AA- to AA+ | | | |
| A- to A+ | | | |
| Lower than A- | | | |
| Total | | | |

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.7 Repossessed Collateral

IFRS7IG22 The Bank obtained assets by taking possession of collateral held as security. The nature and
IFRS7p38(a) carrying amounts of such assets at the reporting date are as follows:
[Present the analysis for Group and Bank]

| | Carrying amount | |
|---------------------------------------|-----------------|------|
| <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
| Nature of assets | | |
| Residential property | | |

Reposessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified within 'other assets'.

3.2 Market risk

IFRS7p31 The Bank takes on exposure to market risks, which is the risk that the fair value or future cash
IFRS7p33(a) flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Board of Directors and heads of each business unit.

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

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

IFRS7p33(b) **3.2.1 Market risk measurement techniques**

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

(a) Value at risk

IFRS7p41 The Bank applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored on a daily basis by Bank Treasury. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis (Note 3.2.4).

NOTES (CONTINUED)

3. Financial risk management (continued)

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the 'maximum' amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain 'holding period' until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Bank's assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices, indices, etc. directly to its current positions – a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank's market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a Bank-wide VAR, is reviewed daily by Bank Treasury. Average daily VAR for the Bank was KShsXXX in 2013 (2012: KShsXXX). The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.2 VAR summary for 2013 and 2012

[Present the analysis for both Group and Bank]

(a) VAR by risk type

| <i>In millions of Kenya Shillings</i> | 12 months to 31 December 2013 | | | 12 months to 31 December 2012 | | |
|---------------------------------------|-------------------------------|------|-----|-------------------------------|------|-----|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | | | | | | |
| Interest rate risk | | | | | | |
| Equity risk | | | | | | |
| Total VAR | | | | | | |

(b) Trading portfolio VAR by risk type

| <i>In Shs millions</i> | 12 months to 31 December 2013 | | | 12 months to 31 December 2012 | | |
|------------------------|-------------------------------|------|-----|-------------------------------|------|-----|
| | Average | High | Low | Average | High | Low |
| Foreign exchange risk | | | | | | |
| Interest rate risk | | | | | | |
| Equity risk | | | | | | |
| Total VAR | | | | | | |

The increase of VAR in 2013, especially the interest rate risk, mainly relates to the increased volatility of market interest rates in global principal financial markets.

3.2.3 Foreign exchange risk

IFRS7ApXB23

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2013. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.3 Foreign exchange risk

[Present the analysis for both Group and Bank]

| At 31 December 2013 <i>In millions of Kenya Shillings</i> | Currency | USD | EUR | GBP | Other | Total |
|--|----------|-----|-----|-----|-------|-------|
| Assets | | | | | | |
| Cash and balances with the Central Bank | | | | | | |
| Loans and advances to banks | | | | | | |
| Loans and advances to customers | | | | | | |
| Financial assets held for trading | | | | | | |
| Investment securities: | | | | | | |
| – Available-for-sale | | | | | | |
| – Loans and receivables | | | | | | |
| – Held-to-maturity | | | | | | |
| Other assets | | | | | | |
| Total financial assets | | | | | | |
| Liabilities | | | | | | |
| Deposits from banks | | | | | | |
| Deposits from customers | | | | | | |
| Other liabilities | | | | | | |
| Dividend payable | | | | | | |
| Total financial liabilities | | | | | | |
| Net on-balance sheet financial position | | | | | | |
| Credit commitments | | | | | | |

The increase of VAR in 2013, especially the interest rate risk, mainly relates to the increased volatility of market interest rates in global principal financial markets.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

| | Currency | USD | EUR | GBP | Other | Tota |
|---|----------|-----|-----|-----|-------|------|
| At 31 December 2012 | | | | | | |
| Assets | | | | | | |
| Cash and balances with the Central Bank | | | | | | |
| Loans and advances to banks | | | | | | |
| Loans and advances to customers | | | | | | |
| Financial assets held for trading | | | | | | |
| Investment securities: | | | | | | |
| – Available-for-sale | | | | | | |
| – Loans and receivables | | | | | | |
| – Held-to-maturity | | | | | | |
| Other assets | | | | | | |
| Total financial assets | | | | | | |
| Liabilities | | | | | | |
| Deposits from banks | | | | | | |
| Deposits from customers | | | | | | |
| Other liabilities | | | | | | |
| Dividend payable | | | | | | |
| Total financial liabilities | | | | | | |
| Net on-balance sheet financial position | | | | | | |
| Credit commitments | | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.4 Interest rate risk

IFRS7p31
IFRS7p33

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing and value at risk that may be undertaken, which is monitored daily by Bank Treasury.

IFRS7p34
(a)(b)

The tables below summarise the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing (for example for floating rate notes).

3.2.4 Interest rate risk

[Present the analysis for both Group and Bank]

| <i>In millions of Kenya Shillings</i> | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non-interest bearing | Total |
|---|---------------|------------|-------------|-----------|--------------|----------------------|-------|
| As at 31 December 2013 | | | | | | | |
| Assets | | | | | | | |
| Cash and balances with the Central Bank | | | | | | | |
| Loans and advances to banks | | | | | | | |
| Loans and advances to customers | | | | | | | |
| Financial assets held for trading | | | | | | | |
| Investment securities: | | | | | | | |
| – Available-for-sale | | | | | | | |
| – Loans and receivables | | | | | | | |
| – Held-to-maturity | | | | | | | |
| Other assets | | | | | | | |
| Total financial assets | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from banks | | | | | | | |
| Deposits from customers | | | | | | | |
| Other liabilities | | | | | | | |
| Dividend payable | | | | | | | |
| Total financial liabilities | | | | | | | |
| Total interest repricing gap | | | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.4 Interest rate risk (continued)

| As at 31 December 2012 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Non- interest bearing | Total |
|---|---------------|------------|-------------|-----------|--------------|-----------------------|-------|
| Assets | | | | | | | |
| Cash and balances with the Central Bank | | | | | | | |
| Loans and advances to banks | | | | | | | |
| Loans and advances to customers | | | | | | | |
| Financial assets held for trading | | | | | | | |
| Investment securities: | | | | | | | |
| – Available-for-sale | | | | | | | |
| – Loans and receivables | | | | | | | |
| – Held-to-maturity | | | | | | | |
| Other assets | | | | | | | |
| Total financial assets | | | | | | | |
| Liabilities | | | | | | | |
| Deposits from banks | | | | | | | |
| Deposits from customers | | | | | | | |
| Other liabilities | | | | | | | |
| Dividend payable | | | | | | | |
| Total financial liabilities | | | | | | | |
| Total interest repricing gap | | | | | | | |

NOTES (CONTINUED)

3. Financial risk management (continued)

3.3 Liquidity risk

IFRS7p31
IFRS7p33
IFRS7p39
(c)

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

IFRS7p39(c)

3.3.1 Liquidity risk management process

IFRS7AppxB1
1F

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (Notes 3.3.3-3.3.4).

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

IFRS7p39(c)

Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by currency, provider, product and term.

IFRS7p39(a)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

IFRS7AppxB1
1, B14
IFRS7Appx
B10A

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Bank manages the liquidity risk based on a different basis (see Note 3.3.1 for details), not resulting in a significantly different analysis.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

IFRS7p39(a) **3.3 Liquidity risk (continued)**

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk

[Present the analysis for both Group and Bank]

| | At 31 December 2013 | Up to 1 month | 1-3 months | 3-12 months | 1-5 years | Over 5 years | Total |
|-------------------|---|---------------|------------|-------------|-----------|--------------|-------|
| | Liabilities | | | | | | |
| | Deposits from banks | | | | | | |
| | Deposits from customers | | | | | | |
| | Other liabilities | | | | | | |
| | Dividend payable | | | | | | |
| | Total liabilities (contractual maturity dates) | | | | | | |
| IFRS7 AppxB11E | Assets held for managing liquidity risk (contractual maturity dates) | | | | | | |
| | As at 31 December 2012 | | | | | | |
| | Liabilities | | | | | | |
| | Deposits from banks | | | | | | |
| | Deposits from customers | | | | | | |
| | Other liabilities | | | | | | |
| | Dividend payable | | | | | | |
| | Total liabilities (contractual maturity dates) | | | | | | |
| IFRS7 AppxB11E | Assets held for managing liquidity risk (contractual maturity dates) | | | | | | |

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

3.3.5 Derivative liabilities

IFRS7p39
(b), AppxB11D
(d)

The Bank's derivatives that are settled on a gross basis include:
 Foreign exchange derivatives: currency forward, currency swaps; and
 Interest rate derivatives: interest rate swaps for which cash flows are exchanged on a gross basis, cross currency interest rate swaps.

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. Some of the Bank's derivatives are subject to collateral requirements. The amounts disclosed in the table are the contractual undiscounted cash flows.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.5 Derivative liabilities (continued)

[Present the analysis for both Group and Bank]

| | Up to 1 month | 1 -3 months | 3 -12 months | 1-5 years | Over 5 years | Total |
|---------------------------------------|------------------|----------------|-----------------|-----------|-----------------|-------|
| <i>In millions of Kenya Shillings</i> | | | | | | |
| At 31 December 2013 | | | | | | |
| Derivatives held for trading | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| – Outflow | | | | | | |
| – Inflow | | | | | | |
| Interest rate derivatives: | | | | | | |
| – Outflow | | | | | | |
| – Inflow | | | | | | |
| Total outflow | | | | | | |
| Total inflow | | | | | | |
| At 31 December 2012 | | | | | | |
| Derivatives held for trading | | | | | | |
| Foreign exchange derivatives: | | | | | | |
| – Outflow | | | | | | |
| – Inflow | | | | | | |
| Interest rate derivatives: | | | | | | |
| – Outflow | | | | | | |
| – Inflow | | | | | | |
| Total outflow | | | | | | |
| Total inflow | | | | | | |

3.3.6 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 35) are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 35) are also included in the table below, based on the earliest contractual maturity date.

(c) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 35, are summarised in the table below.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 35) are summarised in the table below.

[Present the analysis for both Group and Bank]

| | | No later than 1 year | 1-5 years | Over 5 years | Total |
|------------------|--|----------------------|-----------|--------------|-------|
| | At 31 December 2013 | | | | |
| IFRS7AppxB11B(b) | Loan commitments | | | | |
| IFRS7p39 | Acceptances and other financial facilities | | | | |
| 17p35 | Operating lease commitments | | | | |
| 16p74 | Capital commitments | | | | |
| | Total | | | | |
| | At 31 December 2012 | | | | |
| | Loan commitments | | | | |
| IFRS7p39 | Acceptances and other financial facilities | | | | |
| 17p35 | Operating lease commitments | | | | |
| 16p74 | Capital commitments | | | | |
| | Total | | | | |

3.4 Fair value of financial instruments

(a) Financial instruments not measured at fair value

IFRS7p25,
AppxB2(a)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

[Present the analysis for both Group and Bank]

| | Carrying value 2013 | 2012 | Fair value 2013 | 2012 |
|---|------------------------|------|--------------------|------|
| Financial assets | | | | |
| Loans and advances to banks | | | | |
| Loans and advances to customers | | | | |
| Financial assets held for trading | | | | |
| Financial assets available-for-sale | | | | |
| Financial assets held-to-maturity | | | | |
| Financial liabilities | | | | |
| Deposits from banks | | | | |
| Deposits from customers | | | | |
| Other liabilities | | | | |
| Off-balance sheet instruments | | | | |
| Loan commitments | | | | |
| Guarantees, acceptances and other liabilities | | | | |

NOTES (CONTINUED)

3. Financial risk management (continued)

3.4 Fair value of financial instruments (continued)

| | |
|-------------|---|
| IFRS7p27 | <p>(i) Loans and advances to banks Loans and advances to banks include inter-bank placements and items in the course of collection.</p> <p>The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.</p> |
| IFRS7p27 | <p>(ii) Loans and advances to customers Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.</p> |
| IFRS7p27 | <p>(iii) Investment securities The fair value for loans and receivables and held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.</p> <p>Investment securities (available-for-sale) disclosed in the table above comprise only those equity securities held at cost less impairment. The fair value for these assets is based on estimations using market prices and earning multiples of quoted securities with similar characteristics. All other available-for-sale financial assets are already measured and carried at fair value.</p> |
| IFRS7p29(a) | <p>(iv) Deposits from banks and customers The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.</p> |
| IFRS7p27 | <p>The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.</p> |
| IFRS7p27 | <p>(v) Off-balance sheet financial instruments The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.</p> |

NOTES (CONTINUED)

3. Financial risk management (continued)

(b) Fair value hierarchy

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

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

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

3.4.1 Assets and liabilities measured at fair value

[Present the analysis for both Group and Bank]

| | | Level 1 | Level 2 | Level 3 | Total |
|--------------|---|---------|---------|---------|-------|
| IFRS7p27B(a) | 31 December 2013 | | | | |
| IFRS7IG13A | Financial assets at fair value through profit or loss | | | | |
| | Financial assets held for trading | | | | |
| | Debt securities | | | | |
| | Equity securities | | | | |
| | Derivatives | | | | |
| | Available-for-sale financial assets: | | | | |
| | · Investment securities – debt | | | | |
| | · Investment securities – equity | | | | |
| | Total assets | | | | |
| | | Level 1 | Level 2 | Level 3 | Total |
| IFRS7p27B(a) | 31 December 2012 | | | | |
| IFRS7IG13A | Financial assets at fair value through profit or loss | | | | |
| | Financial assets held for trading | | | | |
| | Debt securities | | | | |
| | Equity securities | | | | |
| | Derivatives | | | | |
| | Available-for-sale financial assets: | | | | |
| | · Investment securities – debt | | | | |
| | · Investment securities – equity | | | | |
| | Total assets | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.4 Fair value of financial instruments (Continued)

3.4.1 Assets and liabilities measured at fair value (Continued)

[Present the analysis for both Group and Bank]

| | | | | | |
|--|---|--|-----------------------------|----------------------------|-----------------------------|
| IFRS7p27B(c) IFRS7IG13B | Reconciliation of Level 3 items | Financial assets held for trading | | | |
| | | Debt securities | | Equity securities | |
| | <i>In millions of Kenya Shillings</i> | | | | |
| | At 1 January 2013 | | | | |
| | Total losses | | | | |
| | - Profit or loss | | | | |
| | Purchases | | | | |
| | Settlements | | | | |
| | Transfers into or out of level 3 | | | | |
| | At 31 December 2013 | | | | |
| IFRS7p27B(c)(i) IFRS7p27B(d) | Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2013 | | | | |
| IFRS7p27B(c) IFRS7IG13B | Reconciliation of Level 3 items | Financial assets held for trading | | | |
| | | Debt securities | | Equity securities | |
| | <i>In millions of Kenya Shillings</i> | | | | |
| | At 1 January 2012 | | | | |
| | Total losses | | | | |
| | - Profit or loss | | | | |
| | Purchases | | | | |
| | Settlements | | | | |
| | Transfers into or out of level 3 | | | | |
| | At 31 December 2012 | | | | |
| IFRS7p27B(c)(i) IFRS7p27B(d) | Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2012 | | | | |
| IFRS7p27B(e) | The following table shows the sensitivity of level 3 measurements to reasonably possible alternative assumptions: | | | | |
| | | Reflected in profit or loss | | Reflected in equity | |
| | | Favourable changes | Unfavourable changes | Favourable changes | Unfavourable changes |
| | <i>In millions of Kenya Shillings</i> | | | | |
| | At 31 December 2013 | | | | |
| | Financial assets held for trading | | | - | - |
| | At 31 December 2012 | | | | |
| | Financial assets held for trading | | | - | - |
| The above favourable and unfavourable changes are calculated independently from each other. Correlations and diversification effects are not taken into account. | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

3. Financial risk management (continued)

3.5 Capital management

- 1p134 The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:
- To comply with the capital requirements set by the Central Bank;
 - To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
 - To maintain a strong capital base to support the development of its business.
- 1p135(a)(iii)

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the [name of country's authority] (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') above a minimum level agreed with the Central Bank which takes into account the risk profile of the Bank.

The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises two tiers:

Tier 1 capital: share capital, general banking reserve, retained earnings and reserves created by appropriations of retained earnings; and

Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

The risk weighted assets are measured by means of a hierarchy of 4 risk weights. Risk weights are assigned to assets and off balance sheet items according to the Bank's own estimates of probabilities of default (PD), loss given default (LGD) and credit conversion factors (CCF) for retail business and claims to central governments, institutions and corporates. Own estimates of risk parameters are in accordance to the minimum requirements set out by Basel II.

- 1p135(b) The table below summarises the composition of regulatory capital and the ratios of the
1p135(d) Bank for the years ended 31 December 2013 and 2012. During those two years, the Bank complied with all of the externally imposed capital requirements to which they are subject.

| | 2013 | 2012 |
|--|------|------|
| <i>In millions of Kenya Shillings</i> | | |
| Tier 1 capital | | |
| Share capital | | |
| Share premium | | |
| General banking reserve | | |
| Retained earnings | | |
| Less: Intangible assets | | |
| Total qualifying Tier 1 capital | | |
| Tier 2 capital | | |
| Revaluation reserve – available-for-sale investments | | |
| Collective impairment allowance | | |
| Total qualifying Tier 2 capital | | |
| Total regulatory capital | | |
| Risk-weighted assets: | | |
| On-balance sheet | | |
| Off-balance sheet | | |
| Total risk-weighted assets | | |
| Basel ratio | | |

NOTES (CONTINUED)

3. Financial risk management (continued)

3.5 Capital management

1p135(c) The increase of the regulatory capital in the year of 2013 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in SMEs in 2013.

1p122
1p125
1p129 The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and directors' judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

NOTES (CONTINUED)

4. Critical accounting estimates and judgements

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, the Bank makes judgements as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the Bank. The directors use estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Were the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated Shs XXX higher or Shs xxx lower.

(b) Impairment of available-for-sale equity investments

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would have recognised an additional KShsXXX loss in its 2013 financial statements.

(c) Fair value of financial instruments

IFRS7p27

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that the directors used a tightening of 20 basis points in the credit spread, the fair values would be estimated at Shs xxxx as compared to their reported fair value of Shs xxxcx at 31 December 2013.

NOTES (CONTINUED)

4. Critical accounting estimates and judgements

(d) Held-to-maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be so reclassified, the carrying value would increase by KShsXXX, with a corresponding entry in the fair value reserve in shareholders' equity.

(e) Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

Were the discount rate used to differ by 10% from directors' estimates, the defined benefit obligation for pension benefits would be an estimated KShsXXX lower or KShsXXX higher.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

NOTES (CONTINUED)

5. Segment reporting

[Segmental information disclosure should be based on information reported to the Chief Operating Decision Maker (CODM) for review of performance and allocation of resources]

Segment information is presented in respect of the Group's business segments. The primary format, business segments, is based on the Group's management and internal reporting structure. The banks geographical segments are based on the location of the banks assets. Income from external customers is disclosed in geographical segments is based on the geographical location of its customers.

Business segments pay and receive interest to and from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Business segments

The Group comprises the following main business segments:

- *Corporate Banking* Includes loans, deposits and other transactions and balances with corporate customers
- *Retail Banking* Includes loans, deposits and other transactions and balances with retail customers
- *Central Treasury* Undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

The Group also has a central Shared Services operation that manages the Group's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to business segments on a reasonable basis.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

5. Segment reporting (continued)

IFRS 8.20, 27(a) **Business segments** *[Depending on information reported to CODM, geographical segment information may be disclosed as well]*

2013

In millions of Kenya Shillings

Corporate banking Retail banking Central treasury³ Shared services Unallocated Consolidated

| | | | | | | |
|--------------------------|---|--|--|--|--|--|
| <i>IFRS 8.23(a)</i> | External revenue | | | | | |
| <i>IFRS 8.23(c)-(d)</i> | Net interest income | | | | | |
| <i>IFRS 8.23 (f)</i> | Net fee and commission income | | | | | |
| <i>IFRS 8.23 (f)</i> | Net trading income | | | | | |
| <i>IFRS 8.23 (f)</i> | Net income from other financial instruments carried at fair value | | | | | |
| <i>IFRS 8.23 (f)</i> | Other operating income | | | | | |
| <i>IFRS 8.23 (b)</i> | Inter segment revenue | | | | | |
| <i>IFRS 8.32</i> | Total segment revenue | | | | | |
| <i>IFRS 8.21 (b) (f)</i> | Segment result | | | | | |
| | Income tax expense | | | | | |
| <i>IFRS 8.21 (b)</i> | Profit for the period | | | | | |
| <i>IFRS 8.21 (b)</i> | Segment assets | | | | | |
| | Unallocated assets | | | | | |
| <i>IFRS 8.21 (b)</i> | Total assets | | | | | |
| <i>IFRS 8.21 (b)</i> | Segment liabilities | | | | | |
| | Unallocated liabilities | | | | | |
| <i>IFRS 8.21 (b)</i> | Total liabilities | | | | | |
| <i>IFRS 8.23 (i)</i> | Impairment losses on financial assets | | | | | |
| | Depreciation and amortisation | | | | | |
| | Restructuring costs | | | | | |
| <i>IFRS 8.23 (i)</i> | Capital expenditure | | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

5. Segment reporting (continued)

IFRS 8.20, 27(a) **Business segments**
2012

In millions of Kenya Shillings

Corporate banking Retail banking Central treasury Shared services Unallocated Consolidated

| | | | | | |
|-------------------------|---|--|--|--|--|
| <i>IFRS 8.23(a)</i> | External revenue | | | | |
| <i>IFRS 8.23(c)-(d)</i> | Net interest income | | | | |
| <i>IFRS 8.23(f)</i> | Net fee and commission income | | | | |
| <i>IFRS 8.23(f)</i> | Net trading income | | | | |
| <i>IFRS 8.23(f)</i> | Net income from other financial instruments carried at fair value | | | | |
| <i>IFRS 8.23(f)</i> | Other operating income | | | | |
| <i>IFRS 8.23(b)</i> | Intersegment revenue | | | | |
| <i>IFRS 8.21(b)</i> | Total segment revenue | | | | |
| <i>IFRS 8.21(b)</i> | Segment result | | | | |
| | Income tax expense | | | | |
| <i>IFRS 8.21(b)</i> | Profit for the period | | | | |
| <i>IFRS 8.21(b)</i> | Segment assets | | | | |
| | Unallocated assets | | | | |
| <i>IFRS 8.21(b)</i> | Total assets | | | | |
| <i>IFRS 8.21(b)</i> | Segment liabilities | | | | |
| | Unallocated liabilities | | | | |
| <i>IFRS 8.21(b)</i> | Total liabilities | | | | |
| <i>IFRS 8.23(i)</i> | Impairment losses on financial assets | | | | |
| | Depreciation and amortisation | | | | |
| | Restructuring costs | | | | |
| <i>IFRS 8.23(i)</i> | Capital expenditure | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

6. Financial assets and liabilities
Accounting classifications and fair values

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

In millions of Kenya Shillings
31 December 2013

Cash and cash equivalents
Trading assets
Pledged assets
Loans and advances to customers
Investment securities

Trading
Designated
at fair value
Held-to-
maturity
Loans and
receivables
Available-
for-sale
amortised
cost
Other
carrying
amount
Fair value

Trading liabilities
Deposits from banks
Deposits from customers
Debt securities issued
Subordinated liabilities

31 December 2012

Cash and cash equivalents
Trading assets
Pledged assets
Loans and advances to customers
Investment securities

Trading liabilities
Deposits from banks
Deposits from customers
Debt securities issued
Subordinated liabilities

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| <i>Reference</i> | NOTES (CONTINUED) | | |
|------------------|--|-------------|-------------|
| 7. | Net interest income | | |
| | <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
| | Interest income | | |
| | Cash and cash equivalents | | |
| | Loans and advances to customers | | |
| | Financial assets held-to-maturity | | |
| | Other | | |
| | Total interest income | | |
| | Interest expense | | |
| | Deposits from banks | | |
| | Deposits from customers | | |
| | Debt securities issued | | |
| | Other | | |
| | Total interest expense | | |
| | Net interest income | | |
| | Included within various captions under interest income for the year ended 31 December 2013 is a total of KShsXXX (2012: KShsXXX) accrued on impaired financial assets. | | |
| | The only components of interest income and expense reported above that relate to financial assets or liabilities carried at fair value through profit or loss are the income and expense on derivative assets and liabilities held for risk management purposes. | | |
| 8. | Net fee and commission income | | |
| | <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
| | Fee and commission income | | |
| | Retail banking customer fees | | |
| | Corporate banking credit related fees | | |
| | Other | | |
| | Total fee and commission income | | |
| | Fee and commission expense | | |
| | Brokerage | | |
| | Asset management fees | | |
| | Inter bank transaction fees | | |
| | Other | | |
| | Total fee and commission expense | | |
| | Net fee and commission income | | |
| | Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers | | |
| 9. | Net trading income | | |
| | <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
| | Fixed income | | |
| | Other | | |
| | Net trading income | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

10. Net income from other financial instruments carried at fair value

In millions of Kenya Shillings **2013** **2012**

Net income on other derivatives held for risk management purposes:
 Interest rate
 Credit
 Foreign exchange
 OTC structured derivatives

Investment securities at fair value through profit or loss:
 Bonds
 Loans and advances at fair value through profit or loss

At 31 December 2013, the accumulated amount of the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was KShsXXX (2012: KShsXXX).

11. Other operating income

In millions of Kenya Shillings **2013** **2012**

Gain on sale of available-for-sale securities:
 Government bonds
 Corporate bonds
 Rental income
 Other

12. Employee Benefits

In millions of Kenya Shillings **2013** **2012**

Salaries
 Contributions to defined contribution plans
 Equity-settled share-based payments
 Cash-settled share-based payments
 Increase in liability for defined benefit is charged to profit & loss

13. Other expenses

In millions of Kenya Shillings **2013** **2012**

Software licensing and other information technology costs
 Impairment loss on property and equipment
 Branch closure cost provisions
 Redundancy provisions
 Auditors' remuneration
 Depreciation
 Amortisation of prepaid operating lease rentals
 Other

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

| <i>Reference</i> | NOTES (CONTINUED) | | |
|---------------------|---|-------------|-------------|
| 14. | Income tax expense | | |
| <i>IAS 12.79</i> | Recognised in the income statement | | |
| | <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
| | Current tax expense | | |
| <i>IAS 12.80(a)</i> | Current year | | |
| <i>IAS 12.80(b)</i> | Adjustments for prior years | | |
| | Deferred income tax expense (Note 26) | | |
| <i>IAS 12.80(c)</i> | Origination and reversal of temporary differences | | |
| <i>IAS 12.80(f)</i> | Recognition of previously unrecognised tax losses | | |
| | Total income tax expense | | |
| <i>IAS 12.81(c)</i> | Reconciliation of effective tax rate | | |
| | <i>In millions of Kenya Shillings</i> | | |
| | Profit before income tax | | |
| | Income tax using the enacted tax rate | | |
| | Non-deductible expenses | | |
| | Tax exempt income | | |
| | Recognition of previously unrecognised tax losses | | |
| | (Over) provided in prior years | | |
| | Total income tax expense in income statement | | |
| 15. | Earnings per share | | |
| | Basic earnings per share | | |
| | The calculation of basic earnings per share at 31 December 2013 is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows: | | |
| <i>IAS 33.70(a)</i> | Profit attributable to ordinary shareholders | | |
| | <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
| | Net profit for the period attributable to equity holders of the Bank | | |
| <i>IAS 33.70(b)</i> | Weighted average number of ordinary shares | | |
| | <i>In millions of shares</i> | | |
| | Issued ordinary shares at 1 January | | |
| | Effect of share options exercised | | |
| | Weighted average number of ordinary shares at 31 December | | |
| | Basic earnings per share (in Kenya Shillings) | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

| | | | |
|---------------------|---|-------------|-------------|
| <i>IAS 33.70(a)</i> | Profit attributable to ordinary shareholders (diluted) | 2013 | 2012 |
| | <i>In millions of Kenya Shillings</i> | | |

Profit for the period attributable to ordinary shareholders

| | |
|---------------------|---|
| <i>IAS 33.70(b)</i> | Weighted average number of ordinary shares (diluted) |
| | <i>In millions of shares</i> |

Weighted average number of ordinary shares (basic)

Effect of share options on issue

Weighted average number of ordinary shares (diluted) at
31 December

Diluted earnings per share (*in Kenya Shillings*)

16. Dividend per share

Proposed dividends are accounted for as a separate component of equity until they have been ratified at an Annual General Meeting.

At the Annual General Meeting to be held on XXXXXX2014, a final dividend in respect of the year ended 31 December 2013 of KShsXXX (2012 – KShsXXX) will be proposed. An interim dividend of KShsXXX (2012 – KShsXXXX) was paid during the year. This will bring the total dividend for the year to KShsXXX (20XX – KShsXXX).

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

17. Cash and balances with Central Bank

| | | Group | | Bank | |
|----------|----------------------------|--------------|-------------|-------------|-------------|
| | | 2013 | 2012 | 2013 | 2012 |
| IFRS7.45 | Cash on hand | | | | |
| | Balances with Central Bank | | | | |
| | Cash reserve ratio balance | | | | |
| | Other current accounts | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

18 **Financial assets and liabilities held for trading**

Group **Bank**
2013 **2012** **2013** **2012**

IFRS7.8 Financial assets held for trading
Government treasury bills and bonds
Corporate bonds
Derivative financial instruments

Financial liabilities held for trading
Derivative financial instruments
Over the counter structured derivatives

19 **Financial assets available for sale**

Group **Bank**

IFRS7.8 Government securities – at fair value:
- Maturing within 90 days of the date of acquisition
- Maturing after 90 days after the date of acquisition
Debt securities – at fair value

20 **Financial assets held to maturity**

Group **Bank**

IFRS7.8 Government securities - at amortised cost:
- Maturing within 90 days of date of acquisition
- Maturing after 90 days of the date of acquisition
Debt securities – at amortised cost

21 **Loans and advances to customers**

2013

2012

Group

IFRS7.8(a) Retail customers:
Mortgage lending
Personal unsecured loans
Credit cards

Corporate customers:
Commercial term loans
Overdraft facilities
Asset finance leases

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference

NOTES (CONTINUED)

21. Loans and advances (continued)

| | | 2013 | 2012 |
|-------------|---|---------------|------------------|
| | <u>Bank</u> | | |
| IFRS7.8(a) | <u>Retail customers:</u> Mortgage lending Personal unsecured loans Credit cards | | |
| | <u>Corporate customers:</u> Commercial term loans Overdraft facilities Asset finance leases | | |
| | | | |
| | | | |
| | Provision for impairment | | |
| | <u>Group</u> | Retail | Corporate |
| IFRS7.16 | | 2013 | 2012 |
| IFRS7.20(e) | | 2013 | 2012 |
| | <u>Individually assessed:</u> At start of year Impairment loss for the year - Charge for the year - Recoveries in the year - Effects of currency translation | | |
| | | | |
| | <u>Write-offs</u> At end of year | | |
| | | | |
| | <u>Collectively assessed:</u> At start of year Charge for the year | | |
| | | | |
| | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

21 **Loans and advances to customers (continued)**

Provision for impairment

IFRS7.16
IFRS7.20(e)

Bank

| Retail | | Corporate | | Total | |
|--------|------|-----------|------|-------|------|
| 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |

Individually assessed:

At start of year

Impairment loss for the year

- Charge for the year

- Recoveries in the year

- Effects of currency translation

| |
|--|
| |
|--|

Write-offs

At end of year

Collectively assessed:

At start of year

Charge for the year

22. Other assets and prepayments

IAS1.77
IAS1.54(h)

Other receivables and prepayments

Accrued income

Derivative financial instruments

Items in course of collection

| Group | | Bank | |
|-------|------|------|------|
| 2013 | 2012 | 2013 | 2012 |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

23. Property and equipment *[Present the analysis for both Group and Bank]*

| <i>IAS 16.73(d), (e)</i> | <i>In millions of Kenya Shillings</i> | Land and buildings | IT equipment | Fixtures and fittings | Total |
|------------------------------|--|-------------------------------|-------------------------|----------------------------------|--------------|
| | Cost | | | | |
| | At 1 January 2012 | | | | |
| | Additions | | | | |
| | Disposals | | | | |
| | At 31 December 2012 | | | | |
| | Balance at 1 January 2013 | | | | |
| | Additions | | | | |
| | Disposals | | | | |
| | At 31 December 2013 | | | | |
| | Depreciation and impairment losses | | | | |
| | At 1 January 2012 | | | | |
| | Depreciation charge | | | | |
| <i>IAS 16.73(e)(vii)</i> | Impairment loss | | | | |
| | At 31 December 2012 | | | | |
| | At 1 January 2013 | | | | |
| | Depreciation charge | | | | |
| <i>IAS 16.73(e)(vii)</i> | Impairment loss | | | | |
| | At 31 December 2013 | | | | |
| <i>IAS 1.78(a), 16.73(e)</i> | Net book amounts | | | | |
| | At 1 January 2012 | | | | |
| | At 31 December 2012 | | | | |
| | At 31 December 2013 | | | | |
| <i>IAS 23.26</i> | There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (XXX: nil) | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

24. Intangible assets *[Present the analysis for both Group and Bank]*

| <i>IAS 38.118(c), (e)</i> | <i>In millions of Kenya Shillings</i> | Purchased software | Developed software | Total |
|---------------------------|---------------------------------------|---------------------------|---------------------------|--------------|
| | Cost | | | |
| | At 1 January 2012 | | | |
| | Additions | | | |
| | Internal development | | | |
| | At 31 December 2012 | | | |
| | At 1 January 2013 | | | |
| | Additions | | | |
| | Internal development | | | |
| | At 31 December 2013 | | | |
| | Amortisation and impairment | | | |
| | At 1 January 2012 | | | |
| | Amortisation charge | | | |
| <i>IAS 36.126(a)</i> | Impairment loss | | | |
| | Balance at 31 December 2012 | | | |
| | At 1 January 2013 | | | |
| | Amortisation charge | | | |
| <i>IAS 36.126(a)</i> | Impairment loss | | | |
| | At 31 December 2013 | | | |
| <i>IAS 38.118(c)</i> | Carrying amounts | | | |
| | At 1 January 2012 | | | |
| | At 31 December 2012 | | | |
| | At 31 December 2013 | | | |

IAS 36.129(a), 131 During 2012 and 2013, the retail banking operations reconsidered their future requirements in relation to customer information software and have recognised an impairment in line with its planned replacement in the near term.

25. Deferred income tax *[Present the analysis for both Group and Bank]*

| | | | | | |
|------------------------|--|---------------|--------------------|------------|--------------------|
| | Recognised deferred tax assets and liabilities | | | | |
| <i>IAS 12.81(g)(i)</i> | Deferred tax assets and liabilities are attributable to the following: | | | | |
| | <i>In millions of Kenya Shillings</i> | Assets | Liabilities | Net | |
| | | 2013 | | | Assets |
| | | | | | Liabilities |
| | | | | | 2012 |
| | Property and equipment, and software | | | | |
| | Available-for-sale securities | | | | |
| | Allowances for loan losses | | | | |
| | Tax losses carry-forward | | | | |
| | Other temporary differences | | | | |
| | Net tax assets/(liabilities) | | | | |

The deferred tax asset has been recognised based on the projected future taxable profits the will be available against which the deductible temporary differences and tax losses carried forward can be utilised. All the recognised tax losses relate to subsidiaries and are not subject to expiry for utilisation.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

25. Deferred income tax (continued)

IAS 12.82A
IAS 12.81(e)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In millions of Kenya Shillings **2013** **2012**

Tax losses

The unrecognised tax losses relate to an overseas investment banking subsidiary and expire in 2016. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Movements in temporary differences during the year¹

In millions of Kenya Shillings **At start of year** **Recognised in profit or loss** **Recognised in equity** **At end of year**

2013

Property and equipment, and software
Available-for-sale securities
Allowances for loan losses
Tax losses carry-forwards
Other temporary differences

2012

Property and equipment, and software
Available-for-sale securities
Allowances for loan losses
Tax loss carry-forwards
Other temporary differences

IAS 12.81a) *In millions of Kenya Shillings* **2013** **2012**

The (credit)/charge to other comprehensive income relates to:

Items that will not be reclassified subsequently to profit or loss:

Remeasurement of net defined benefit asset/liability

Items that will be reclassified subsequently to profit or loss when specific conditions are met:

Changes in fair value of available for sale financial assets

IAS 12.82A

If all the retained earnings of the company at 31 December 2013 were to be distributed, an additional income (compensating) tax of KShsXXX (2012: KShsXXX) would be payable. This liability has not been recognised.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

26 Deposits from banks

| | Group | | Bank | |
|--|--------------|-------------|-------------|-------------|
| | 2013 | 2012 | 2013 | 2012 |

| | | | | |
|-----------------------------------|--|--|--|--|
| Money market deposits | | | | |
| Other deposits from banks | | | | |
| Items in the course of collection | | | | |

27 Deposits from customers

| | | | | |
|----------------------|--|--|--|--|
| Retail customers: | | | | |
| Term deposits | | | | |
| Current deposits | | | | |
| Corporate customers: | | | | |
| Term deposits | | | | |
| Current deposits | | | | |
| Others | | | | |

28 Other liabilities and accrued expenses

| | | | | |
|-------------------------------------|--|--|--|--|
| Other payables and accrued expenses | | | | |
| Derivative financial instruments | | | | |
| Deferred income | | | | |

29. Borrowings *[Present the analysis for both Group and Bank]*

Subordinated debt

The long-term subordinated debt (10 years) was raised from XXX to increase the Bank's supplementary capital, amounted to KShs XXX million (2012: KShsXXX million).

Senior loan

The Group has two long-term senior loans (ten years and five years respectively) raised from XXXXXXXXXX, in 2010 amounting KShs XXX million .

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

29. Borrowings (continued)

| <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
|---------------------------------------|-------------|-------------|
| <u>Subordinated debt</u> | | |
| At start of year | | |
| Accrued interest | | |
| Repaid during the year | | |
| Currency translation difference | | |
| <u>Senior loan</u> | | |
| At start of year | | |
| Additions during the year | | |
| Accrued interest | | |
| Repaid during the year | | |
| Currency translation difference | | |

30. Provisions for liabilities **[Present the analysis for both Group and Bank]**

| <i>In millions of Kenya Shillings</i> | Redund- ancy | Branch closures | Onerous contracts | Total |
|---|-------------------------|----------------------------|------------------------------|--------------|
| <i>IAS 37.84(a)</i> At 1 January 2012 | | | | |
| <i>IAS 37.84(b)</i> Provisions made during the year | | | | |
| <i>IAS 37.84(d)</i> Provisions reversed during the year | | | | |
| Utilised during the year | | | | |
| <i>IAS 37.84(a)</i> Balance at 31 December 20XX | | | | |
| <i>IAS 37.84(a)</i> At 1 January 2013 | | | | |
| <i>IAS 37.84(b)</i> Provisions made during the year | | | | |
| <i>IAS 37.84(d)</i> Provisions reversed during the year | | | | |
| Utilised during the year | | | | |
| <i>IAS 37.84(a)</i> At 31 December 2013 | | | | |

IAS 37.85(a), (b), **Redundancy**

In accordance with the *Delivery Channel Optimisation* plans announced by the Group in November 2013, the Group is in the process of rationalising its retail branch network and related processing functions. The remaining provision is expected to be used during 2014.

IAS 37.85(a), (b), **Branch closures**

In accordance with the plans announced by the Group in November 2013, the Group is in the process of rationalising the branch network to optimise its efficiency and improve overall services to customers. One part of this plan continues to involve the closure of some branches. Twenty three of the branches outlined on the Group's *Delivery Channel Optimisation Plan* were closed during 20XX and 20XX. The remaining provision relates to the balance of the branches set out in that plan, which will be completed during 2014.

IAS 37.85(a), (b) **Onerous contracts**

The Group is lessee in a number of non-cancellable leases over properties that it no longer occupies. In some cases the rental income from sub-leasing these properties is lower than the rental expense. A provision has been made for the present value of the future lease payments less the lease receivables for those properties.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

31. Retirement benefits obligation *[Present the analysis for both Group and Bank]*

IAS 19.120A(b) The Group makes contributions to a non-contributory defined benefit plan that provides pension and medical benefits for employees upon retirement. The plan entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service, and to the reimbursement of certain medical costs.

The table below outlines where the group's post employment amounts and activity are included in the financial statements

The amounts recognised in the statement of financial position are as follows:

In millions of Kenya Shillings

| | 2013 | 2012 (restated) |
|--|-------------|---------------------------|
| <i>IAS 19.120A(d), (f)</i> Defined pension benefits | | |
| <i>IAS 19.120A(d), (f)</i> Post employment medical benefits | | |
| <i>IAS 19.120A(f)</i> Recognised liability for defined benefit obligations | | |

Income statement charge included in profit or loss:

| | |
|---|--|
| <i>IAS 19.120A(d), (f)</i> Defined pension benefits | |
| <i>IAS 19.120A(d), (f)</i> Post employment medical benefits | |

Remeasurements for:

| | |
|---|--|
| <i>IAS 19.120A(d), (f)</i> Defined pension benefits | |
| <i>IAS 19.120A(d), (f)</i> Post employment medical benefits | |

IAS 19.135b) The following table analyses the components of defined benefit costs recognized in comprehensive income

In millions of Kenya Shillings

| | 2013 | 2012 (restated) |
|--|-------------|---------------------------|
| Current service cost | | |
| Past service cost and loss arising from settlements | | |
| Net interest expense | | |
| Components of defined benefit costs recognised in profit or loss | | |
| Return on plan assets (excluding amounts included in net interest expense) | | |
| Actuarial losses arising from changes in demographic assumptions | | |
| Actuarial gains arising from changes in financial assumptions | | |
| Actuarial losses arising from experience adjustments | | |
| Components of defined benefit costs recognised in other comprehensive income | | |
| The net defined benefit liability [/(asset)] in the balance sheet comprises: | | |
| Present value of the defined benefit obligation | | |
| Less: fair value of plan assets | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

31. Retirement benefits obligation (continued)

In millions of Kenya Shillings

2013 **2012**
(restated)

IAS 19-140, 141 The movement in the defined benefit obligation over the year

At start of year
Current service cost
Net interest expense
Past service cost and loss arising from settlements
Actuarial losses arising from changes in demographic assumptions
Actuarial gains arising from changes in financial assumptions
Actuarial losses arising from experience adjustments
Benefits paid

At end of year

IAS 19.120A e) The movement in the fair value of plan assets is as follows:

At start of year
Return on plan assets (excluding amounts included in net interest expense)
Employer contributions
Employee contributions
Benefits paid

At end of year

IAS 19.142 The fair value of plan assets comprises:

Equity investments:
 Manufacturing
 Financial institutions
 Agriculture
Debt securities:
 Treasury bonds
 High quality corporate bonds
Investment property
Other

Total

IAS 19.142 Only the equity investments and debt securities are quoted in an active market (Level 1)

IAS 19.142 Pension plan assets include a building occupied by the Bank with a fair value of KShsXXX million (2012: KShsXXX)

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

31. Retirement benefits obligation (continued)

| | | 2013 | 2012 |
|---------------|---|------|------|
| IAS 19.142 | The significant actuarial assumptions used were as follows: | | |
| IAS 19-83 | Discount rate (%) | | |
| IAS 19-87 | Future salary increases (%) | | |
| IAS 19-82 | Life expectancy after retirement age | | |
| | For each of the above significant actuarial assumptions, a sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting period, while holding all other assumptions constant: | | |
| | <ul style="list-style-type: none"> • If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by Shs million (ir • If the expected rate of salary growth increases (decreases) by 1%, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX) • If the average life expectancy increases (decreases) by one year, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX). | | |
| IAS 19.145 a) | For the above sensitivity analysis, the present value of the defined benefit obligation has been determined using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in the statement of financial position. | | |
| IAS 19.145b) | Such sensitivity analysis might not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another. | | |
| IAS 19.147b) | The expected contributions to the plan during 2014 is KShsXXX. | | |
| IAS 8.28f) i) | <p>Prior year restatements</p> <p>As explained in Note 1(b)(i), amendments to IAS 19, Employee Benefits, became effective from 1st January 2013 and have been applied retrospectively, resulting in a prior period adjustment and restatement of certain comparative amounts. The amounts of the adjustments to the balance sheet have been as follows:</p> | | |
| | | 2013 | 2012 |
| | | | 2011 |
| | Decrease in post-employment benefit obligations | | |
| | Increase in deferred income tax liability | | |
| | Increase in retained earnings | | |
| | And the amounts of the adjustments to comprehensive income have been as follows: | | |
| | Increase in service costs | | |
| | Decrease in tax expense | | |
| | Decrease in profit for the year | | |
| | Increase in remeasurement of the net defined benefit liability [/-asset] | | |
| | Increase in deferred income tax relating to items of other comprehensive income | | |
| | Increase in total comprehensive income for the year | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

IAS1.79 **32. Share capital and premium**

| | | Number of shares (thousands) | Ordinary shares | Share premium | Total |
|-------------|---------------------|------------------------------------|--------------------|------------------|-------|
| IAS1.106(d) | At January 2012 | | | | |
| IAS1.54(h) | Bonus issue | | | | |
| | At 31 December 2012 | | | | |
| | Issue for cash | | | | |
| | At 31 December 2013 | | | | |

IAS1.76(a) At 31 December 2013 the authorised share capital comprised XX billion ordinary shares (2012: XX billion of KShsXXXeach. All issued shares are fully paid.

IAS1.76(a) On XXX2012, the company issued bonus shares of one ordinary share for every 10 shares held by capitalisiing KShsXXX from retained earnings.

On XXX2013 the company issued XXX shares for cash a a price of KShsXXX per share.

33. Regulatory reserve

IAS1.76(b) The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

IAS1.79 **34. Other reserves** *(Present analysis for both group and company)*

| | | Fair value reerves | Currency translation reserve | Total |
|---------|---|-----------------------|------------------------------------|-------|
| IAS1.76 | At January 2012 | | | |
| | Revaluation – available for sale assets | | | |
| | Deferred income tax on revaluation | | | |
| | Currency translation differences | | | |
| | At 31 December 2012 | | | |
| | Revaluation – available for sale assets | | | |
| | Deferred income tax on revaluation | | | |
| | Currency translation differences | | | |
| | At 31 December 2013 | | | |

IAS1.76(b) The fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment if derecognised or impaired.

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the bank's net investment in foreign operations.

Reference NOTES (CONTINUED)

35. Off balance sheet financial instruments, contingent liabilities and commitments *(Present analysis for both group and company)*

Group and company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, whose nominal amounts are not reflected in the balance sheet. At the year end, the contingent items comprised were as follows:

| <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
|--|-------------|-------------|
| Guarantees and standby letters of credit | | |
| Letters of credit, acceptances and other documentary credits | | |
| Performance bonds and warranties | | |

| | |
|-----------------|---|
| <i>IFRS7p24</i> | Derivatives commitments: Forward foreign exchange contract amounts |
|-----------------|---|

Nature of contingent liabilities

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

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

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

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under other assets and other liabilities as appropriate.

IAS 17.35 **Operating leases**

Non-cancellable operating lease rentals are payable as follows:

| <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
|---------------------------------------|-------------|-------------|
| Less than one year | | |
| Between one and five years | | |
| More than five years | | |

IAS 17.35(d) The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of up to XX years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

36. Other contingencies

IAS 37.86(a), (b) A subsidiary is defending an action brought by a consumer rights organisation in Kenya in relation to the marketing of specific pension and investment products from 1992 to 1997. While liability is not admitted, if defence against the action is unsuccessful, fines and legal costs could amount to KShsXXX million. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial position.

37. Investment in subsidiaries

*IFRS12P10(a),
12(a-c)*

| | Ownership interest | 2013 | 2012 |
|-------------|--------------------|------|------|
| XYX Limited | | | |
| PQ Limited | | | |

All subsidiaries undertakings are included in the consolidation.

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

IFRS12P12 The total non-controlling interest at 31 December 2013 is KShsXXX (2012: KShsXXX), of which KShsXXX is for ABC Limited and KShsXXX is attributable to MTK Limited. The non-controlling interest in respect of O Limited is not material.

IFRS12p18 There were no transactions with non-controlling interests during the year, other than payment of dividends by the subsidiaries.

Significant restrictions

IFRS12p10(b)(i) There are restrictions on exporting capital in the XYZ country (where XYX is incorporated), other than through normal dividends.

*IFRS12p12(g)
B10(10)* **Summarised financial information on subsidiaries with material non-controlling interests**

Set out below are the summarised financial information for each subsidiary that has non-controlling interest that are material to the group.

Summarised balance sheet

| | ABC Limited At 31 December | | MTK Limited At 31 December | |
|------------------------------|-------------------------------|------|----------------------------------|------|
| | 2013 | 2012 | 2013 | 2013 |
| Current | | | | |
| Assets | | | | |
| Liabilities | | | | |
| Total current net assets | | | | |
| Non-current | | | | |
| Assets | | | | |
| Liabilities | | | | |
| Total non-current net assets | | | | |
| Net asset | | | | |

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

| Summarised income statement | | ABC Limited | | MTK Limited | |
|---|--|---------------------------|-------------|------------------------------|-------------|
| | | For the year ended | | For the year ended 31 | |
| | | 31 December | | December | |
| | | 2013 | 2012 | 2013 | 2013 |
| Revenue | | | | | |
| Profit before income tax | | | | | |
| Income tax expense | | | | | |
| Profit for the year | | | | | |
| Other comprehensive income | | | | | |
| Total comprehensive income | | | | | |
| Total comprehensive income allocated to non-controlling interests | | | | | |
| Dividends paid to non-controlling interests | | | | | |
| Summarised cash flows | | | | | |
| | | ABC Limited | | MTK Limited | |
| | | For the year ended | | For the year ended 31 | |
| | | 31 December | | December | |
| | | 2013 | 2012 | 2013 | 2013 |
| Cash flows from operating activities | | | | | |
| Cash generated from operations | | | | | |
| Interest paid | | | | | |
| Income tax paid | | | | | |
| Net cash generated from operating activities | | | | | |
| Net cash used in investing activities | | | | | |
| Net cash from financing activities | | | | | |
| Net (decrease)/increase in cash and cash equivalents | | | | | |
| Cash and cash equivalents at start of year | | | | | |
| Exchange differences in cash and cash equivalents | | | | | |
| Cash and cash equivalents at end of year | | | | | |

IFRS12pB11

The information above is the amounts before inter-company eliminations.

38. Analysis of cash and cash equivalents as shown in the statement of cash flows

| <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
|---|-------------|-------------|
| Cash and balances with the central banks | | |
| Less cash reserve requirement | | |
| Government securities maturing within 91 days at the point of acquisition | | |
| Deposits and balances due from banking institutions | | |
| Deposits and balances due to banking institutions | | |

For purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition, including: cash and balances with Central Banks, treasury bills and bonds and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Banks.

Banks are required to maintain a prescribed minimum cash balance with the Central Banks that is not available to finance the banks' day-to-day activities. In the case of the Bank, the amount is determined as 5.25 % (2011: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference NOTES (CONTINUED)

39. Related parties

IAS 24.17

Transactions with key management personnel

(Present analysis for both group and company)

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

| | | 2013 | 2013 | 2012 | 2012 |
|--------------------|--|---------|---------|---------|---------|
| | | Maximum | Closing | Maximum | Closing |
| | | balance | balance | balance | balance |
| IAS 124.17(a), (b) | In millions of Kenya Shillings | | | | |
| | Mortgage lending and other secured loans | | | | |
| | Credit card | | | | |
| | Other loans | | | | |

Interest rates charged on balances outstanding are a quarter of the rates that would be charged in an arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the period comprised

| | | 2013 | 2012 |
|--|--------------------------------|------|------|
| | In millions of Kenya Shillings | | |
| | Short-term employee benefits | | |
| | Long-service leave | | |
| | Post-employment benefits | | |

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement.

| | | 2013 | 2012 |
|--|---|------|------|
| | Loans and advances to key management | | |
| | At start of year | | |
| | Loans advanced during the year | | |
| | Loans repayments received | | |
| | At end of year | | |

Interest earned on staff loans during the year amounted to KShsXXX (2012:KShsXXX).

XYZ Bank Limited
Financial statements
For the year ended 31 December 2013

Reference **NOTES (CONTINUED)**

39.Related parties (continued)

Loan and advances to directors and their associates

The Group has entered into transactions with its directors and their associates as follows:

| | <i>In millions of Kenya Shillings</i> | 2013 | 2012 |
|-----------------|--|-------------|-------------|
| | At start of year | | |
| | Interest charged | | |
| | Loans disbursed | | |
| <i>Cos Act.</i> | Fees /Cash received for service as directors | | |
| | Other emoluments (included in the key management compensation above) | | |
| | Net movement in overdraft balances | | |
| | At end of year | | |

Included in loans and advances is KShsXXX (2012 – KShsXXX) advanced to companies where relationship exists by virtue of shareholding and/or representation in the respective companies' board of directors. The companies in which the group is a shareholder are set out under Note 14. The advances are at arms length in the ordinary course of business and are adequately secured.

The related interest income in 2013 was KShsXXX (2012 – KShsXXX).

Included in deposits is KShsXXX (2012 – KShsXXX) due to a subsidiary company. Interest paid on these deposits during the year amounted to KShsXXXXX (2012 – KShsXXX).

All the transactions with the related parties have been entered into in the normal course of business.

-----00000000000000-----