NOTICE OF THE ELEVENTH ANNUAL GENERAL MEETING

Notice is hereby given that the Eleventh Annual General Meeting (AGM) of Equity Group Holdings Limited will be held on Tuesday, 31st March 2015 at **Kenyatta International Convention Centre** (KICC) NAIROBI at **10.00 am** to transact the following business:

1. The Company Secretary to read the notice convening the meeting.
2. To receive, consider and if thought fit, adopt the Annual Report and Audited Financial Statements for the year ended 31st December 2014 together with the Chairman's, Directors' and Auditors' reports thereon.
3. To approve a first and final dividend for the year ended 31st December 2014 of KES 1.80 per ordinary share of KES 0.50 cents each, subject to withholding tax, where applicable.
4. Election of Directors:
   a. Mr. Peter Kahara Munga, a director retires by rotation in accordance with Article 100 of the Company's Articles of Association, and having attained the age of seventy years further retires in terms of section 186 (2) of the Companies Act (Cap 486 of the Laws of Kenya) and being eligible, by virtue of a special notice given under section 186 (5), offers himself for re-election.
   b. Mr. Benson Wairegi, a director retires by rotation in accordance with Article 100 of the Company's Articles of Association and does not offer himself for re-election.
   c. Mr. John Staley having been appointed as a director by the board on 24th November 2014 retires in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for election as a director.
   d. Ms. Evelyn Rutagwenda having been appointed as a director by the board on 24th November 2014 retires in accordance with Article 101 of the Company's Articles of Association and being eligible, offers herself for election as a director.
   e. Mr. Adil Popat having been appointed as a director by the board on 4th December 2014 retires in accordance with Article 101 of the Company's Articles of Association and being eligible, offers himself for election as a director.
5. To approve the remuneration of the directors for the year ending 31st December 2015.
6. To note that the auditors Messrs Ernst & Young, being eligible and having expressed their willingness, will continue in office in accordance with section 159 of the Companies Act (Cap 486) and to authorize the directors to fix their remuneration.
7. As Special Business:
   (i) to consider and if thought fit, to pass the following resolutions as Ordinary Resolutions:
   a. THAT the cross listing of the Company on the Official List of the Rwanda Stock Exchange be and is hereby ratified and confirmed.
   b. THAT the cross listing of the Company on the Dar es Salaam Stock Exchange be and is hereby approved.
   c. THAT any acquisition of subsidiaries in Africa principally undertaking businesses similar to those of the Company and its subsidiaries in accordance with the business strategy of the Company, as approved by the Board from time to time, be and is hereby approved and the Board of the Company be and is hereby authorized to approve the terms of such acquisitions and enter into agreements in order to undertake such acquisitions, subject to obtaining all requisite regulatory approvals.
   d. to consider and if thought fit, to pass the following resolution as a Special Resolution:
   e. THAT the increase of the share capital of the Company from K.Shs. 1,851,388,510/= to K.Shs.2,057,098,344/= by the creation of 205,709,834 additional ordinary shares of K.Shs.0.50 each be and is hereby approved.
   f. THAT the Board of the Company, subject to obtaining all requisite regulatory approvals, be and is hereby authorized to allot and issue the shares created under resolution 7(ii)(a) above in a series of transactions by way of private placements in share swap arrangements to facilitate acquisition of the subsidiaries referred to in resolution 7(i) (c) above.
8. Any other business of which notice will have been duly received.

By order of the Board

Mary Wangari Wamae
Company Secretary
P.O. Box 75104 -00200
NAIROBI.
9th March , 2015

Notes

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a form of proxy must be duly completed by the member and lodged with the Company Secretary at the Company's Head Office situated at **EQUITY CENTRE, 9TH FLOOR,** Hospital Road, Upper Hill, Nairobi, not later than 12 noon on Saturday, 28th March 2015, failing which it will be invalid. In the case of a corporate body the proxy must be under its common seal.
2. Subject to approval of shareholders, the Board of Directors has resolved to recommend to members at the forthcoming Annual General Meeting a dividend for the year ended 31st December 2014 of KES 1.80 per share to be paid to shareholders on the register of members of the Company at the close of business on 20th March 2015. The dividend will be paid on or about 30th April 2015.
3. The full set of audited accounts for the year ended 31st December 2014 is available at the Company's registered office at Equity Centre 9th Floor or can be downloaded at the website, www.equitygroupholdings.com

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

		Group		Company	
In millions of Kenya Shillings	**Note**	**2014**	**2013**	**2014**	**2013**
Interest income	8	**35,367**	31,890	**31,140**	28,310
Interest expense	8	**(6,192)**	(5,399)	**(4,980)**	(4,620)
Net interest income		**29,175**	**26,491**	**26,160**	**23,690**
Fee and commission income	9(a)	**3,297**	2,992	**2,638**	2,291
Net fee and commission income		**3,297**	**2,992**	**2,638**	**2,291**
Net trading income	9(b)	**2,391**	1,932	**1,251**	964
Other operating income	10	**12,786**	10,446	**11,118**	8,793
Operating Income before impairment losses		**47,649**	**41,861**	**41,167**	**35,738**
Net impairment loss on financial assets	11	**(1,590)**	(2,402)	**(1,159)**	(1,836)
Operating income after Impairment losses		**46,059**	**39,459**	**40,008**	**33,902**
Personnel expenses	12	**(10,814)**	(9,043)	**(8,791)**	(7,405)
Operating lease expenses	13	**(1,592)**	(1,319)	**(1,088)**	(839)
Depreciation and amortisation	14, 15	**(3,185)**	(2,526)	**(2,568)**	(2,100)
Other Operating expenses	16	**(9,168)**	(7,768)	**(7,449)**	(5,325)
Total Operating expenses		**(24,759)**	**(20,656)**	**(19,896)**	**(15,669)**
Profit before tax and equity accounted income		**21,300**	18,803	**20,112**	18,233
		-		**-**	
Share of profit from associate	17(a)	**242**	201	**-**	-
Gain on disposal of associate	17(a)	**822**	-	**1,667**	-
Profit before income tax.		**22,364**	**19,004**	**21,779**	**18,233**
Income tax expense	18	**(5,213)**	(5,726)	**(4,943)**	(5,591)
Profit for the year		**17,151**	**13,278**	**16,836**	**12,642**
Attributed to: **Equity holders of the parent**		**17,151**	**13,278**	**16,836**	**12,642**
Earnings per share (basic and diluted)	29	**4.63**	3.59	**4.55**	3.41

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Group		Company	
In millions of Kenya Shillings		**2014**	**2013**	**2014**	**2013**
Profit for the year		**17,151**	13,278	**16,836**	12,642
Net Other Comprehensive Income to be reclassified to profit and loss in subsequent periods					
Exchange differences on translation of foreign operations		**137**	(40)	**-**	-
Transfer of available for sale reserve to profit and loss on sale of investments.		**-**	(157)	**-**	(157)
Gain on fair valuation		**345**	187	**345**	159
Current year portion of HF carrying value		**142**	-	**-**	-
Other comprehensive income for the year		**624**	**(10)**	**345**	**2**
Total comprehensive income for the year net of tax		**17,775**	**13,268**	**17,181**	**12,644**
Attributed to:-					
Equity holders of the parent		**17,775**	**13,268**	**17,181**	**12,644**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

		Group		Company	
In millions of Kenya Shillings	**Note**	**2014**	**2013**	**2014**	**2013**
Assets					
Cash balances and deposits in financial institutions	19	**48,218**	34,528	**8,418**	21,930
Loans and advances to customers	20(b)	**214,170**	171,363	**-**	152,029
Investment securities	21	**48,369**	44,572	**-**	32,949
Amounts due from related parties	22(g)	**189**	122	**-**	1,063
Other assets	23	**15,983**	11,149	**-**	9,167
Tax recoverable	18	**123**	550	**-**	470
Investments in associate	17(a)	**-**	1,574		1,113
Investments in subsidiary companies	17(b)	**-**	-	**54,799**	10,284
Property and equipment	14	**10,528**	9,796	**-**	6,942
Prepaid leases	23 (b)	**106**	180	**-**	4
Intangible assets	15	**3,425**	2,069	**-**	1,542
Goodwill	17(c)	**887**	887	**-**	-
Deferred tax assets	24	**2,574**	939		701
Total assets		**344,572**	**277,729**	**63,217**	**238,194**
Liabilities					
Deposits from customers	25	**245,582**	195,153	**-**	158,745
Tax payable	18	**463**	64	**461**	-
Balances due to group companies		**-**	-	**420**	-
Other liabilities	27	**4,507**	4,219	**23**	3,151
Borrowed funds	26	**30,242**	26,736	**-**	25,612
Deferred tax liability	24	**2**	2	**-**	-
Total liabilities		**280,796**	**226,174**	**904**	**187,508**
Equity					
Share capital	28(a)	**1,851**	1,851	**1,851**	1,851
Share premium	28(b)	**12,161**	12,161	**12,161**	12,161
Retained earnings		**43,055**	32,662	**41,253**	31,272
Available for sale reserve	28(c)	**(357)**	(702)	**(385)**	(730)
Loan loss reserve	28(d)	**1,020**	753	**768**	578
Foreign currency translation reserve	28(f)	**(506)**	(643)	**-**	-
Revaluation reserve	28 (g)	**-**	32	**-**	-
Other reserves	28(e)	**(113)**	(113)	**-**	-
Proposed dividends	28(h)	**6,665**	5,554	**6,665**	5,554
Total equity		**63,776**	**51,555**	**62,313**	**50,686**
Total liabilities and equity		**344,572**	**277,729**	**63,217**	**238,194**

The financial statements were approved by the Board of Directors on 9th March 2015 and signed on its behalf by:-

....

Mr. Peter K. Munga, CBS — Director

Dr. James Mwangi, CBS — Director

Mary Wangari Wamae — Secretary

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31DECEMBER 2014

Group

In millions of Kenya Shillings

For the year ended 31 December 2014	Note	Share capital	Share Premium	Retained earnings	Loan loss reserve	Available-for-sale reserve	Foreign currency translation reserve	Revaluation reserve	Other reserves	Proposed dividend	Total equity
At 1 January 2014	**28**	**1,851**	**12,161**	**32,662**	**753**	**(702)**	**(643)**	**32**	**(113)**	**5,554**	**51,555**
Total comprehensive income:											
Profit for the year				17,151							**17,151**
Other comprehensive income				142	-	345	137				**624**
Loan reserve transfers	28			(267)	267						**-**
Reversal of HF				32				(32)			**-**
Dividends:											
Final for 2013 paid	28									(5,554)	**(5,554)**
Proposed for 2014	28			(6,665)						6,665	**-**
At 31 December 2014		**1,851**	**12,161**	**43,055**	**1,020**	**(357)**	**(506)**	**-**	**(113)**	**6,665**	**63,776**
For the year ended 31 December 2013											
At 1 January 2013	28	1,851	12,161	25,088	603	(732)	(603)	32	(113)	4,629	**42,916**
Total comprehensive income:											
Profit for the year		-	-	13,278	-	-	-	-	-	-	**13,278**
Other comprehensive income				-	-	30	(40)	-		-	**(10)**
Loan reserve transfers		-	-	(150)	150	-	-	-	-	-	**-**
Dividends:											
Final for 2012 paid	28	-	-	-	-	-	-	-	-	(4,629)	**(4,629)**
Proposed for 2013	28			(5,554)						5,554	
At 31 December 2013		**1,851**	**12,161**	**32,662**	**753**	**(702)**	**(643)**	**32**	**(113)**	**5,554**	**51,555**

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31DECEMBER 2014

Company

In millions of Kenya Shillings

For the year ended 31 December 2014	Share capital	Share premium	Retained earnings	Loan loss reserve	Available for sale reserve	Proposed dividend	Total equity
As at January 2014	**1,851**	**12,161**	**31,272**	**578**	**(730)**	**5,554**	**50,686**
Total comprehensive income:							
Profit for the year			16,836				**16,836**
Other comprehensive income	-	-		-	345		**345**
Loan reserve transfers			(190)	190		-	**-**
Dividends:							
Final for 2013 paid	-	-			-	(5,554)	**(5,554)**
Declared for 2014			(6,665)	-	-	6,665	**-**
At 31 December 2014	**1,851**	**12,161**	**41,253**	**768**	**(385)**	**6,665**	**62,313**
For the year ended 31 December 2013							
As at January 2013	1,851	12,161	24,308	454	(732)	4,629	**42,671**
Total comprehensive income:							
Profit for the year	-	-	12,642	-	-	-	**12,642**
Other comprehensive income	-	-					
Loan reserve transfers	-	-	(124)	124	2	-	**2**
Dividends:							
Final for 2012 paid	-	-	-	-	-	(4,629)	**(4,629)**
Declared for 2013	-	-	(5,554)	-	-	5,554	**-**
At 31 December 2013	**1,851**	**12,161**	**31,272**	**578**	**(730)**	**5,554**	**50,686**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

In millions of Kenya Shillings	Note	Group 2014	Group 2013	Company 2014	Company 2013
Cash flows from operating activities					
Net profit before taxation		**22,364**	19,004	**21,779**	18,233
Adjustments for:					
Depreciation		**2,562**	2,182	**2,049**	1,784
Impairment and amortisation of intangible assets and prepaid lease		**742**	820	**519**	316
Unrealised exchange (gains) / losses		**(28)**	(100)	**6**	(60)
Loss / (Profit) on disposal of Property and equipment		**(37)**	6	**(26)**	(3)
Provision for non-performing loans		**1,591**	2,402	**1,159**	1,836
Share of profit of associate	17a	**(242)**	(201)		-
Gain on sale of Associate		**(822)**		**(1,667)**	
Dividends received	17a	**(100)**	(84)	**-**	-
Net Interest expense on term borrowings		**1,435**	1,325	**1,369**	1,375
Operating profit before working capital changes		**27,465**	**25,354**	**25,188**	**23,481**
Loans and advances		**(44,398)**	(38,073)	**150,870**	(31,454)
Other assets		**(4,832)**	(3,906)	**9,166**	(2,787)
Customer deposits		**50,430**	27,240	**(158,745)**	16,359
Due from related parties		**(67)**	(120)	**1,483**	-
Other liabilities		**288**	849	**(3,127)**	391
Prepaid Leases		**(46)**		**4**	
Cash generated from operations		**28,840**	**11,344**	**24,839**	**5,990**
Income taxes paid		**(6,022)**	**(8,677)**	**(5,580)**	**(8,276)**
Net cash generated from / (used in) operating activities		**22,818**	**2,667**	**19,259**	**(2,287)**
Cash flows from investing activities					
Purchase of property, equipment & prepaid leases		**(3,399)**	(3,482)	**6,942**	(2,196)
Purchase of intangible assets		**(2,149)**	(998)	**1,542**	(736)
Proceeds from sale of property and equipment		**142**	206	**41**	3
Additional capital injected into subsidiaries			-	**-**	(2,080)
Dividend received		**100**	84		
Proceeds from sale of investment in associate		**2,780**		**2,780**	
Purchase of investment securities		**(16,528)**	(15,008)	**32,949**	(10,060)
Proceeds from sale of investments securities Investment in Subsidiaries		**13,076**	11,565	**(44,516)**	9,902
Net cash used in investing activities		**(5,978)**	**(7,628)**	**(262)**	**(5,167)**
Cash flows from financing activities					
Dividend paid	28(h)	**(5,554)**	(4,629)	**(5,554)**	(4,629)
Proceeds from long term borrowings		**6,533**	1,825	**(25,682)**	719
Repayment of long term borrowings		**(3,027)**	(1,632)	**-**	(862)
Interest paid on term borrowings		**(1,436)**	(1,325)	**(1,369)**	(1,375)
Net cash (used in) / generated from financing activities		**(3,484)**	**(5,761)**	**(32,505)**	**(6,147)**
Net (decrease) / increase in cash and cash equivalents		**13,356**	**(10,722)**	**(13,508)**	**(13,597)**
Effect of foreign exchange differences on cash and cash equivalents		**334**	116	**(5)**	63
Cash Restricted with Central Bank Kenya		**(1,179)**	(1,486)	**-**	-
Cash and cash equivalents at the beginning of the year		**34,528**	45,134	**21,931**	35,467
Cash and cash equivalents at the end of the year	**19(b)**	**47,039**	**33,042**	**8,418**	**21,930**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2014

1. Corporate Information

Equity Group Holding Limited (The "Company") is incorporated, registered under the Kenyan Companies Act cap 486 and domiciled in Kenya. The adDr.ess of the Bank's registered office is 9th Floor, Equity Centre, Hospital road, Upper Hill. The Company is licensed under the Kenyan Banking Act (Chapter 488)

The Company has subsidiaries in Kenya, Uganda, South Sudan, Rwanda and Tanzania. Its shares are listed on the Nairobi Securities Exchange and Uganda Securities Exchange and Rwanda Securities Exchange. The company is in the process of listing its shares on the Dar es-Salaam Stock Exchange.

The consolidated financial statements for the year ended 31st December 2014 were authorised for issue according with resolution of the directors on 26 February 2015…

2. Accounting policies

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended IFRS and IFRIC interpretations:

2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis, except for Available –For Sale investments all of which have been measured at fair value.

a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as issued by the IASB and the requirements of the Kenyan Companies Act.

b) Presentation of financial statements

The company presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a currently legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

c) Functional and presentation currency

The consolidated financial statements are presented in Kenya Shillings, which is the company's functional currency and have been rounded off to the nearest million.

d) Basis of consolidation

The consolidated financial statements of the Group comprise the financial statements of the Non-Operating Holding Company and its subsidiaries as at 31 December 2014.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated upon consolidation.

Subsidiaries are consolidated from the date on which the company obtains control of the subsidiary and cease to be consolidated from the date on which loses control of the subsidiary. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the company controls an investee if and only if the company has: Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee), exposure, or rights, to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect its returns.
The accounting policies for the subsidiaries are consistent with the policies adopted by the Company.

2.2 Significant accounting estimates, judgments and assumptions

The preparation of financial statements in accordance with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from these estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates, default rate assumptions for asset backed securities. The effect of credit risk has been taken into account when determining the fair value of financial assets.

The valuation of financial instruments is described in more detail in Note 7.

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realisable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance (See Note5 (b).

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilisation, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and advances is disclosed in more detail in Note 11 and 20(b).

Impairment of available-for-sale investments

The Group reviews its debt securities classified as available-for-sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances. The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the Bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Vehicles, equipment and intangible assets

Critical estimates are made by the directors in determining depreciation and amortisation rates for vehicles, equipment and intangible assets. In assessing the useful life and residual values of property, plant and equipment, the group considers past experience, macro-economic changes, technological obsolescence and maintenance programs

Deferred tax assets

Deferred tax assets are recognised in respect of tax losses to the extent that it is probable that taxable profit wil be available against which the losses can be utilised. Judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

3. Changes in accounting policy and disclosures

The Company and Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2014. The nature and the impact of each new standard and amendment are described below:

Recoverable Amount Disclosures for Non-Financial Assets — Amendments to IAS 36 Impairment of Assets

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. Accordingly, these amendments have been considered while making disclosures for impairment of non-financial assets .These amendments would continue to be considered for future disclosures.

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

These amendments provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10 Consolidated Financial Statements and must be applied retrospectively, subject to certain transition relief. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. These amendments have no impact on the Company and Group, since none of the entities in the Group qualifies to be an investment entity under IFRS 10.

Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32

These amendments clarify the meaning of 'currently has a legally enforceable right to set-off' and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting and is applied retrospectively. These amendments have no impact on the Company and Group, since none of the entities in the Company and Group have any offsetting arrangements.

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

These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria and retrospective application is required. These amendments have no impact on the Company and Group as the Company and Group have not novated its derivatives during the current or prior periods.

IFRIC 21 Levies

IFRIC 21 clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. Retrospective application is required for IFRIC 21. This interpretation has no material impact on the Company and Group as it has applied the recognition principles under IAS 37 Provisions, Contingent Liabilities and Contingent Assets consistent with the requirements of IFRIC 21 during the year.

Annual Improvements 2010-2012 Cycle

In the 2010-2012 annual improvements cycle, the IASB issued seven amendments to six standards, which included an amendment to IFRS 13 Fair Value Measurement. The amendment to IFRS 13 is effective immediately and, thus, for periods beginning at 1 January 2014, and it clarifies in the Basis for Conclusions that short-term receivables and payables with no stated interest rates can be measured at invoice amounts when the effect of discounting is immaterial. This amendment to IFRS 13 has no impact on the Company and Group as the short-term receivables and payables are measured at invoice amounts.

Annual Improvements 2011-2013 Cycle

In the 2011-2013 annual improvements cycle, the IASB issued four amendments to four standards, which included an amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 is effective immediately and, thus, for periods beginning at 1 January 2014, and clarifies in the Basis for Conclusions that an entity may choose to apply either a current standard or a new standard that is not yet mandatory, but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first IFRS financial statements. This amendment to IFRS 1 has no impact on the Company and Group, since the Company and Group are existing IFRS preparers.

Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company and Group's financial statements are disclosed below. The Company and Group intend to adopt these standards, if applicable, when they become effective.

IAS 1 Disclosure Initiative – Amendments to IAS 1

Effective for annual periods beginning on or after 1 January 2016.

Key requirements

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements.

- The amendments clarify:
- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and other comprehensive income.

IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception –

Amendments to IFRS 10, IFRS 12 and IAS 28

Effective for annual periods beginning on or after 1 January 2016. The Group and Company have assessed the impact of the above amendments and do not expect them to have an impact on the Group and Company

Key requirements

The amendments adDr.ess issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption (in IFRS 10.4) from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

2012-2014 cycle (issued in September 2014)

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed.

IFRS 5 Non-Current Assets

Held for Sale and Discontinued Operations

Changes in methods of disposal

- Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5.
- The amendment must be applied prospectively

IFRS 7 Financial Instruments: Disclosures

Servicing contracts

- The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required.
- The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.
- Applicability of the offsetting disclosures to condensed interim financial statements
- The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report.
- The amendment must be applied retrospectively.

IAS 19 Employee Benefits Discount rate: regional market issue

- The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used.
- The amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

Disclosure of information 'elsewhere in the interim financial report'

- The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report).
- The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time.
- The amendment must be applied retrospectively.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments which reflects all phases of the financial instruments project and replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Retrospective application is required, but comparative information is not compulsory. Early application of previous versions of IFRS 9 (2009, 2010 and 2013) is permitted if the date of initial application is before 1 February 2015. The adoption of IFRS 9 will have an effect on the classification and measurement of the Company and Group's financial assets, but no impact on the classification and measurement of the Group's financial liabilities. The company is still in the process of determining the impact of the new requirements of the standard.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profitnd other comprehensive income. The standard requires disclosures on the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Company and Group are existing IFRS preparers, this standard would not apply.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. It is not expected that this amendment would be relevant to the Company and Group, since none of the entities within the Group has defined benefit plans with contributions from employees or third parties.

Annual improvements 2010-2012 Cycle

These improvements are effective from 1 July 2014 and are not expected to have a material impact on the Company and Group. They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39,).

Standards issued but not yet effective

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'.
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities (Note 34).

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data on either the gross or the net carrying amount. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services.

Annual improvements 2011-2013 Cycle

These improvements (which are not new issued standards) are effective from 1 July 2014 and are not expected to have a material impact on the Company and Group. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IFRS 9 (or IAS 39, as applicable).

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or business combination.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15 revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach to measuring and recognising revenue.

The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under IFRS. Either a full or modified retrospective application is required for annual periods beginning on or after 1 January 2017 with early adoption permitted. The Company and Group is currently assessing the impact of IFRS 15 and plans to adopt the new standard on the required effective date.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not re-measured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company and Group

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Company and Group have not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for

Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Company and Group as the Company and Group do not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The group will continue assessing the impact to the financials statements.

4. Significant accounting policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements (except as otherwise disclosed).

a. Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred including acquisition cost, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

When the group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost being the excess of the consideration transferred over the group's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the group's cash generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

The goodwill recognised by the group relates to Equity Bank Uganda subsidiary. It is the difference between consideration trsnafered and the FV of the assets and liabilities assumed After initial recognition the good will is assessed for impairment factoring in the financial performance of subsidiary.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognised in profit or loss.

In the Group's accounts, investments in subsidiaries are accounted for at cost less accumulated impairments.

b. Associates

The group accounts for the investment in associate' using the equity method of accounting. An associate is an entity in which the group has significant influence.

Under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the group's share of net assets of the associate. Goodwill relating to the associate is included in the carrying amount of the investment and is not amortised or separately tested for impairment.

The income statement reflects the share of the results of operations of the associate. This is the profit attributable to equity holders of the associate and therefore is profit after tax and minority interests in the subsidiaries of the associates. Where there has been a change recognised in the equity or other comprehensive income of the associate, the group recognises its share of any changes and discloses this, when applicable, in other comprehensive income or the statement of changes in equity. Unrealised gains and losses resulting from transactions between the group and the associate are eliminated to the extent of the interest in the associate.

The financial statements of the associate are prepared for the same reporting period as the parent company. Where necessary, adjustments are made to bring the accounting policies in line with those of the group.

After application of the equity method, the group determines whether it is necessary to recognise an additional impairment loss on the group's investment in its associates. The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in profit or loss. The associate was however disposed of during the year.

c. Foreign currency transactions

The Group's consolidated financial statements are presented in Kenya Shillings, which is also the parent company's functional currency. Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date. All differences arising from non-trading activities are taken to other operating income in the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

(ii) Group companies

The assets and liabilities of foreign operations are translated into Kenya Shillings at the rate of exchange prevailing at the reporting date and their income statements are translated at average rates. The exchange differences arising on the translation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in income statement.

(iii) Hyperinflationary economies

The Group considers an economy to be hyperinflationary if the cumulative inflation rate over three years is approaching, or exceeds, 100%. Balances from subsidiaries in hyperinflationary economies are consolidated after adjusting for effects of inflation on the balances and reported at current cost rather than historical cost. The comparative balances are also restated for the same effects. The gain or loss fr6om the adjustment is passed through the profit or loss. In adjusting for the effects of inflation the bank uses the commodity price index as the basis for the adjustment. During the year, no subsidiary within the group operated in a hyper-inflationary economy. In previous year, South Sudan was reviewed for hyper inflation however the impact was not material to the group.

d. Recognition of interest income, dividend and interest expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured.

Interest income and expense are recognised in the income statement on the accrual basis. Interest income and expense presented in the income statement include:

Interest on financial assets and liabilities on the accrual basis taking into account the effective interest basis and interest on available-for-sale debt instruments on an effective interest basis.

Interest on financial assets and liabilities are considered to be the group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Dividend income is recognised when the bank's right to receive that payment is established.

e. Fee and commission

Fee and commission income including account servicing fees, investment management fees, placement fees and syndication fees, are recognised as the related services are performed. Other fee and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Deferred revenue including accrued interest on loans and advances and interest booked on placements with other banks are recognised as the related services are performed

f. Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, and foreign exchange differences.

g. Leasing

(i) Determination

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(ii) Group as a lessee

Leases which do not transfer to the Group substantially all the risk and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expenses in the period in which they are incurred. The prepaid operating leases are accounted for as an asset using the straight line method of depreciation over the period of the lease.

Lease incentives received are recognised as an integral part of the total lease expense, over the term 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.

h. Taxes

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax is recognised for all taxable temporary differences, except:

Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income statement; and

In respect of taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

i. Financial assets and liabilities

(i) Recognition

The Group initially recognises loans and advances, on the date that they are originated. Financial assets and liabilities are initially recognised on the trade date, i.e. the date at which the group becomes a party to the contractual provisions of the instrument.

(ii) Initial measurement

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Derecognition

Financial assets

The group derecognises a financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) when:

- The rights to receive cash flows from the asset have expired
- The group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the group has transferred substantially all the risks and rewards of the asset, or (b) the group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Financial Liabilities

The group derecognises a financial liability when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of new liability. The difference between carrying value of the original liability and the consideration paid is recognised in income statement.

(iv) Offsetting Financial instruments

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

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the group's trading activity.

(v) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairmentfor financial assets.

(vi) Fair value measurement

The determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations for financial instruments traded in active markets at the reporting date without any deduction for transaction costs. Gain or loss on valuation of financial assets and liabilities is recognised in other comprehensive income. The fair value gains on trading securities is recognised in the profit or loss

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models, credit models and other relevant valuation models.

(vii) Identification and measurement of impairment

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

The group considers evidence of impairment at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All significant assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are also collectively assessed for impairment.

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

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

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

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss is reversed through profit or loss (only applicable for loans and receivables and held-to-maturity assets). The reversal is limited to the amount that the balance would have been if no impairment had initially been recognised.

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

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The group treats 'significant' generally as 20% and 'prolonged' as greater than 1 year. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in the fair value after impairment are recognised directly in other comprehensive income and accumulated in equity.

(viii) Renegotiated loans

Where possible, the bank seeks to restructure loans rather than take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original effective interest rate (EIR) as calculated before modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur.

(ix) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the group and the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position with transaction costs taken directly to profit or loss. All changes in fair value are recognised as part of net trading income in the income statement. Trading assets and liabilities are not reclassified subsequent to their initial recognition.

(x) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the group does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method less allowance for impairment, except when the group chooses to carry the loans and advances at fair value through profit or loss. The losses arising from the impairment are recognised in profit or loss. There are no loans and advances carried at fair value through the profit or loss during the year

(xi) Financial guarantees

In the ordinary course of business, the bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statement (within 'other liabilities') at fair value, being the premium received. Subsequent to initial recognition, the bank's liability under each guarantee is measured at the higher of the amount initially recognised less, when appropriate, cumulative amortisation recognised in profit or loss, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement in credit loss expense. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

j. Cash and cash equivalents

Cash and cash equivalents include notes and coins on hand and unrestricted bank balances held with central banks and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the group in the management of its short-term commitments.

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

k. Investment securities

(i) Fair value through profit or loss

Fair value through profit or loss investment securities are those that are classified as either held-for-trading or those which are specifically designated as such. During the year only securities held for trading were accounted for at fair value through profit or loss

(ii) Held-to-maturity

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

After initial recognition, held-to-maturity investments are carried at amortised cost using the effective interest method less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are neither classified as held for trading nor designated at fair value through profit and loss. These are those securities that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value, with unrealised gains/losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised or impaired.

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

The bank has not designated any loans or receivables as available for sale.

(iv) Borrowings

Borrowings are recognised initially at fair value. After initial measurement borrowings are subsequently measured at amortised cost using the effective interest rate method.

(v) Borrowing costs

Borrowing costs directly attributed to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective assets. All other borrowing costs are recognised as an expense when incurred. The bank did not have any qualifying assets during the year.

l. Property and equipment

(i) Recognition and measurement

Items of property and equipment are initially measured at cost less accumulated depreciation and impairment losses.

After initial recognition, some classes of property and equipment held by an associate (i.e. not held by the group) are measured at fair value less accumulated depreciation and impairment losses recognized after the date of the revaluation. Valuations are performed every 3 years to ensure that the fair value of the revalued asset does not differ materially from its carrying amount. The other company and subsidiary assets are measured at cost subsequent to initial recognition.

Any revaluation surplus is recorded in other comprehensive income and hence, credited to the asset revaluation reserve in equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in the income statement, in which case, the increase is recognised in the income statement. A revaluation deficit is recognised in the income statement, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost includes any other costs directly attributable to bringing the asset to a working condition for its intended use and the present value of the estimated costs of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment in order to write down the carrying amount over its useful life to its residual value.. Freehold land is not depreciated.

The annual rates of depreciation (2.5% - 33.3%) in use are as follows:-

Freehold land	Nil
Buildings	2.5%
Motor vehicles	25%
Office equipment, furniture and fittings	12.5%
Computer hardware	33.3%
ATM machines, core banking software and hardware	20%
Village cell banking vans	25%

Leasehold improvements are written off over their estimated useful life or the lease period, whichever is shorter.

The assets' residual values, useful lives and methods of depreciation are reassessed at each financial year end and adjusted prospectively, as a change in an estimate, if appropriate.

Property and equipment is derecognised on disposal or when no future economic benefits are expected from its use.

Any gain or loss arising on derecognition of an asset is recognised in other operating income in the income statement in the year the asset is derecognised.

(iv) Revaluation

Where assets are revalued, the whole class of the asset is revalued and carried at revalued amount. There were no revaluations done for the associate during the year.

m. Intangible Assets

The group's intangible assets include the value of computer software. An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the group. Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be finite or indefinite. Intangible assets with finite lives are amortised over the useful life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Subsequent expenditure on software assets is capitalised when the recognition criteria for intangible assets are met. All other expenditure is expensed as incurred.

The intangible assets have a maximum useful life of five years.

The Bank's softwares are developed by external consultants and hence the Bank does not incur any research and development costs. Softwares in test mode stage are held as work in progress until they are certified as fully operational.

n. Impairment of non-financial assets

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

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. The CGU is used when assessing for impairment. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, an appropriate valuation model is used. Impairment losses are recognised in profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously re-valued where the valuation was taken to other comprehensive income. In this case, the impairment loss is also recognised in other comprehensive income up to the amount of any previous revaluation.

For assets other than goodwill an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. Impairment losses on goodwill are not reversed.

o. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

p. Employee benefits

(i) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in profit or loss when they are due.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A provision is recognised for the amount expected to be paid under short-term cash bonus and leave if the group has a present obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

q. Earnings per share

The group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the income attributable to ordinary shareholders of the group by the weighted average number of ordinary shares outstanding during the year.

r. Dividends

Dividends are recognised as a liability and deducted from equity in the year in which they are declared. Proposed dividends are disclosed as a separate component of equity until declared.

s. Sale and repurchase agreements

Securities purchased from the Central Bank of Kenya under agreement to resell (reverse repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

t. Deposits from customers

Deposits from customers are recognized and accounted for on receipt basis as liabilities. Interest expense is accrued on the deposits on a daily basis.

u. Work In Progress

Work in progress are assets paid for but have not be put in service and include software, computers, equipment. These are not depreciated and are capitalized when commissioned for use.

v. Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset.

5. Financial risk management

a. Introduction and overview

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

- credit risk
- liquidity risk
- market risks

This note presents information about the group's exposure to each of the above risks, the group's objectives, policies and processes for measuring and managing risk, and the group's management of capital. There were no changes in the risk and capital management policies during the current financial period

Risk management framework

The Board of Directors have overall responsibility for the establishment and oversight of the group's risk management framework. The Board has established the Board Risk Management Committee, which is responsible for developing and monitoring group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The group's risk management policies are established to identify and analyse the risks faced by the group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

b. Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the group considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to the group management through the Chief Executive Officer. Management has delegated this responsibility to various Credit committees as prescribed in the Group's Credit Charter. A separate Group Credit Committee, reporting to the Chief Executive Officer, is responsible for oversight of the group's credit risk, including:

- ***Formulating credit policies*** in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- ***Establishing the authorisation structure*** for the approval and renewal of credit facilities. Authorisation limits are allocated to various Credit committees as stipulated in the group's Credit Charter.
- ***Reviewing and assessing credit risk***. The group Credit Committee assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- ***Limiting concentrations of exposure*** to counterparties, geographies and industries (for loans and advances) and by issuer, credit rating band, market liquidity and country (for investment securities).
- ***Developing and maintaining the group's risk grading*** in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation.

5. Financial risk management (continued)
b. Credit risk (continued)

The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by group's Credit Risk department.

- ***Reviewing compliance*** of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Bank Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- ***Providing advice, guidance and specialist skills*** to business units to promote best practice throughout the group in the management of credit risk.

Each business unit is required to implement group credit policies and procedures, with credit approval authorities delegated from the group Credit Committee. Each business unit has a Credit Risk Manager who reports on all credit related matters to local management and the group Credit Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and group Credit processes are undertaken by Internal Audit.

The group's maximum exposure to credit risk for the components of the statement of financial position at 31st December 2014 and 2013 is the carrying amount as illustrated in the table below:

Exposure to credit risk

(i) Loans and advances to customers

		Group		Company	
In millions of Kenya Shillings	**Notes**	**2014**	**2013**	**2014**	**2013**
Amortised cost	20	**221,556**	177,363	**-**	157,330
Individually impaired					
Grade 3: Substandard		**1,657**	1,266	**-**	1,016
Grade 4: Impaired (doubtful)		**4,631**	5,726	**-**	5,106
Grade 5: Impaired (loss)		**3,260**	2,255	**-**	2,067
Gross amount		**9,548**	9,247	**-**	8,189
Allowance for impairment		**(6,613)**	(4,760)	**-**	(4,759)
Past due but not impaired		**2,935**	4,487	**-**	3,430
Collectively impaired					
Grade 1: Normal		**203, 343**	163,085	**-**	145,281
Grade 2: Watch		**8,665**	5,031	**-**	3,860
Gross amount		**212,008**	168,116	**-**	149,141
Allowance for impairment		**(773)**	(1,240)	**-**	(542)
Carrying amount		**211, 235**	166,876	**-**	148,599
Total carrying amount		**214, 170**	**171,363**	**-**	**152,029**

Grade 1, grade 2, Represents loans and advances that are not impaired. Grade 3, grade 4 and grade 5 refer to the impaired loans and advances that have been impaired as per the banks credit policy and internal model. This represents the loans and advances that the bank cannot collect according to contractual terms of the loan agreements.

5. Financial risk management (continued)
b. Credit risk (continued)

(ii) Cash and cash equivalents

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Cash and balances with bank	**16,363**	13,657	**8,418**	7,342
Unrestricted balances with Central Banks	**17,887**	11,674	**-**	6,229
Money market placements	**13,968**	9,197	**-**	8,359
Total	**48,218**	**34,528**	**8,418**	**21,930**
Less: Restricted balances with Central Bank	**(1,179)**	(1,486)	**-**	-
Cash and Cash equivalents	**47,039**	**33,042**	**8,418**	**-**

(iii) Investment securities

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Held to maturity				
As at 1 January	**33,449**	31,108	**-**	22,798
Purchase of Investment securities	**5,959**	6,183	**-**	1,234
Retirement of bonds due to maturity	**(6,151)**	(3,842)	**-**	(2,306)
	33,257	33,449	**-**	21,726

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Available for sale				
As at 1 January	**11,123**	9,993	**-**	9,993
Purchase of Investment securities	**10,879**	8,826	**-**	8,826
Sales of Investment Securities	**(6,926)**	(7,726)	**-**	(7,596)
Reclassification to profit or loss	**(8)**	(157)	**-**	(157)
Profit / (Loss) on fair valuation	**44**	187	**-**	159
	15,112	11,123	**-**	11,223
As at 31 December	**48,369**	44,571	**-**	32,949

Impaired loans

Impaired loans are loans for which the group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. These loans are graded 3, 4 and 5 in the group's internal credit risk grading system.

Past due but not impaired loans

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

Allowances for impairment

The group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

5. Financial risk management (continued)
b. Credit risk (continued)

Write-off policy

The group writes off a loan balance when the credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral have failed to cover the entire facility outstanding. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral on Loans and Advances

The group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below: The group has the obligation to return the securities to the customers upon settlement of the obligation. There are no other significant terms and conditions associated with the use of the collateral.

Loans and advances to customers

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Against individually impaired				
Property	**5,250**	4,631	-	4,531
Equities	**-**	22	-	22
Other	**808**	1,567	-	1,498
Against collectively impaired				
Property	**4,108**	1,623	-	225
Equities	**1**	2	-	2
Other	**2,011**	2,132	-	126
Against past due but not impaired				
Property	**146,781**	60,424	-	60,409
Equities	**3,434**	35	-	35
Other*	**56,955**	46,699	-	46,649
Total	**219,348**	**117,134**	-	**113,497**

*Other includes log books, cash cover, debentures and director's guarantees.

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

Loans and advances to customers

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Concentration by sector				
Consumer	**51,026**	48,021	-	43,448
Micro Enterprises	**16,072**	13,649	-	13,209
Agriculture	**6,364**	5,455	-	5,379
Small Enterprises	**94,772**	81,249	-	66,305
Medium Enterprises	**53,322**	28,989	-	28,989
	221,556	**177,363**	-	**157,330**

5. Financial risk management (continued)
b. Credit risk (continued)

(iv) Liquidity risks

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

Management of liquidity risk

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

Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the group as a whole. The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by Board Risk Management Committee.

Exposure to liquidity risk

The key measure used by the group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

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

At 31 December 2014

	Kenya	Uganda	South Sudan	Rwanda	Tanzania
At 31 December	30%	42%	82%	49%	43%
Average for the year	32%	38%	77%	44%	46%
Maximum for the year	34%	55%	83%	65%	58%
Minimum for the year	27%	25%	73%	23%	35%
Minimum statutory requirement	20%	20%	20%	20%	20%

At 31 December 2013

	Kenya	Uganda	South Sudan	Rwanda	Tanzania
At 31 December	34%	49%	73%	27%	34%
Average for the year	41%	43%	71%	43%	44%
Maximum for the year	45%	49%	75%	69%	65%
Minimum for the year	34%	38%	68%	27%	34%
Minimum statutory requirement	20%	20%	20%	20%	20%

5. Financial risk management (continued)
b. Credit risk (continued)

(i) Group - 2014

The following tables show maturity of the discounted cash flows payable up to the periods indicated:

In millions of Kenya Shillings	Less than 3 months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Financial assets						
Cash and cash equivalents	46,603	-	-	-	1,517	48,120
Loans and advances to customers	18,144	6,690	25,913	108,229	82,976	241,952
Investment securities	2,147	3,421	9,626	8,446	27,384	51,024
Amounts due from related parties	189	-	-	-	-	189
Accounts receivable	7,716	-	-	-	-	7,716
Funds in clearing	1,345	-	-	-	-	1,345
Total financial assets	**76,144**	**10,111**	**35,539**	**116,674**	**111,878**	**350,346**
Financial liabilities						
Deposits from customers	77,853	8,428	15,394	147,018	198	248,892
Borrowed funds	4,427	1,184	7,089	18,024	-	30,724
Accounts payable						
Total financial liabilities	**82,280**	**9,612**	**22,483**	**165,043**	**198**	**279,616**
Liquidity Gap 31 December 2014	**-6,136**	**499**	**13,056**	**-48,369**	**111,680**	**70,730**

Group - 2013

In millions of Kenya Shillings	Less than 3 months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Financial assets						
Cash and cash equivalents	31,625	-	-	976	-	32,601
Loans and advances to customers	9,235	2,780	19,670	84,652	82,641	198,977
Investment securities	1,025	5,167	8,127	5,610	32,268	52,197
Amounts due from related parties	122	-	-	-	-	122
Accounts receivable	5,593	-	-	-	-	5,593
Funds in clearing	1,342	-	-	-	-	1,342
Total financial assets	**48,942**	**7,947**	**27,797**	**91,238**	**114,909**	**290,832**
Financial liabilities						
Deposits from customers	39,916	4,435	6,652	168,534	2,218	221,755
Borrowed funds	2,366	957	1,951	5,014	21,724	32,012
Total financial liabilities	**42,282**	**5,392**	**8,603**	**178,562**	**23,942**	**253,767**
Liquidity Gap 31 December 2013	6,660	2,555	19,194	(87,324)	90,967	39,105

5. Financial risk management (continued)

(ii) Company - 2014

In millions of Kenya Shillings	Less than 3 months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Financial assets						
Cash and cash equivalents	8,418	-	-	-	-	**8,418**
Total Financial assets	**8,418**	**-**	**-**	**-**	**-**	**8,418**
Financial liabilities						
Deposits from customers						
Amounts due to related parties	-	-	-	-	-	**-**
Borrowed funds	-	-	-	-	-	**-**
Total Financial liabilities	**-**	**-**	**-**	**-**	**-**	**-**
Liquidity Gap 30 September 2014	**8,418**	**-**	**-**	**-**	**-**	**8,418**

Company - 2013

In millions of Kenya Shillings	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years	Totals
Financial assets						
Cash and cash equivalents	21,067	-	-	976	-	22,043
Loans and advances to customers	7,746	1,796	17,250	70,644	80,030	177,466
Investment securities	151	1,447	1,098	5,610	32,268	40,574
Amounts due from related parties	1,063	-	-	-	-	1,063
Accounts receivable	5,066	-	-	-	-	5,066
Funds in clearing	790	-	-	-	-	790
Total Financial assets	**35,882**	**3,243**	**18,348**	**77,231**	**112,298**	**247,002**
Financial liabilities						
Deposits from customers	28,937	3,834	4,874	121,128	742	158,745
Borrowed funds	1,832	-	1,778	4,977	17,025	25,612
Total Financial liabilities	**30,769**	**3,834**	**6,652**	**126,105**	**17,767**	**184,357**
Liquidity Gap 31 December 2013	**5,113**	**(591)**	**11,696**	**(48,874)**	**94,531**	**62,645**

c. Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

All foreign exchange risk within the group is managed by the Treasury Department. Accordingly, the foreign exchange position is treated as part of the group's trading portfolios for risk management purposes (refer to note 33).

Overall authority for market risk is vested in the Board Risk Management Committee. The Finance and Treasury Departments in collaboration with the Risk Management Department are responsible for the development of detailed risk management policies (subject to review and approval by Board Risk Management Committee) and for the day-to-day review of their implementation.

5. Financial risk management (continued)
c. Market risk (continued)

Exposure to market risks – trading portfolios

Currently, Group does not hold a significant trading portfolio and is therefore not largely exposed to market risks associated with such portfolios (Note 33). The concentrations of foreign exchange is disclosed in note 33.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The Board Risk Management Committee is the monitoring body for compliance with these limits and is assisted by Treasury Back Office and Finance Department in the day-to-day monitoring activities, while Risk Management Department carries out regular reviews. A summary of the group's interest rate gap position on non-trading portfolios is as follows:

Group Interest Rate Risk – Financial assets and liabilities subject to interest rate fluctuations.

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31 December 2014						
Assets						
Cash and cash equivalents	17,331	17,331	-	-	-	-
Loans and advances to customers	214,170	18,144	6,690	25,913	92,503	70,920
Investment securities	48,369	2,147	3,420	9,626	7,820	25,356
	279,870	**37,622**	**10,110**	**35,539**	**100,322**	**96,276**
Liabilities						
Deposits from customers	245,582	77,853	8,428	15,394	143,713	194
Borrowed funds	30,242	4,427	1,184	7,089	17,542	-
	275,823	**82,280**	**9,612**	**22,483**	**161,255**	**194**
Interest rate sensitivity gap at 31 December 2014	**(4,047)**	**(44,658)**	**498**	**13,056**	**(60,933)**	**96,082**
31 December 2013						
Assets						
Cash and cash equivalents	9,197	8,333	-	-	864	-
Loans and advances to customers	171,363	10,161	2,780	19,670	74,914	63,838
Investment securities	44,572	1,567	4,625	8,127	4,965	25,288
	225,132	**20,061**	**7,405**	**27,797**	**80,743**	**89,126**
Liabilities						
Deposits from customers	195,153	35,127	3,903	5,855	148,316	1,952
Borrowed funds	26,736	2,448	875	1,951	4,385	17,025
	221,889	**37,575**	**4,778**	**7,806**	**152,701**	**18,977**
Interest rate sensitivity gap at 31 December 2013	**3,243**	**(17,514)**	**2,627**	**19,991**	**(71,958)**	**70,149**

5. Financial risk management (continued)
c. Market risk (continued)

Company Interest Rate Risk

In millions of Kenya Shillings	Carrying amount	Less than 3 Months	3-6 Months	6-12 Months	1-5 Years	More than 5 years
31 December 2014						
Assets						
Cash and cash equivalents	8,418	8,418	-	-	-	-
Loans and advances to customers						
Investment securities						
	8,418	**8,418**	**-**	**-**	**-**	**-**
Liabilities						
Deposits from customers	-	-				
Long term borrowings	-	-				
Interest rate sensitivity gap at 31 December 2014	**8,418**	**8,418**				
31 December 2013						
Assets						
Cash and cash equivalents	8,359	7,495	-	-	864	-
Loans and advances to customers	152,029	8,674	1,796	17,250	62,517	61,792
Investment securities	32,949	151	1,447	1,098	4,965	25,288
	193,337	**16,320**	**3,243**	**18,348**	**68,346**	**87,080**
Liabilities						
Deposits from customers	158,745	28,574	3,175	4,762	120,646	1,588
Long term borrowings	25,612	1,832	-	1,778	4,977	17,025
	184,357	**30,406**	**3,175**	**6,540**	**125,623**	**18,613**
Interest rate sensitivity gap at 31 December 2013	**8,980**	**(14,086)**	**68**	**11,808**	**(57,277)**	**68,467**

During the year, a 5% increase/decrease of the annual interest rate would have the following effect on the profit and loss and on equity

		GROUP		BANK	
		Profit and loss	Equity	Profit an d loss	Equity
2014	**+5%**	**345**	**241**	**348**	**244**
2013	**-5%**	**30**	**21**	**298**	**209**

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Treasury and equity price risk is subject to regular monitoring by Board Risk Management Committee. Currently, the exposure to other market risks on non-trading portfolio is not significant in relation to the overall results and financial position of the group.

d. Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Banking industry as a whole.

In implementing current capital requirements The Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for goodwill and intangible assets (excluding computer software), and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

5. Financial risk management (continued)
d. Capital Management (continued)

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

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital.

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

The group and Bank has complied with all externally imposed capital requirements throughout the year.

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

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Tier 1 capital				
Ordinary share capital (Note 28)	**1,851**	1,851	**1,851**	1,851
Share premium (Note 28)	**12,161**	12,161	**12,161**	12,161
Retained earnings	**43,055**	32,590	**41,253**	31,272
Goodwill	**(887)**	(887)	**-**	-
Less investment in equity instruments of other institutions- (Note 17 (a) and (b))	**-**	(1,574)	**-**	(10,526)
Total	**56,180**	**44,141**	**55,265**	**34,758**
Tier 2 capital				
Collective allowances for impairment (Note 28d)	**1,020**	753		578
Qualifying subordinated liabilities	**6,049**	8,814		8,814
Total	**7,069**	**9,549**		**9,393**
Total regulatory capital	**63,249**	**53,690**		**44,151**
Total Risk-weighted assets	**302,537**	**208, 849**		**187,346**
Capital ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	**21%**	26%		24%
Total tier 1 capital expressed as a percentage of risk-weighted assets	**19%**	21%		19%

6. Use of estimates and judgments

Management discusses with the Board Audit Committee all the developments, selection and disclosure of the group's and the Company's critical accounting policies and estimates and the application of these policies and estimates as disclosed in notes 2.2, above.

7. Financial assets and liabilities

Group

Accounting classifications and fair values In millions of Kenya Shillings	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair Value
31 December 2014						
Assets						
Cash and cash equivalents	-	48,218	-		48,218	48,120
Loans and advances	-	214,170	-	-	214,170	241,952
Investment securities	31,552	-	16,817	-	48,369	51,024
	31,552	**262,388**	**16,817**		**310,757**	**341,096**
Liabilities						
Deposits from customers	-	-	-	(245,582)	((245,582	(248,892)
Borrowed funds	-	-	-	(30,242)	(30,242)	(30,724)
	-	**-**	**-**	**(275,824)**	**(275,824)**	**(279,616)**
31 December 2013						
Assets						
Cash and cash equivalents	-	34,528	-	-	34,528	34,640
Loans and advances	-	171,363	-	-	171,363	198,977
Investment securities	33,349	-	11,223	-	44,572	52,197
	33,349	**205,891**	**11,223**	**-**	**250,463**	**285,814**
Liabilities						
Deposits from customers	-	-	-	(195,153)	(195,153)	(221,755)
Borrowed funds	-	-	-	(26,736)	(26,736)	(32,012)
	-	**-**	**-**	**(221,889)**	**(221,889)**	**(253,767)**

7. Financial assets and liabilities (continued)

Company

In millions of Kenya Shillings	Held to maturity	Loans and receivables	Available for sale	Other amortised cost	Total carrying amount	Fair Value
31 December 2014*						
Assets						
Cash and cash equivalents	-	-	-	8,418	8,418-	8,418
Loans and advances	-	-	-	-	-	-
Investment securities	-	-	-	-	-	-
	-	**-**	**-**	**8,418-**	**8,418-**	**8,418**
Liabilities						
Deposits from customers	-	-	-	-	-	-
Borrowed funds	-	-	-	-	-	-
	-	**-**	**-**	**8,418**	**8,418**	**8,418**
31 December 2013						
Assets						
Cash and cash equivalents	-	-	-	21,930	21,930	22,043
Loans and advances	-	152,029	-	-	152,029	177,467
Investment securities	21,726	-	11,223	-	32,949	40,574
	21,726	**152,029**	**11,223**	**21,930**	**206,908**	**240,084**
Liabilities						
Deposits from customers	-	-	-	(158,745)	(158,745)	(184,401)
Borrowed funds	-	-	-	(25,612)	(25,612)	(30,958)
				(184,357)	**(184,357)**	**(215,359)**

The fair value of financial instruments is included at 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, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk. The fair value of cash and cash equivalents, loans and advances, other assets, customer deposits, borrowed funds and other liabilities are evaluated by the Group based on parameters such as interest rates, specific country factors and individual creditworthiness of the customer. The valuation is performed on a discounted cash flow basis. Based on this evaluation, allowances are taken to account for the expected losses of the receivables.

Valuation methods and assumptions

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The following methods and assumptions were used to estimate the fair values The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the

7. Financial assets and liabilities (continued)

significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

The fair values of remaining AFS financial assets are derived from quoted market prices in active markets.

There have been no transfers between Level 1 and Level 2 during the year ended 31 December 2014.

The table below shows certain financial assets and financial liabilities that have been measured at either fair value, analysed by the level of valuation method. The three levels of valuation methodology used are:

- Level 1 – use quoted prices in active markets for identical assets or liabilities
- Level 2 – use inputs for the asset or liability other than quoted prices, that are observable either directly or indirectly
- Level 3 – use inputs for the asset or liability that are not based on observable market data such as internal models or other valuation methods.

	Valuation Technique	Significant Observable Input	Range (Weighted Average)
Level 1			
Cash and cash equivalents			
Investment securities-Available for sale -Treasury bills	Fair value at closing rate	Quoted prices in active market	7%-8%
Investment securities-held to maturity-Treasury bonds	yield rate	yield rate	9.5%-10.5%
Level 2			
Loans and advances to customers	Discounted cashflow	Constant prepayment Rate	8%-20%
Financial liabilities			
Deposits from customers-fixed deposits	Discounted cash flow	Fixed rate and fixed time period	7%
Borrowed funds	Discounted cashflow	2.5%+ Libor rate	

Fair value hierarchy.

In millions of Kenya Shillings	Level 1	Level 2	Level 3	Total
Group				
At 31 December 2014				
Financial assets at fair value				
Cash and cash equivalents	48,120			**48,120**
Loans and advances		241,952	-	**241,952**
Investment securities-Available for sale	15,942	-	-	**15,942**
Investment securities-Held to maturity	35,082			**35,082**
Total financial assets at fair value	**99,144**	**241,952**	**-**	**341,096**
Financial liabilities at Fair value				
Deposits from customers	-	248,892	-	**248,892**
Borrowed funds	-	30,724	-	**30,724**
Total liabilities at fair value	**-**	**279,616**	**-**	**279,616**

7. Financial assets and liabilities (continued)

In millions of Kenya Shillings	Level 1	Level 2	Level 3	Total
Group				
At 31 December 2013				
Financial assets at fair value				
Available for sale financial assets				
Non-current and current investment				
Government bonds and bills	11,223	-	-	11,223
Total financial assets at fair value	**11,223**	**-**	**-**	**11,223**
Financial liabilities at fair value				
Deposits from customers	-	221,755	-	221,755
Borrowed funds	-	32,012	-	32,012
Total financial liabilities at fair value	**-**	**253,767**	**-**	**253,767**

8. Interest income

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Interest income				
Cash and cash equivalents	**365**	390	**267**	272
Loans and advances to customers	**31,107**	27,848	**27,592**	24,847
Investment securities	**3,895**	3,652	**3,281**	3,191
Total interest income	**35,367**	**31,890**	**31,140**	**28,310**
Interest expense				
Deposits from banks	**(64)**	(103)	**(35)**	(33)
Deposits from customers	**(4,692)**	(3,971)	**(3,576)**	(3,212)
Borrowings	**(1,436))**	(1,325)	**(1,369)**	(1,375)
Total interest expense	**(6,192)**	**(5,399)**	**(4,980)**	**(4,620)**
Net interest income	**29,175**	**26,491**	**26,160**	**23,690**

9. Fee, commission and trading income

a. Net fee and commission income

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Retail banking customer fees	**1,761**	1,829	**1,584**	1,487
Corporate baking credit related fees	**1,336**	1,017	**1,039**	781
Other	**200**	146	**15**	23
Total fee and commission income	**3,297**	**2,992**	**2,638**	**2,291**

b. Net trading income

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Bonds trading income	**46**	66	**46**	66
Foreign exchange gain	**2,345**	1,866	**1205**	898
	2,391	**1,932**	**1,251**	**964**

10. Other operating income

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Temporary overDr.afts / un-cleared effects	**2,341**	1,813	**2,281**	1,777
ATM-application & withDr.awal fees	**1,820**	1,535	**1,561**	1,387
Salary remittance commission	**1,332**	1,125	**1,139**	1,047
Counter withDr.awal charges	**1,046**	739	**622**	433
Other*	**6,247**	5,234	**5,515**	4,149
	12,786	**10,446**	**11,118**	**8,793**

* Other income relates to charges on the various products and services offered by the group to the customers.

11. Allowances for impairment

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Balance at 1 January	**6,000**	4,289	**5,301**	4,123
Specific provisions for the year	**1,420**	2,243	**920**	1,750
General provisions for the year	**437**	311	**429**	211
Interest suspended during the year*	**534**	734	**399**	673
Write-offs during the year	**(738)**	(1,425)	**(624)**	(1,331)
IAS 39 adjustment	**(267)**	(150)	**(190)**	(124)
Balance at 31 December	**7,386**	**6,000**	**6,235**	**5,301**

*The interest suspended relates to the portion of interest income on non-performing loans not charged to profit or loss.
IAS 39 adjustment relates to the difference in provision between IAS 39 requirements and Central Bank of Kenya prudential guidelines.
Impairment loss for the year is arrived at as follows

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Charge for the year: General provisions	**437**	309	**429**	210
Specific provisions	**1,420**	2,243	**920**	1,750
	1,857	2,552	**1,349**	1,960
IAS 39 adjustment -write back of over provisions	**(267)**	(150)	**(190)**	(124)
Net impairment loss on financial assets	**1590**	**2,402**	**1,159**	**1,836**

12. Personnel expenses

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Salaries and other staff costs	**10,510**	8,509	**8,501**	6,959
Contributions to defined contribution plans	**304**	534	**290**	446
	10,814	**9,043**	**8,791**	**7,405**

Other staff costs include staff medical costs, staff training, staff bonus, staff welfare and staff insurance

13. Operating lease expenses

Non-cancellable operating lease rentals paid are as follows:

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Lease rentals	**1,592**	1,319	**1,088**	839

The Group leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease after that date. Lease payments are increased accordingly to reflect market lease rentals as detailed in Note 31.

14. Property, equipment and leasehold land

a. Property and equipment

Group

In millions of Kenya Shillings	Freehold land & buildingsv	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work-in-Progress	Total
COST	197	6,366	197	2,928	6,215	103	576	**16,582**
At 1 January 2013	-	676	30	355	235	-	1,822	**3,118**
Additions	-	678	14	216	206	-	(1,114)	**-**
Transfers								
Disposals	(8)	(178)	(9)	(29)	(34)	-	-	**(258)**
At 31 December 2013	189	7,542	232	3,470	6,622	103	1,284	**19,442**
Additions	110	1,030	33	502	1,287	-	438	**3,400**
Transfers	-	152	-	107	431	-	(690)	**-**
Disposals	(11)	(114)	(20)	(36)	(86)	-	-	**(267)**
At 31 December 2014	**288**	**8,610**	**245**	**4,043**	**8,254**	**103**	**1,032**	**22,575**

Group

In millions of Kenya Shillings	Freehold land & buildingsv	Leasehold improvements	Motor vehicles	Office equipment, furniture & fittings	Computers	Village cell banking vans	Work-in-Progress	Total
DEPRECIATION								
At 1 January 2013	21	2,279	103	1,297	3,771	39	-	**7,510**
Charge for the year	3	826	39	383	931	-	-	**2,182**
Disposals	(1)	(11)	(5)	-	(29)	-	-	**(46)**
At 31 December 2013	23	3,094	137	1,680	4,673	39	-	**9,646**
Charge for the year	3	944	41	433	1,142	-	-	**2,563**
Transfers	(16)	-	-	44	(44)	-	-	**(16)**
Disposals	-	(32)	(20)	(24)	(70)	-	-	**(146)**
At 31 December 2014	**10**	**4,006**	**158**	**2,133**	**5,701**	**39**	**-**	**12,047**
NET CARRYING AMOUNT								
At 31 December 2013	**166**	**4,448**	**95**	**1,790**	**1,949**	**64**	**1,284**	**9,796**
At 31 December 2014	**278**	**4,604**	**87**	**1,910**	**2,553**	**64**	**1,032**	**10,528**

Company

In millions of Kenya Shillings	Freehold land & buildings	Leasehold improvements	Motor Vehicles	Office equipment, furniture & fittings	Computers	Work-in-progress	Total
COST							
At 1 January 2013	40	4,809	123	2,317	5,729	115	**13,133**
Additions	-	557	13	199	178	1,249	**2,196**
Transfers	-	137	-	42	168	(347)	**-**
Disposals	-	-	(3)	-	(27)	-	**(30)**
At 31 December 2013	**40**	**5,503**	**133**	**2,558**	**6,048**	**1,017**	**15,299**
Additions	-	729	31	255	1,261	231	**2,507**
Transfers	-	54	-	3	471	(528)	**-**
Disposals	-	(30)	(19)	(1)	-	-	**(50)**
At 31 December 2014	**40**	**6,256**	**145**	**2,815**	**7,780**	**720**	**17,756**
Transfered to EBKL As at 31st December 2014	**(40)**	**(6,256)**	**(145)**	**(2,815)**	**(7,780)**	**(720)**	**(17,756)**

Company

	Freehold land & buildings	Leasehold improvements	Motor Vehicles	Office equipment, furniture & fittings	Computers	Work-in-progress	Total
DEPRECIATION							
At 1 January 2013	9	1,925	95	1,124	3,450	-	**6,603**
Charge for the year	-	618	15	279	872	-	**1,784**
Transfers	-	6	-	13	(19)	-	**-**
Disposals	-	-	(3)	-	(27)	-	**(30)**
At 31 December 2013	**9**	**2,549**	**107**	**1,416**	**4,276**	**-**	**8,357**
Charge for the year	-	682	18	294	1,055	-	**2,049**
Transfers	-	-	-	-	-		**-**
Disposals	-	(16)	(19)	(1)	-	-	**(36)**
At 31 December 2014	**9**	**3,215**	**106**	**1,709**	**5,331**	**-**	**10,370**
NET CARRYING AMOUNT							
At 31 December 2013	31	2,954	26	1,142	1,772	1,017	**6,942**
At 31 December 2014	**31**	**3,041**	**39**	**1,106**	**2,449**	**720**	**7,386**
Transfered to EBKL At 31 December 2014	**(31)**	**(3,041)**	**(39)**	**(1,106)**	**(2,449)**	**(720)**	**(7,386)**

* The depreciation on buildings is not reflected on this table since the charge for the year was Kshs 378,185.

15. Intangible assets

a. Group

In millions of Kenya Shillings	Software	Work- in- progress	Total
COST			
At 1 January 2013	2,372	45	**2,417**
Additions	266	732	**998**
Transfers	25	(25)	**-**
At 31 December 2013	**2,663**	**752**	**3,415**
Additions - 2014	1,666	312	**1,978**
Transfers	638	(638)	**-**
Disposals	(83)	-	**(83)**
At 31 December 2014	**4,884**	**426**	**5,310**

AMORTISATION AND IMPAIREMENT

At 1 January 2013	1,002	-	**1,002**
Charge for the year	344	-	**344**
At 31 December 2013	**1,346**	**-**	**1,346**
Charge for the year - 2014	622	-	**622**
Disposals	(83)	-	**(83)**
At 31 December 2014	**1,885**	**-**	**1,885**
NET CARRYING AMOUNT			
At 31 December 2013	1,317	752	**2,069**
At 31 December 2014	**2,999**	**426**	**3,425**

b. Company

In millions of Kenya Shillings	Software	Work- in- progress	Total
COST			
At 1 January 2013	1,989	46	**2,035**
Additions	179	557	**736**
Transfers	25	(25)	**-**
At 31 December 2013	**2,193**	**578**	**2,771**
Additions	1,446	306	**1,752**
Transfers	638	(638)	**-**
At 31 December 2014	**4,277**	**246**	**4,523**
Transfered to EBKL At 31 December 2014	**(4,277)**	**(246)**	**(4,523)**

15. Intangible assets (continued)

AMORTISATION AND IMPAIREMENT

At 1 January 2013	913	-	**913**
Charge for the year	316	-	**316**
Transfers	-	-	**-**
At 31 December 2013	**1,229**	**-**	**1,229**
Charge for the year	519	-	**519**
At 31 December 2014	**1748**	**-**	**1,748**
NET CARRYING AMOUNT			
At 31 December 2013	964	578	**1,542**
At 31 December 2014	**2,529**	**246**	**2,775**
Transfered to EBKL At 31 December 2014	**(2,529)**	**(246)**	**(2,775)**

The Group's intangible assets include the value of computer software. The WIP is composed of software in development.

16. Other expenses

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Software licensing and related expenses	**1,430**	613	**1,360**	524
Auditors' remuneration	**27**	20	**11**	11
Other*	**7,711**	7,135	**6,078**	4,790
Balance at 31 December	**9,168**	**7,768**	**7,449**	**5,325**

*Other expenses mainly comprise of Office expenses, promotion expenses, consultancy fees, electricity, security, printing and stationery, printing of securities, repairs and subscriptions.

17.

a. Investment in associates

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Balance as at 1 January	**1,574**	1,457	**1,113**	1,113
Share of profit	**242**	201	**-**	-
Dividends received	**(100)**	(84)	**-**	-
Proceeds from sale	**(2,780)**	-	**(2,780)**	-
Balance as at 31 December	**-**	1,574	**-**	1,113
Gain on disposal	**(1,064)**		**(1,667)**	-
Share of profit from associate	**(242)**			
Ultimate gain and on disposal	**(822)**			
	(1,064)			

On 31 December 2014, the company disposed all its interest in the Associate Company and subsequently derecognised the assets from its books at the close of the year.

17. (continued)

b. Investment in subsidiary companies

In millions of Kenya Shillings	Principal activity	Percentage shareholding	Company 2014	Company 2013
Equity Bank (Kenya) Ltd.	Banking	100%	**39,733**	-
Equity Bank Uganda Ltd.	Banking	100%	**3,965**	3,965
Equity Consulting Group Ltd.	Consultancy	100%	**0.5**	0.5
Equity Insurance Agency Ltd.	Insurance brokerage	100%	**100**	100
Equity Nominees Ltd.	Custodial services	100%	**0.1**	0.1
Equity Investment services Ltd.	Investment banking	100%	**420**	420
Finserve Africa Ltd.	IT outsourcing	100%	**1,001**	351
Equity Bank (South Sudan) Ltd.	Banking	100%	**2,537**	2,537
Equity Bank (Rwanda) Ltd.	Banking	100%	**2,807**	1,478
Equity Bank (Kenya) Ltd.	Banking	100%	**1,000**	-
Equity Bank Tanzania Ltd.	Banking	100%	**2,815**	1,432
Equity Investment Bank Ltd.	Investment banking	100%	**420**	-
			54,799	**10,284**

During the year 2014, the Company injected additional capital in Finserve Africa Limited, Equity Bank Rwanda Limited, Equity Bank Tanzania Limited. Equity Bank (Kenya) limited was incorporated during the year.

The Company had twelve wholly owned subsidiary companies as at 31 December 2014; Equity Bank (Kenya) Limited, Equity Bank Uganda Limited, Equity Bank South Sudan Limited, Equity Bank Rwanda Limited, Equity Bank Tanzania Limited, Equity Consulting Group Limited, Equity Investment Services Limited, Equity Nominees Limited, Finserve Africa Limited, Equity Insurance Agency Limited, Francis Thuo and Partners and Equity Investment Bank. Equity Nominees Limited and Equity Investment Services Limited of the twelve subsidiaries were dormant as at the end of the year.

All the subsidiaries except Equity Bank Uganda Limited, Equity Bank Rwanda Limited, Equity Bank Tanzania Limited and Equity Bank Southern Sudan Limited are incorporated in Kenya.

c. Goodwill arising from the acquisition of Equity Bank Uganda Limited (formerly Uganda Microfinance Limited (UML)

In millions of Kenya Shillings	2014 KShs	2013 KShs
Purchase price for 100% stake	**1,666**	1,666
Add: Acquisition costs	**34**	34
Total acquisition cost	**1,700**	**1,700**
Less: Carrying amount of tangible and separable identifiable intangible assets	**(554)**	(554)
Less: Fair value adjustments of tangible assets and separable identifiable intangible assets	**(259)**	(259)
Goodwill	**887**	887

The goodwill of KShs 887 million arose from the acquisition of Equity Bank Uganda Limited (formerly Uganda Microfinance Limited) in April 2008, which has been determined in accordance with IFRS 3. It represents the difference between the total purchase consideration (including acquisition costs) paid to acquire 100% stake in Equity Bank Uganda Limited and the fair value of the net tangible assets and the separable identifiable intangible assets.

Equity Bank Limited acquired Uganda Microfinance Ltd, now Equity Bank Uganda Limited (EBUL) in June 2008. Arising from the transaction, the Group recognized goodwill of Kshs 887 million in the Group accounts. In line with the requirements of IFRS, management is required to assess the goodwill for impairment on an annual basis and whenever there is any indication of impairment.

During the year management carried out an impairment assessment in respect to goodwill which entailed thorough analysis of the

17. (continued)

business / regulatory environment, analysis of existing performance and projection of future performance. No adverse impairment indicators were identified, hence no likelihood of an impairment loss. Management will continue to review and assess the goodwill annually for any impairment in the future.

Assessment

IAS 36 para 66 states "If there is any indication that an asset may be impaired, recoverable amount shall be estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, an entity shall determine the recoverable amount of the cash-generating unit to which the asset belongs"

In light of the above paragraph, our basis of goodwill assessment is based on defining Equity Bank Uganda as a cash generating unit ("CGU") in its entirety.

Results of Impairment Testing

From the analysis above the projected net discounted cash flow of the CGU is UGShs 250 billion (KShs 8.5 billion using a conversion rate of 29.26 KESUGX). This is far greater than the carrying amount of the goodwill balance of Kshs 887 million thus indicating the goodwill is not impaired.

18. Income tax

Recognised in the income statement

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Current tax expense				
Current year	**6,848**	5,881	**6,511**	5,548
	6,848	**5,881**	**6,511**	**5,548**

Deferred tax expense

	Group 2014	Group 2013	Company 2014	Company 2013
Current year (Note 24)	**(1,635)**	(155)	**(1,568)**	43
Total income tax expense	**5,213**	**5,726**	**4,943**	**5,591**
Reconciliation of effective tax rate				
In millions of Kenya Shillings				
Profit before tax	**21,300**	19,004	**20,111**	18,233
Income tax using the enacted corporation tax rate	**6,414**	**5,747**	**6,034**	**5,470**
Non-deductible expenses	**(1,201)**	(21)	**(1,091)**	121
Total income tax expense in income statement	**5,213**	**5,726**	**4,943**	**5,591**
Income tax recognised in the statement of financial position				
Balance brought forward	**(486)**	2,310	**(470)**	2,258
Charge for the year	**6,848**	5,881	**6,511**	5,548
Paid during the year	**(6,022)**	(8,677)	**(5,580)**	(8,276)
	340	**(486)**	**461**	**470**
Made up of:				
Tax payable	**463**	64	**461**	-
Tax recoverable	**(123)**	(550)	**-**	470
	340	**(486)**	**-**	**470**

18. Income tax (continued)

Tax rates are as follows:

	Total	Kenya	Uganda	South Sudan	Insurance	Rwanda	Tanzania	Others
2014		30%	30%	20%	30%	30%	30%	30%
Profit before tax and equity income	**21,300**	**20,111**	**109**	**607**	**396**	**166**	**186**	**(230)**
Income tax using the enacted corporation tax rate	**6,414**	**6,034**	**33**	**121**	**119**	**51**	**56**	**-**
2013								
Profit before tax and equity income	19,004	18,233	55	286	407	(140)	44	67
Income tax using the enacted corporation tax rate	5,747	5,470	17	57	122	-	13	68

19. Cash balances and deposits in financial institutions

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Cash and balances with bank	**16,363**	13,657	**8,418**	7,343
Unrestricted balances with Central Banks	**17,887**	11,675		6,228
Money market placements	**13,968**	9,196		8,359
Total	**48,218**	**34,528**	**8,418**	**21,930**
Less: Restricted balances with Central Bank	**(1,179)**	(1,486)	**-**	-
Cash and Cash equivalents	**47,039**	**33,042**	**8,418**	**21,930**

20. Loans and advances to customers

a. Loans and advances to customers at amortised cost

In millions of Kenya Shillings

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Consumer	**51,026**	48,021	**-**	43,448
Micro Enterprises	**16,072**	13,649	**-**	13,209
Agriculture	**6,364**	5,455	**-**	5,379
Small and Medium Enterprises	**94,772**	81,249	**-**	66,305
Large Enterprises	**53,322**	28,989	**-**	28,989
Gross amount	**221,556**	**177,363**	**-**	**157,330**
Current (settled no more than 12 months)	**40,845**	38,612	**-**	33,020
Non-current portion (settled more than 12 months after reporting period)	**180,711**	138,751	**-**	124,310
Gross amount	**221,556**	**177,363**	**-**	**157,330**

20. Loans and advances to customers (continued)

The terms and conditions normally provided for the loans and advances to customers are as follows:

Consumer, Agriculture and Micro Enterprises - These are interest bearing facilities to retail customers. The loans are designed to meet requirements for customers in employment, in agriculture and those running Micro- Enterprises. These loans are charged processing fees and insurance

Small, Medium and Large Enterprises - These are loans to small and medium customers and they are all interest bearing. Collateral is a requirement for all facilities.

These loans are charged processing fees, insurance and legal fees.

b. Allowance for impairment

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Balance as at 1st January	**6,000**	4,289	-	4,123
Charge for the year;	**1,590**	2,402	-	1,836
Suspended interest	**534**	734	-	673
Write offs	**(738)**	(1,425)	-	(1,331)
	1386	**1,711**	-	**1,178**
Total impairment	**7,386**	**6,000**	-	**5,301**
Net loans and advances	**214,170**	**171,363**	-	**152,029**
Current	**47,117**	37,670	-	31,926
Non current	**167,053**	133,693	-	120,103
Total	**214,170**	**171,363**	-	**152,029**

IAS 39 adjustment relates to the excess provision between IAS 39 requirements and the Regulatory Authorities (Central Banks) prudential guidelines.

21. Investment securities – (Government bonds and bills)

In millions of Kenya Shillings

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Held to maturity				
As at 1 January	**33,449**	31,108	-	22,798
Purchase of investment securities	**5,959**	6,183	-	1,234
Proceeds from retirement of bonds	**(6,151)**	(3,842)	-	(2,306)
Total	**33,257**	**33,449**	-	**21,726**
Available for sale				
As at 1 January	**11,123**	9,993	-	9,993
Purchase of Investment securities	**10,879**	8,826	-	8,826
Sale of Investment Securities	**(6,926)**	(7,696)	-	(7,596)
Reclassification to profit or loss	**(8)**			
Profit / (Loss) on fair valuation	**44**			
Total	**15,112**	11,123	-	11,223
As at 31 December	**48,369**	**44,572**	-	**32,949**
Current	**15,112**	11,123	-	11,223
Non current	**33,257**	33,449	-	21,726
Total	**48,369**	**44,572**	-	**32,949**

22. Related parties

The bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

a. Loans to key management personnel

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Balance at 1 January	**819**	578	-	553
Interest charged	**73**	51	-	50
Loans disbursed	**384**	375	-	320
Repayments	**(249)**	(129)	-	(127)
Balance at 31 December	**1,027**	**874**	-	**796**
Current	**205**	175	-	159
Noncurrent	**822**	699	-	637
Total	**1,027**	**874**	-	**796**

b. Loans to employees

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Balance at 1 January	**4,191**	3,015	-	2,850
Interest charged	**361**	234	-	233
Loans disbursed	**3,187**	2,074	-	2,061
Repayments	**(1,987)**	(1,422)	-	(1,416)
Balance at 31 December	**5,752**	**3,978**	-	**3,729**
Current	**385**	796	-	746
Noncurrent	**5,367**	3,182	-	2,983
Total	**5,752**	**3,978**	-	**3,729**

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year end.

c. Loans to related parties

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Balance at 1st January	**1,346**	3,456	-	3,456
Interest charged	**84**	80	-	80
Loans disbursed	**958**	1,152	-	1,152
Repayments	**(1,285)**	(3,424)	-	(3,424)
Balance at 31 December	**1,103**	**1,263**	-	**1,263**
Current	**552**	253	-	253
Noncurrent	**551**	1,010	-	1,010
Total	**1,103**	**1,263**	-	**1,263**

These are loans to associates of directors and non-executive directors. The total amount of loans and advances granted was in ordinary course of business. These loans are subject to the bank's standard terms and conditions.

22. Related parties (continued)

d. Key management personnel compensation

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Remuneration to executive directors	**440**	329	**379**	291
Remuneration to Key Management	**2,360**	2,379	**2,050**	2,263
	2,800	**2,708**	**2,429**	**2,554**

Remuneration to Directors

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Pension	**12**	9	**10**	9
Earnings	**428**	320	**369**	282
Total	**440**	**329**	**379**	**291**

In addition to their salaries, the Group also contributes to a post-employment defined contribution plan, and the National Social Security Fund (NSSF), on their behalf.

e. Directors' emoluments

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
As non-executive	**29**	24	**19**	21
As executives	**440**	2,379	**379**	2,263
	469	**2,403**	**398**	**2,284**

f. Amounts due from related parties

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Equity Insurance Agency Limited	**-**	-	**-**	154
Equity Bank (Uganda) Limited	**-**	-	**-**	48
Equity Bank (South Sudan) Limited	**-**	-	**-**	72
Equity Bank (Rwanda) Limited	**-**	-	**-**	69
Equity Bank (Tanzania) Limited	**-**	-	**-**	454
Equity Investment Bank Limited	**-**	-	**-**	44
Equity Investment Services Limited	**-**	-	**-**	18
Equity Nominees Limited	**-**	-	**-**	42
Equity Group Foundation	**189**	122	**-**	122
Equity Consulting Group	**-**	-	**-**	40
	189	**12 2**	**-**	**1,063**

Related parties are only the subsidiary companies in addition to Equity Group Foundation which is a related party by virtue of common directorship. Transactions with related parties are at arm's length. The outstanding balances as at year end are unsecured and interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31st December 2014, the group has not recorded any impairment of receivables relating to the amounts owed by related parties (2013- nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

22. Related parties (continued)

g. Sale of Investment in Associate

During the year, the Investment in Associate was sold off in full to Britam, a related party by virtue of common directorship, at arm's length for Kshs 2.78 Billion.

23.

a. Other assets

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Accounts receivable and prepayments	**7,716**	5,593	**-**	4,191
Accrued income	**,3,151**	2,494	**-**	2,221
Funds in clearing	**1,346**	1,343	**-**	790
Other*	**3,770**	1,719	**-**	1,965
	15,983	**11,149**	**-**	**9,167**

Other assets are settled no more than 12 months after reporting date All the balances are noninterest bearing.

Other* includes stationery, stock of ATM cards, Telco agent floatsfor Airtel and Safaricom, prepaid operating lease rentals among others

b. Prepaid operating lease rentals

The movement in prepaid operating lease rentals during the year was as follows:

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Cost				
At 01 January	**662**	297	**-**	5
Acquisitions	**46**	365	**-**	-
At 31 December	**708**	**662**	**-**	**5**
Amortisation and impairment				
At 1 January	**482**	5	**-**	1
Amortisation for the year	**120**	110	**-**	-
Impairment (South Sudan)	**-**	367	**-**	-
At 31 December	**602**	482	**-**	1
Net carrying amount				
At 31 December	**106**	**180**	**-**	**4**

24. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

In millions of Kenya Shillings	Group		Company	
	2014	2013	2014	2013
Plant, equipment and software	**356**	417	**-**	486
Allowance for loan losses	**1,892**	491	**-**	356
Allowance for accrued Leave	**45**	5	**-**	-
Unrealised exchange losses	**(8)**	(20)	**-**	(18)
Unrealised exchange gains	**(13)**	(138)	**-**	(123)
Tax Losses	**300**	182	**-**	-
Net tax asset	**2,572**	**937**	**-**	**701**

Group deferred tax assets and liabilities are attributable to the following:

In millions of Kenya Shillings	2014			2013		
Net Deferred Tax Asset						
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, equipment and software	**528**	**(172)**	**356**	486	(69)	417
Allowances for loan losses	**1892**	**-**	**1,892**	491	-	491
Allowance for accrued Leave	**45**	**-**	**45**	4	-	4
Unrealised exchange losses	**-**	**(6)**	**(6)**	-	(18)	(18)
Unrealised exchange gains	**-**	**(13)**	**(13)**	-	(138)	(138)
Tax losses	**300**		**300**	181	-	181
	2,765	**(191)**	**2,574**	**1,164**	**(225)**	**939**

In millions of Kenya Shillings	2014			2013		
Net Deferred Tax Liability						
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Unrealised exchange losses	**-**	**(2)**	**(2)**	-	(2)	(2)
	-	**(2)**	**(2)**	**-**	**(2)**	**(2)**

*The deferred tax asset and deferred tax liability at group level in the statement of financial position have been separated as they relate to different tax jurisdictions as required by IAS 12. The net of the two amounts is analysed in the table above.

Company deferred tax assets and liabilities are attributable to the following:

In millions of Kenya Shillings	2014			2013		
	Assets	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, equipment and software	**-**	**-**	**-**	486	-	486
Allowances for loan losses	**-**	**-**	**-**	356	-	356
Allowance for accrued Leave	**-**	**-**	**-**		-	-
Unrealised exchange losses	**-**	**-**	**-**	-	(18)	(18)
Unrealised exchange gains	**-**	**-**	**-**	-	(123)	(123)
	-		**-**	**842**	**(141)**	**701**

24. Deferred tax assets and liabilities (continued)

Movements in temporary differences during the year – Group

In millions of Kenya Shillings	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing balance
2014				
Property, equipment and software	**417**	**(61)**		**356**
Allowances for loan losses	**491**	**1,401**		**1,892**
Provision for accrued leave	**5**	**40**		**45**
Unrealised exchange losses	**(20)**	**12**		**(8)**
Unrealised exchange gains	**(138)**	**125**		**(13)**
Tax losses	**182**	**118**		**300**
	937	**1,635**		**2,572**

Movements in temporary differences during the year – Group

In millions of Kenya Shillings	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing balance
2013				
Property, equipment and software	159	258	-	417
Allowances for loan losses	751	(260)	-	491
Provision for accrued leave	14	(9)	-	5
Unrealised exchange losses	(120)	100	-	(20)
Unrealised exchange gains	(66)	72	-	(138)
Tax losses	44	138	-	182
	782	**155**	**-**	**937**

Movements in temporary differences during the year – Company

In millions of Kenya Shillings	Opening Balance	Recognised in profit or loss	Transferred to Equity Bank (Kenya) Ltd	Closing balance
2014				
Property, equipment and software	**486**	**41**	**(527)**	**-**
Allowances for loan losses	**356**	**1,350**	**(1,706**	**-**
Provision for accrued leave		**43**	**(43)**	
Unrealised exchange losses	**(18)**	**11**	**7**	**-**
Unrealised exchange gains	**(123)**	**123**	**-**	**-**
	701	**1,568**	**(2,269)**	**-**

2013	Opening Balance	Recognised in profit or loss	Recognised in OCI	Closing balance
Property, equipment and software	180	306	-	486
Allowances for loan losses	751	(395)	-	356
Provision for accrued leave	5	(5)	-	-
Unrealised exchange losses	(124)	106	-	(18)
Unrealised exchange gains	(68)	(55)	-	(123)
	744	(43)	-	701

25. Deposits from customers

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Retail customers				
Term deposits	**16,254**	15,431	-	13,694
Current deposits	**20,153**	44,296	-	34,283
Savings deposits	**105,874**	100,500	-	89,441
Total	**142,280**	**160,227**	-	**137,418**
Corporate customers				
Term deposits	**22,901**	18,012	-	12,238
Current deposits	**80,143**	13,159	-	5,685
Savings	**258**	3,755	-	3,404
Total	**103,302**	**34,926**	-	**21,327**
	245,582	**195,153**	-	**158,745**
Current	**133,078**	98,240	-	65,668
Non current	**112,504**	96,913	-	93,077
Total	**245,582**	**195,153**	-	**158,745**

The summary of terms and conditions for the various categories of deposits are below:

Term deposits - These are high interest-bearing accounts that are opened for a specific period of time at a fixed rate of interest. Funds are fixed on the account for specified term periods of time. Interest is calculated daily and paid only on maturity of the deposits. Interest rates are offered at competitive and attractive rates.

Current accounts – These are non-interest bearing accounts that are due on demand. They are operated by both individuals and institutions with the use of a cheque book. They are subject to transaction activity fees and/or monthly maintenance charges.

Savings accounts - This is a deposit account designed for the average income earner that enables one to save some money and earn interest. The more one saves, the higher the interest. Interest on minimum monthly balances is paid into the account bi-annually.

26. Borrowed funds

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Deutsche Bank Microfinance Fund	**-**	614	**-**	614
China Development Bank Corporation	**9,524**	8,178	**9,524**	8,178
Ontwikelinslanden N.V (FMO)	**3,221**	3,221	**3,221**	3,221
International Finance Corporation(IFC)	**9,070**	8,640	**9,070**	8,640
Ministry of Youth Affairs	**35**	85	**35**	85
Micro Finance Sector Support Credit (Ministry of Finance)	**130**	224	**130**	224
ResponsAbility	**2,268**	1,296	**2,268**	1,296
Microfinance Enhancement Facility (MEF)		1,296		1,296
KFW	**1,984**	1,827	**1,984**	1,827
Ministry of Finance (GOK)	**239**	226	**239**	226
Citi Bank Kenya	**2,268**	-	**2,268**	-
Standard Chartered Bank Kenya	**500**	-	**500**	-
Family Bank Kenya Limited	**27**	-	**27**	-
Bank of Africa Kenya	**481**	-	**481**	-
EXIM TZ	**18**	-	**-**	-
Orient Bank Uganda Limited	**259**	189	**-**	-
Eco Bank Uganda	**33**	-	**-**	-
Centenary Bank Uganda	**33**	-	**-**	-
Post Bank Uganda Limited	**106**	-	**-**	-
Crane Bank Rwanda Limited	**46**	-	**-**	-
Diamond Trust Bank Uganda	**-**	65	**-**	-
Equity Bank-Uganda	**-**	-	**-**	5
Equity Bank South Sudan	**-**	875	**272**	-
Equity Bank Rwanda	**-**	-	**36**	-
Equity Bank Tanzania	**-**	-	**28**	-
	30,242	**26,736**	**30,083**	**25,612**
Current (settled no more than 12 months)	**12,669**	3,572	**12,508**	2,443
Noncurrent portion (settled more than 12 months after reporting period)	**17,573**	23,164	**17,575**	23,169
	30,242	**26,736**	**30,083**	**25,612**

At the end of the year, the following loan balances were outstanding:

(i) Medium term loans of US$ 105M (KShs 9.52B) from China Development Bank, a company incorporated in China. The loan which is secured by directors' guarantee accrues interest at the rate of LIBOR 6M +2.6% margin plus interest tax as applicable. A finance cost of KShs 293.98M (2013: KShs 293.5M) has been included in profit or loss for the year. Out of it USD 80M matures on 27-Nov-2017 while US$ 25M accrues interest at the rate of LIBOR 6M +2.2% and matures on 17-May-2016.

(ii) Loan of US$ 25M (KShs 2.27B) from ResponsAbility an unincorporated mutual fund organised under Luxembourg law. The loan which is secured by directors guarantee accrues interest at a rate of LIBOR 6M +3.07% margin plus interest tax as applicable; US$ 10M matures on 11th August 2016 while US$ 15M will mature on 23rd Sep 2019. A finance cost of KShs 59.63M (2013 KShs 53.7M) has been included in profit or loss for the year.

(iii) Long term loan of US$ 21.9 (KShs 1.98B) from KFW, a public law institution registered in Germany with its headquarters in Frankfurt. The subordinated loan which is secured by directors' guarantee accrues interest at a rate of LIBOR 6M +3.3% margin plus interest tax as applicable and will mature on 13th December 2018. A finance cost of KShs 62.99M (2013: 65.2M) has been included in profit or loss for the year.

(iv) Medium term loan of US$ 100M (KShs 9.07B) from International Finance Corporation, an organisation established by Articles of Agreement among its member countries including the Republic of Kenya. The loan which is secured by directors' guarantee accrues interest at the rate of LIBOR 6M + 2.75% margin plus interest tax as applicable and will mature on 15th March 2019. A finance cost of KShs 277.08 (2013: KShs 283.3) has been included in profit or loss for the year.

(v) Long-term loans totalling KShs 3.221B from FMO, a company incorporated in the Netherlands. The loans, which are secured by directors' guarantee, accrue interest at varied rates depending on the CBK 91 T-bill rate plus a 3.5% margin at the beginning of each quarter matures on 15th June 2015. A finance cost of KShs 364.91M (2013: KShs 427.51M) has been included in profit or loss for the year.

(vi) Medium term loans totalling KShs 35M from Ministry of Youth Affairs. The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 1% p.a. and matures on 10th April 2015. A finance cost of Kshs 0.28M (2013: Kshs 0.8 M) been included in profit or loss.

(vii) Medium term loans totalling KShs 238.66M from Ministry.of Finance (KFW-Irrigation). The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 4% p.a. and matures on 30th June 2017. A finance cost of Kshs 7.55 M (2013: Kshs 9.33 M) been included in profit or loss.

(viii) Medium term loans totalling KShs 130M from Ministry.of Finance (Microfinance Sector Support Credit). The loan, which is secured by directors' guarantee, accrues interest at the fixed rate of 4% p.a. and matures on 27th June 2015. A finance cost of Kshs 6.59 M (2013: Kshs 8.82 M) been included in profit or loss.

(ix) On 31-Dec-2014 Equity Bank (K) Ltd borrowed US$ 5.3M (KShs 480.71M) maturing on 02-Jan-2015 from Bank of Africa Kenya through the inter-bank money market at a rate of 3.3% for 2 days.

(x) On 31-Dec-2014 Equity Bank (K) Ltd borrowed US$ 0.3M (KShs 27.21M) maturing on 02-Jan-2015 from Family Bank Kenya through the inter-bank money market at a rate of 3.0% for 2 days.

(xi) On 17-Dec-2014 Equity Bank (K) Ltd borrowed US$ 25M (KShs 2.27B) maturing on 20-Jan-2015 from Citi Bank Kenya through the inter-bank money market at a rate of 3.0% for 34 days.

(xii) On 31-Dec-2014 Equity Bank (K) Ltd borrowed KShs 0.5B maturing on 02-Jan-2015 from Standard Chartered Bank Kenya through the inter-bank money market at a rate of 7.25% for 2 days.

(xiii) On 31-Dec-2014 Equity Bank Tanzania Ltd borrowed KShs 18.14M (US$ 0.2M) maturing on 02-Jan-2015 from Exim Bank Tanzania through the inter-bank money market at a rate of 3% for 3 days.

27. Other liabilities

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Short term employee benefits	**615**	12	**-**	-
Creditors	**405**	803	**-**	188
Other*	**3,487**	3,404	**23**	2,963
	4,507	**4,219**	**23**	**3,151**
Current	**4,459**	4,192	**-**	3,124
Non-current	**48**	27	**-**	27
	4,507	**4,219**	**23**	**3,151**

Other* relate to accruals including deferred income and accrued interest on term borrowings, made as at year end.

28. Share capital and reserves

a. Authorised

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
Issued and fully paid 3,702,777,020				
Ordinary shares of KShs 0.5	**1,851**	1,851	**1,851**	1,851

Movement in ordinary shares

	Group		Company	
In millions of Kenya Shillings	**2014**	**2013**	**2014**	**2013**
On issue at 1st January	**3,703**	3,703	**3,703**	3,703
On issue at 31 December	**3,703**	3,703	**3,703**	3,703

As at 31 December 2014 the authorised share capital comprised of 3.7 billion ordinary shares (2013: 3.7 billion), with a par value of KShs 0.5. All issued shares are fully paid.

The shareholders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Bank.

The top ten largest shareholders as at 31 December 2014 were:

Name	No. of Shares	%
HELIOS EB INVESTORS I LTD	452,581,275	12.22%
HELIOS EB INVESTORS II LTD	452,581,275	12.22%
BRITISH-AMERICAN INVESTMENTS COMPANY (KENYA) LIMITED	263,455,230	7.12%
EQUITY BANK EMPLOYEE SHARE OWNERSHIP PLAN	143,865,900	3.89%
JAMES NJUGUNA MWANGI	127,809,180	3.45%
EQUITY NOMINEES LIMTED A/C 00104	102,821,804	2.78%
FORTRESS HIGHLANDS LIMITED	101,010,000	2.73%
STANDARD CHARTERED NOMINEES NON-RESD. A/C 9069	96,686,446	2.61%
ANDr.EW MWANGI KIMANI	90,426,800	2.44%
AIB NOMINEE A/C SOLIDUS HOLDINGS LTD	90,114,910	2.43%
OTHER 27,816 SHAREHOLDERS	1,781,424,200	48.11%
TOTAL SHARES	**3,702,777,020**	**100%**

The distribution of shares as at 31 December 2014 was as is shown on page 58.

28. Share capital and reserves (continued)

b. Share premium

Share premium arose from the issue of shares at a price higher than the par value of the shares.

c. Available for sale reserve

The available for sale reserve is attributable to marking to market of investment securities classified under the available-for-sale category. This is shown on the statement of comprehensive income and also on the income statement when the underlying asset has been derecognised or impaired.

d. Loan loss reserve

The Loan loss reserve represents excess loan loss provision determined from computation of impairment of loans and advances as per International Accounting Standards (IAS) No. 39 against the requirements of the Central Bank of Kenya prudential guidelines. This amount is not available for distribution.

e. Other reserves

The other reserves represent pre-acquisition reserves from Uganda.

f. Foreign currency translation reserve

The foreign exchange transactions reserve represents translation of Uganda Shillings, South Sudan Pounds, Tanzania Shillings and Rwanda Francs to Kenya Shillings.

g. Revaluation reserves

Revaluation reserve represents revaluation surplus on property and equipment on associate company.

h. Dividends

The following dividends were declared and/or paid by the Group and Company.

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
KShs 1.80 per ordinary share of KShs 0.5 (2013– KShs1.50)	**6,665**	5,554	**6,665**	5,554
	6,665	5,554	**6,665**	5,554

After the respective reporting dates the above dividends were proposed by the directors in respect of years. The dividends have not been provided for and there are no income tax consequences.

29. Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the Group as at 31 December 2014 is based on the profit attributable to ordinary shareholders of KShs 17,151million (2013: KShs 13,278 million) and the weighted average number of ordinary shares outstanding of 3,702million.

The calculation of basic earnings per share for the Company as at 31 December 2014 is based on the profit attributable to ordinary shareholders of KShs 16,835 million (2013: KShs 12,642 million) and the weighted average number of ordinary shares outstanding of 3,702 million.

29. Earnings per share (continued)

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Profit for the year attributable to equity shareholders	**17,151**	13,278	**16,835**	12,642
Number of shares: (in millions) Issued ordinary shares at 1 January	**3,703**	3,703	**3,703**	3,703
Weighted average number of ordinary shares at 31 December	**3,703**	3,703	**3,703**	3,703

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Earnings per share:				
Basic earnings per share (in Kenya Shillings)	**4.63**	3.59	**4.55**	3.41
Diluted earnings per share (in Kenya Shillings)	**4.63**	3.59	**4.55**	3.41

30. Dividend per share

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

At the forthcoming Annual General Meeting to be held on 31st March 2015, a final dividend in respect of the year ended 31 December 2014 of KShs 1.80 (2013 – KShs 1.50) for every ordinary share of KShs 0.5 is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for resident and 10% for non-resident shareholders.

31. Offstatement of financial position contingencies and commitments

Group and Bank

In the ordinary course of business, the Group and the Bank conduct business involving guarantees, acceptances and performance bonds. These facilities are offset by corresponding obligations of third parties. At the year end, the contingencies were as follows:

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Guarantees and standby letters of credit	**20,430**	9,168	**-**	9,111
Letters of credit, acceptances and other documentary credits	**3,287**	2,148	**-**	2,077
	23,717	**11,316**	**-**	**11,188**

Nature of contingent liabilities

Guarantees are generally written by a bank to support performance by a customer to third parties to the tune of cash collateral equivalent to the customer's financial obligation. The Bank will only be required to utilize this collateral to meet the obligation 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 Dr.awn on a customer. The Bank expects most acceptances to be presented and reimbursement by the customer is almost immediate.

Commitments

Capital expenditure contracted for at the reporting date but not recognised in the financial statements is as follows:

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Capital commitments	**95**	292		177
Loans approved but not disbursed	**12,000**	46,887	-	45,583
	12,095	**47,179**	-	**45,760**

Group and Company lease

The Group and company has entered into commercial property leases on a number of branches and office premises under operating leases. These non-cancellable leases have remaining terms of between one and 10 years. All leases include a clause that enables upward revision of the rental charges on an agreed basis according to prevailing market conditions.

Future minimum rentals payable under non-cancellable operating leases as at 31st December are as follows:

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
Within one year	**521**	367	-	46
After one year but not more than five years	**2,958**	2,634	-	1,579
More than five years	**6,424**	2,955	-	2,420

32. Retirement Benefit Obligations

The Bank contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF).

The Bank also operates a defined contribution pension scheme for the staff. The contributions are charged to profit or loss in the period in which they relate.

	Group		Company	
In millions of Kenya Shillings	2014	2013	2014	2013
National Social Security Fund	**16**	14	-	13
Pension Scheme	**287**	238	-	223
	303	**252**	-	**236**

33. Foreign currency exposure – group

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The board of directors has set limits on foreign currency positions. The foreign currency positions are monitored on daily basis and hedging strategies used to ensure that positions are maintained within the established limits. The amounts below summarize the foreign currency exposure position as at 31st December 2014.

As at 31 December 2014	UGX	USD	SSP	GBP	Euro	ZAR	JPY	Others	Total
In million of Kenya Shillings									
Assets									
Cash and cash equivalents	1,418	6,344	1,215	96	147	1	-	2,759	**11,979**
Loans and advances to customers	4,698	54,576	4,460	4	-	-	-	9,187	**72925**
Investment securities	2,886	94-	-	-	-	-	-	909	**3,888**
Property and equipment	619	200-	-	-	22		-	1,125	**1966**
Prepaid leases	18	-	-	-	-	-	--	21	**39**
Intangible assets	23	9-	-	-	-	-	-	22	**55**
Other assets	1,815	21,492	20,490	378	2061	6	45	29540	**75,828**
Tax recoverable	51	-	-	-	-	-	-	31	**82**
Total Assets	**11,528**	**82,715**	**26,165**	**478**	**2,231**	**7**	**45**	**43,593**	**166,762**
Equity and liabilities									
Customer deposits	8,056	29,431	20,910	200	931	1	-	9,378	**68,907**
Borrowed funds	231	1,479	-	0-	5	-	-	1,040	**2,756**
Current tax liabilities	--	13	-	4-	1	-	-	5	**23**
Other liabilities	3,190	2,279	5,305	52	127	9	-	30,533	**41,495**
Statutory loan loss reserve	126	-	-	-	-	-	-	-	**126**
Retained earnings	(365)	-	-	-	-	-	-	(230)	**(596)**
Other capital reserve	2,020	--	-	-	-	-	-	2,649	**4,668**
Total liabilities and shareholder's funds	**13,258**	**33,201**	**26,215**	**256**	**1064**	**10**	**-**	**43,375**	**117,380**
Net financial position	**(1,730)**	**49,514**	**(50)**	**(222)**	**1,167**	**(3)**	**45**	**218)**	**49,382**
As at 31 December 2013									
Total Assets	8,841	42,255	19,494	607	800	79	78	10,535	**82,689**
Total Liabilities	7,325	40,397	15,191	177	837	2	-	7,483	**71,412**
Net financial position	1,516	1,858	4,303	430	(37)	77	78	3,052	**11,277**

33. Foreign currency exposure – group (continued)

	Changes in UGX	Effect on profit before tax
2014	**±2%**	**35**
2013	±8%	121

	Changes in UGX	Effect on profit before tax
2014	**±2%**	**23**
	Changes in USD	Effect on profit before tax
2014	**±4%**	**1,981**
2013	±5%	93

Foreign currency exposure – COMPANY

As at 31 December 2014 *In millions of Kenya Shillings*	USD	GBP	Euro	ZAR	JPY	Others	Total
Assets							
Cash and cash equivalents	324	21	53	-	-	-	**400**
Loans and advances to customers	46,167	4	-	-	-	-	**46,172**
Amounts due from group companies							
Other assets	1,228	1	174	-	-	33	**1,438**
	47,720	**26**	**228**	**-**	**-**	**33**	**48,010**
Equity and liabilities							
Customer deposits	15,831	-	126	728	-	-	**16,687**
Borrowed funds	25	-	-	-	-	-	**25**
Amounts due to group companies							
Other liabilities	1,932	42	126	8	-	-	**2,111**
Total liabilities and shareholders' funds	**17,789**	**169**	**855**	**9**	**-**	**-**	**18,824**
Net financial position	**29,930**	**(142)**	**(626)**	**(9)**	**-**	**32**	**29,185**
As at 31 December 2013							
Total Assets	32,176	568	568	79	78	548	**33,995**
Total Liabilities	30,542	154	615	2	-	10	**31,322**
Net financial position	**1,634**	**414**	**(47)**	**77**	**78**	**538**	**2,673**

34. Operating Segment

A segment is a distinguishable component of the Group and the Company that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

(i) Business segments

The group provides financial services to individuals and small and medium sized enterprises in each of the entities. For management purposes the results of each business unit (entity) is reviewed separately for the purpose of making decisions. There are therefore no distinct significant business segments within each entity to necessitate detailed disclosures.

34. Operating Segment (continued)

(ii) Operating segments

The Group operates in five geographical markets that is Kenya, Uganda, South Sudan, Rwanda and Tanzania. The table below shows the distribution of the group's total assets, net interest income, total operating income, total expenses and profit before tax.

In millions of Kenya Shillings	2014						2013					
	Kenya	**Uganda**	**South Sudan**	**Rwanda**	**Tanzania**	**Total**	**Kenya**	**Uganda**	**South Sudan**	**Rwanda**	**Tanzania**	**Total**
Total asset	**276,115**	**13,535**	**30,447**	**11,520**	**15,191**	**344,572**	238,194	12,833	23,321	6,204	8,091	277,729
Net Interest Income	**26,160**	**1,074**	**814**	**599**	**523**	**29,175**	23,690	1,004	1,026	344	380	26,490
Total Operating Income	**41,167**	**1,758**	**2,555**	**1,120**	**1,073**	**47,649**	35,738	1,480	2,725	717	675	42,062
Total expenses	**21,055**	**1,649**	**1,948**	**954**	**889**	**26,348**	17,505	1,425	2,440	856	631	23,058
Profit before tax	**21,779**	**109**	**607**	**166**	**184**	**22,364**	18,233	55	285	(139)	44	19,004

It is not practicable to segregate revenues from external customers for each product and service as the information is not available and the cost to develop it would be excessive.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross Income and expense.

No revenue from transactions with a single external customer or counter party amounted to 10% or more of the bank's total revenue in 2014 or 2013.

The group's operating segments are reported based on financial information provided to the Strategy and Investment committee as detailed on page 5 which is the key management committee and represents the decision making. The chairmanship and composition of this committee is as detailed on page 4.

The three customer facing lines of businesses include:

Consumer – This segment targets salaried customers or customers receiving other regular remittances like pension. Facilities granted under this segment are for the purposes of empowering such customers to meet their most immediate personal needs or personal development.

Small and Medium Enterprises (SME's) – These are customers with small and medium enterprises. The facilities granted under this segment are for purposes of meeting working capital needs, property development or acquisition of assets.

Corporate – This segment comprises large enterprises. The facilities granted under this segment are designed for purposes of meeting working capital needs, large scale development, property acquisition, large investments and acquisition of assets.

The products the group offers its customers include:

Equi loan - a credit facility granted to employees of reputable organizations that the bank has an MOU with. The facility is administered through a check off system from the employer where loan deductions are remitted to the bank for loan instalment due.

Vijana loan - meant to cater for the youth majority of whom have business ideas but lack conventional collaterals, the bank set aside some funds to support these clientele. The lending is done through group methodology

Fanikisha loan - loan products tailored for women clients. They have a characteristic of flexibility on collaterals since majority of women don't have formal collaterals yet have good business ideas.

Farm input - facilities granted to customers in the agricultural sector of the economy for inputs and working capital needs.

Mortgage loan - facilities granted to customers in pursuit of housing needs. The mortgages are advanced for both residential and commercial purposes. This is available to both salaried and business clients.

Asset finance loan - granted to our customers for purchase of both movable and immovable assets. Majority of the customers are in business.

Trade finance - products for customers in business and facilitates purchase of goods and services and subsequent payments thereof. Various products are extended under trade finance including Bid bonds, LCs and Guarantees among others.

Development loan - a facility granted to customers in the construction to finance the project in terms of materials and other overheads. Majority of customers accessing this product are predominantly in SME and Corporate sectors.

Business Loan - credit facilities granted to business customers for working capital needs.

Biashara Imara - working capital facility provided to micro Clients with no conventional collateral.

35. Significant Events During the Year

On December 31st, 2014, the Group completed the execution of the recently approved shareholders ownership structure. The group in effect instituted a holding company (Equity Group Holdings Limited) which is a non-operational investment company that will hold our shareholdings in all the operational banking and non-banking subsidiaries. The Kenyan banking business will now be under a Kenyan banking subsidiary Equity Bank (Kenya) Limited similarly to the situation in Uganda, South Sudan, Rwanda and Tanzania. The Group used the shareholders' approval under Section 5 and 9 of the Banking Act to obtain approval from Central Bank, CMA, and Treasury to create and transfer all banking business in Kenya to the new Equity Bank (Kenya) Ltd. Under Section 9 of the Banking Act all assets and liabilities of banking were effectively moved to the new subsidiary.

36. Subsequent events

No material subsequent events have taken place post financial reporting date.

ANNUAL GENERAL MEETING 31ST MARCH 2015

PROXY FORM

I/We ____

____

CDS A/C No ____

of (address) ____

being a member(s) of Equity Group Holdings Limited hereby, appoint

____

of (address) ____

or, failing him, the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the Annual General M thereof eeting of the Company to be held on the 31st day of March 2015 at 10.00 a.m., or at any adjournment.

As witness to my/our hands this __________ day of ______________________ 2015

Signature(s) ____

This Form is to be used *in favour of /*against of the resolution (*Strike out whichever is not desired)

Unless otherwise instructed, the proxy will vote as he thinks fit.

Notes:

1. This proxy form is to be delivered to the Company Secretary at the Company's Head Office situated at Equity Centre, 9th Floor, Upper Hill, P.O. Box 75104 - 00200, Nairobi, Kenya not later than 12 noon on the 28th day of March 2015, failing which it will be invalid.
2. A proxy form must be in writing and in the case of an individual shall be signed by the shareholder or by his attorney, and in the case of a corporation the proxy must be either under its common seal or signed by its attorney or by an officer of the corporation.

-- CUT ALONG DOTTED LINE --

ADMISSION CARD

PLEASE ADMIT ____________________ ____________________ ______________________ to the Annual General Meeting of Equity Group Holdings Limited which will be held at the Kenyatta International Conference Centre ("KICC"), Nairobi, Kenya on 31st day of March 2015 at 10.00 a.m. This admission card must be produced by the shareholder or his proxy in order to obtain entrance to the Annual General Meeting Company Secretary	**Number of ordinary shares held** Name of Shareholder Address of Shareholder CDS Account Number: