National Bank

Bank on better

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER

2014

Excellence Optimistic
Optimistic Excellence
Modern Optimistic
Resilient Modern Resilient Modern
Excellence
Resilient Modern Optimistic Excellence Excellence Modern Excellence
Collaboration Excellence
Modern Excellence Resilient Resilient Excellence
Modern
Accessible Modern Excellence Modern Optimistic Modern
Optimistic Respect
Resilient Excellence Resilient Optimistic Modern Accessible
Optimistic Modern Optimistic Modern Excellence
Resilient
Modern Excellence Modern Modern
Modern Resilient Modern Resilient Excellence
Excellence Excellence
Resilient Modern

Introduction

Our History

National Bank was incorporated on 19th June 1968. At the time it was fully owned by the Government. The objective for which it was formed was to help Kenyans get access to credit. The Bank is listed on the Nairobi Securities Exchange.

Products and Services

National Bank participates in Corporate Banking, Business Banking, Retail Banking and Islamic Banking with an extensive portfolio of products and financial solutions tailored for the requirements of a broad spectrum of the customer segments it serves. We offer solutions to Corporates, Institutions, Businesses and Retail Customers. We are able to customize products and services to meet the needs of specific clients through various channels.

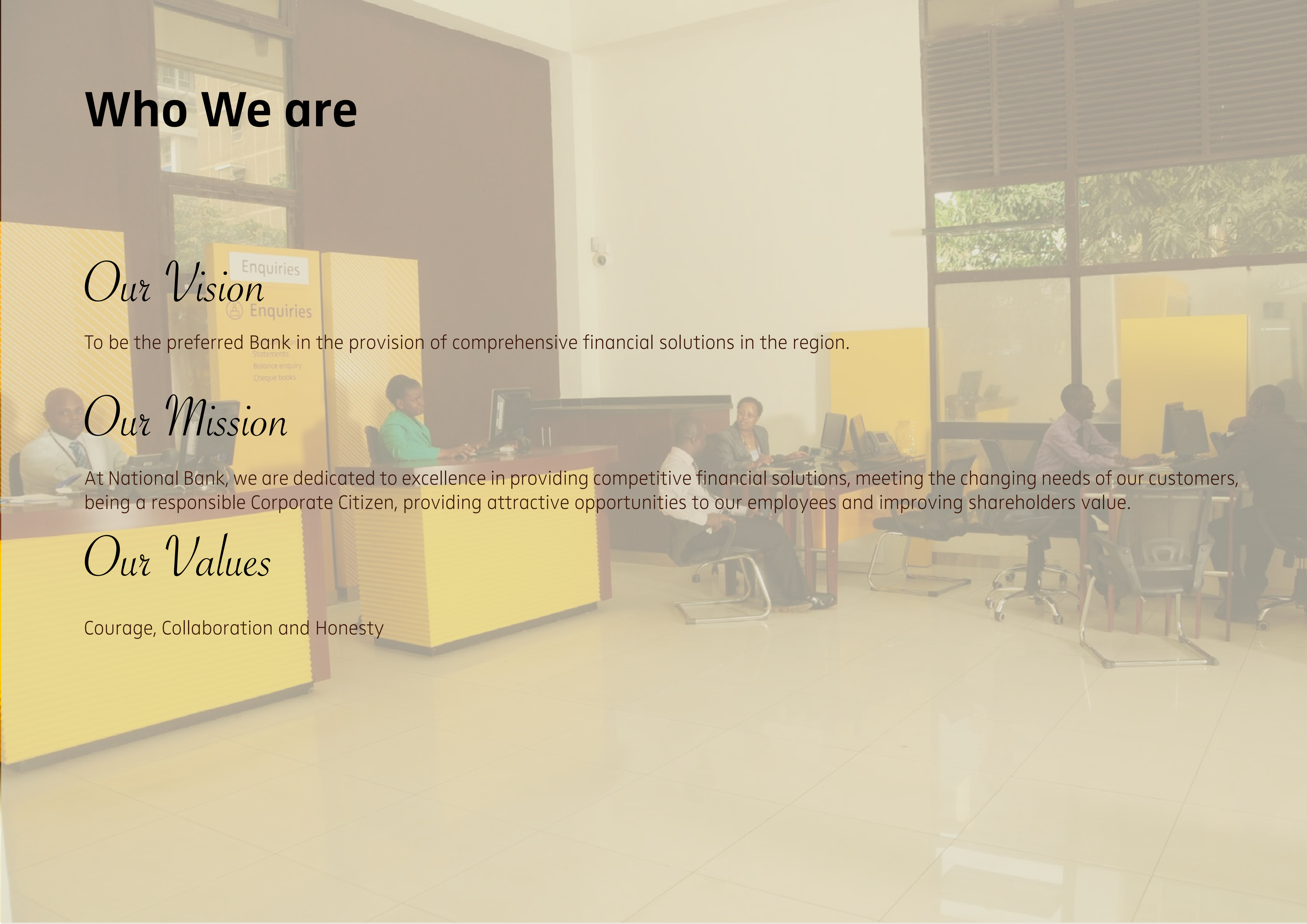
A wide spectrum of products offered by the bank include: Financing, Trade Services, Mortgages, Account Services, Custody Services, Islamic Banking, Cards Services, among others.

The Bank has a growing network of 75 branches outlets across the country, 140 ATMs and electronic channels of Mobile and Internet Banking.

Our Transformation

On 24th May 2013, the bank rebranded and changed its logo and colours from the predominantly green to yellow, and a new brand promise themed "Bank on Better". The Bank is also set to increase coverage through branch network from current 75 to 120 and to boost the Agency Banking network by recruiting 2,000 agents by 2017, so as to become a top tier bank by 2017.

Who We are



Our Vision

To be the preferred Bank in the provision of comprehensive financial solutions in the region.

Our Mission

At National Bank, we are dedicated to excellence in providing competitive financial solutions, meeting the changing needs of our customers, being a responsible Corporate Citizen, providing attractive opportunities to our employees and improving shareholders value.

Our Values

Courage, Collaboration and Honesty

Bank on better

National Bank

National Bank's Business Club means better connections

Now, you and your business can be part of our elite business club. The club gives you the opportunity to connect with businesses and industries that could be mutually rewarding. The Business Club could be your connection point with greater growth and prosperity.

Call us on 0703 088 900, 0202828900;**email** callcentre@nationalbank.co.ke,

or visit www.nationalbank.co.ke

National Bank of Kenya Limited is regulated by Central Bank of Kenya

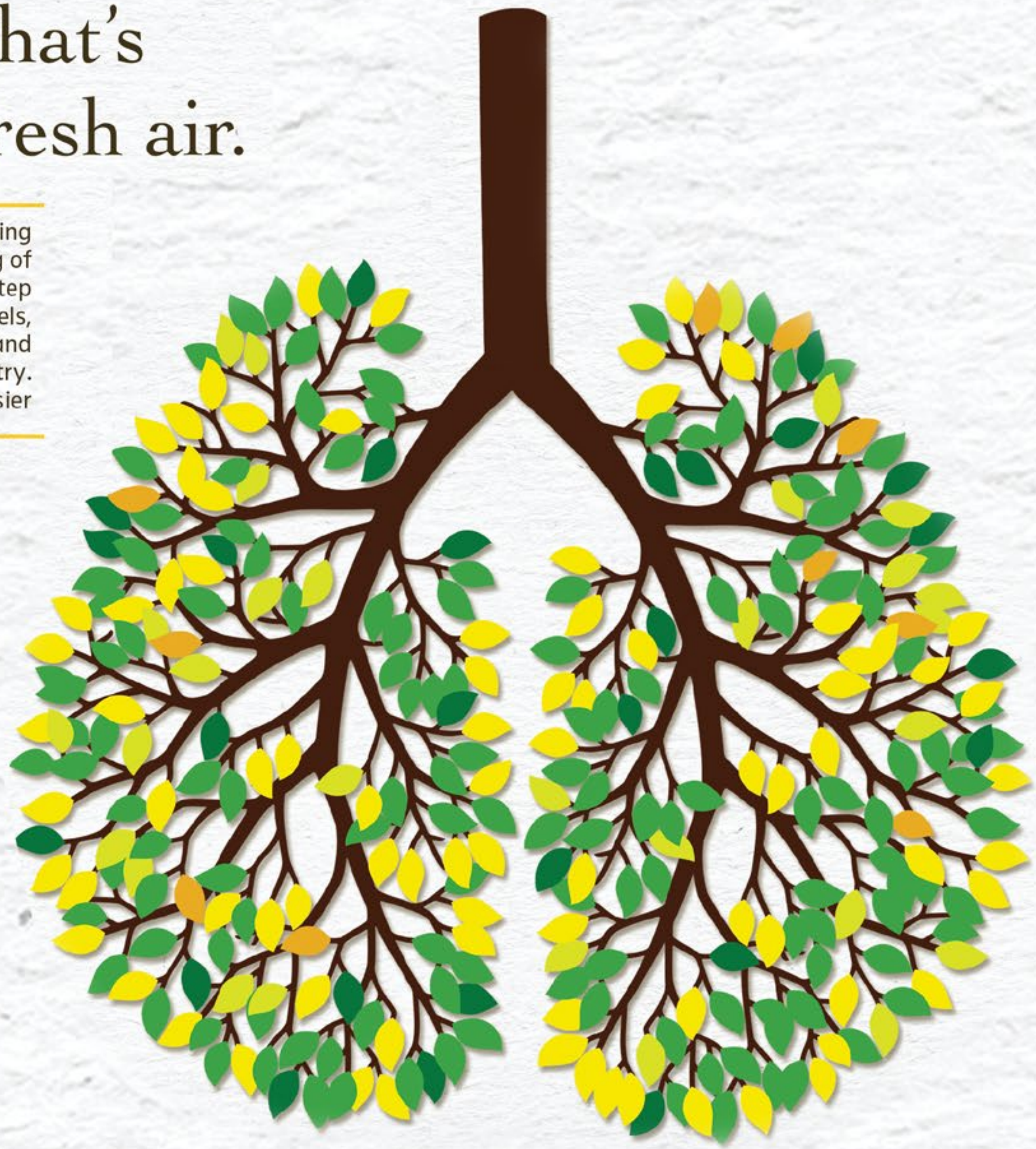
callcentre@nationalbank.co.ke National Bank of Kenya @National_bank Nationalbank_ke

www.nationalbank.co.ke

National Business Club

An initiative that's like a breath of fresh air.

We at National Bank are working towards completing the planting of over 2 million trees. It's the first step in restoring the oxygenation levels, the rain precipitation and the soil and water tables in the country.
It's an initiative that will help us all breath easier



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Corporate Information

BOARD OF DIRECTORS

Non-Executive

1. Mr. M. A. Hassan	- Chairman
2. Ms. S. M. Kitonga	- Vice Chairman
3. Cabinet Secretary, The National Treasury	- (CS - National Treasury)
4. Managing Trustee - National Social Security Fund	- (MT – NSSF)
5. Eng. E. K. Mwongera	
6. Mr. F. L. Atwoli	
7. Ms. B. W. Mwaniki	

Executive

8. Mr. M. S. Ahmed	- Managing Director
9. Mr. R. N. Kibaara	- Executive Director – Retail and Business Banking Division

BOARD COMMITTEES

NOMINATION & REMUNERATION COMMITTEE

Eng. E. K. Mwongera *
Ms. S. M. Kitonga
Ms. B. W. Mwaniki
Mr. F. L. Atwoli
CS National Treasury
MT-NSSF

CREDIT & REMEDIAL COMMITTEE

Ms. S. M. Kitonga *
Eng. E. K. Mwongera
Ms. B. W. Mwaniki
MT-NSSF
CS National Treasury

RISK COMMITTEE

Ms. B. W. Mwaniki *
Ms. S. M. Kitonga
Eng. E. K. Mwongera
Mr. F. L. Atwoli

AUDIT COMMITTEE

Ms. S. M. Kitonga *
Eng. E. K. Mwongera
Ms. B. W. Mwaniki
Mr. F. L. Atwoli
MT-NSSF

* - Chairperson of the Board Committee

COMPANY SECRETARY	H. A. Waswani (CPS No B/1650) Certified Public Secretary (Kenya) C/O P. O. Box 72866 City Square, 00200 Nairobi
REGISTERED OFFICE	National Bank Building 18 Harambee Avenue P. O. Box 72866 City Square, 00200 Nairobi Tel: 020-2828000 Fax: 020-311444/222304 E-Mail: info@nationalbank.co.ke Website: www.nationalbank.co.ke
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P. O. Box 40092 GPO, 00100 Nairobi
SHARE REGISTRAR	Image Registrars Limited 5th Floor, Barclays Plaza, Loita Street P. O. Box 9287 GPO, 00100 Nairobi Tel: 020-2230330, 2212065, 2246449 Mobile: 0724699667, 0735565666, 0770052116 E-Mail: info@image.co.ke Website: www.image.co.ke

Board of Directors

Mr. Mohamed Abdirahman Hassan - Chairman, Non-Executive Director

Mr. Hassan joined National Bank Board in June 2011. He holds a Master of Science degree in Finance, (MSc.) from the University of Strathclyde, Glasgow. He also holds a Bachelor of Commerce (BCom. Hons.) finance major, from the University of Nairobi. He holds the Chartered Financial Analyst® (CFA®) designation and is a graduate of the Advanced Management Programme (AMP) from Strathmore Business School and IESE Business School, Universidad de Navarra, Barcelona. Mr. Hassan has over 16 years experience in a variety of roles including; Team Leader and Project Manager of investment banking transactions in different sectors of the regional capital and money markets. He worked as a research analyst at Dyer and Blair Investment Bank Limited in 1996 then became a Senior Bond Dealer between 1997 and 1999 before receiving a promotion to the position of General Manager at the Investment Bank. In 2003, he became the Executive Director. He is a former Chairman of Kenya National Trading Corporation. Mr. Hassan is a member of the Investment Committee of Kenya Community Development Foundation, Board of Trustee, Northern Kenya Education Trust, and NEPAD Kenya National Steering Committee.

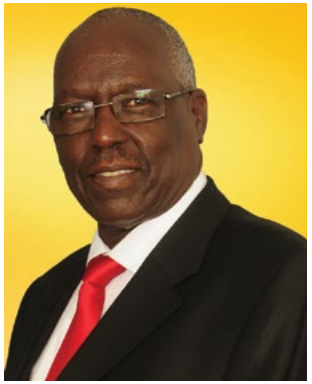
Mr. Munir S. Ahmed - Managing Director & CEO

Mr. Ahmed joined the National Bank Board in August 2012. He holds a Master of Business Administration (MBA) and Bachelor of Commerce (Hons.) degrees from The University of Nairobi. Prior to joining National Bank, Munir had gained 16 years of experience working in senior positions in commercial banking across multiple geographies including; Kenya, UK and South Africa. He started his working career as an auditor with Price Waterhouse in 1990. He later moved to Esso Oil Company Ltd, Nairobi as a Financial and Planning Manager in 1993. In 1996 he moved into banking joining Standard Chartered Bank – (K) Ltd, Nairobi as a Manager, Business Finance, Strategy and Project Appraisals. While at Standard Chartered Bank, Munir served in different positions and regions as Manager Group Business Performance, Group Finance Division in London UK , (Financial Controller) of Standard Chartered Kenya, Regional Head (Africa Finance Shared Services), Chief Financial Officer(Consumer Bank Africa Region and Regional Head Business Intelligence Unit), roles he served in London and Johannesburg for 5 years, Chief Financial Officer (South Africa), Director (Transaction Banking and Africa Regional Head - Kenya) and Head of Compliance and Assurance (East Africa). He won CEO of the Year at the Think Business Banking Awards 2014.

Ms. Sylvia M. Kitonga - Vice Chair, Non-Executive Director

Ms. Kitonga joined the National Bank Board in June 2011. She holds LLB (Hons.) from the University of Nairobi (1975-1978). She also holds a Certificate of Legal Education degree from the Kenya School of Law (1978-1979) and she is an Advocate of the High Court of Kenya. Prior to becoming the Managing Partner of Kitonga and Co. Advocates in August 2008, she worked for Maangi, Kitonga and Company Advocates (2002-2007) and Maangi, Kitonga and Otieno Advocates (2007-2008). Ms. Kitonga has also worked for the PTA Bank holding various positions including; Legal Officer (1993-1994), Senior Legal Offices (1995-1997), Principal Legal Officer (1998-1999), Acting Director, Legal Affairs (2000-2001) and Director, Legal Affairs. Prior to working for the PTA Bank, Ms. Kitonga worked as the Chief Legal Officer/Company Secretary at the Industrial Development Bank (IDB) from 1990-1993. Before that she was an Associate at Oraro and Rachier Advocates, she also worked at Abercrombie and Kent, Industrial Development Bank, Registrar General, Rainsley and Awori Advocates and the Ministry of Lands and Settlement.

Board Of Directors



Eng. Erastus K. Mwongera - Non-Executive Director

Eng. Mwongera joined the National Bank Board in June 2011. Eng. Mwongera is currently a consultant at E.M. Baseline Consultants. He holds a Bsc. in Civil Engineering (Hons) from the University of Wales, United Kingdom. He also holds an Ordinary Diploma in Water Engineering and a High Diploma in Construction both from Kenya Polytechnic. He has worked for the Water Development Department (1974-1983), has been Principal at the Kenya Water Institute (1983-1989) and has also been a Director at the Ministry of Water Development (1989-1995). Eng. Mwongera has worked as a Permanent Secretary in various Government Ministries including; Ministry of Land Reclamation, Regional and Water Development, Ministry of Water Resources, Ministry of Roads and Public Works, Ministry of Roads, Public Works and Housing, Ministry of Lands and Housing and the Office of the Vice President and Home Affairs. He was formerly the Chairman of the Kenya Engineer Registration Board (2003-2006), the Chairman of the Kenya Airports Authority (2006-2009). Eng. Mwongera currently holds directorships in several institutions including; Chairman of Kenya National Highways Authority (KENHA), Chairman of Sameer Africa Limited, Director/Trustee NSSF, Chairman of Linksoft Group Limited, Director at Hillside Green Growers and Exporters Company Limited and Member, Evaluation Task Force on behalf of the Government.

Mr. Henry K. Rotich - Cabinet Secretary, The National Treasury, Non-Executive Director

Mr. Rotich is the Cabinet Secretary - The National Treasury. He holds a Masters Degree in Economics and a Bachelors Degree in Economics (First Class Honours), both from The University of Nairobi. He also holds a Masters Degree in Public Administration (MPA) from the Kennedy School of Government, Harvard University. Prior to his appointment as Cabinet Secretary, he had been the Head of Macroeconomics at the Treasury, Ministry of Finance since March 2006. Under this capacity, he was involved in the formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in the preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in the fiscal and financial sector. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist. Mr. Rotich has also been a Director on several Boards of State Corporations, including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

Mr. Francis Atwoli - Non-Executive Director

Mr. Atwoli was appointed to the National Bank Board in April 2003. He is a long serving career trade unionist and a member of the Board of Trustees of National Social Security Fund (NSSF). He is a member of ILO Governing Body, General Secretary, Kenya Plantation and Agricultural Workers Union (KPAWU) Secretary General, Central Organisation of Trade Union – Kenya (COTU K) Chairman/Spokesperson East African Trade Union Confederation (EATUC) – Arusha, President -Trade Union Federation of Eastern Africa (TUFEA) – Khartoum, President Organisation of African Trade Union Unity (OATUU) – Ghana, President International Trade Confederation Brussels, Vice President, International Labour Conference ''ILC'' (ILO 2012) – Geneva and Chairman Flat International American Trained Labour Leader (George Mean College of Labour Studies USA).

Board Of Directors

Mr. Richard K. Lang'at - Managing Trustee, National Social Security Fund, Non-Executive Director

Mr. Langat is the Managing Trustee/CEO of National Social Security Fund (NSSF). Prior to this appointment, he had been the Finance Manager of NSSF from 2011. He also served in various capacities in the same institution. Mr. Langat has a wealth of experience in financial and strategic management with special emphasis on pension administration having worked in the industry for over 15 years. Mr. Lang'at has attended several courses among them Corporate Governance training for Directors. He is finance professional with a Master of Business Administration degree (MBA) in Strategic Management, Bachelor of Commerce degree (Accounting), a Certified Public Accountant (Kenya) and a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Ms. Wangui Mwaniki - Non-Executive Director

Ms. Wangui Mwaniki joined the National Bank Board in June 2012. She holds a Bachelors Degree in Home Economics from Kenyatta University, Post Graduate Diploma from the School of Journalism, University of Nairobi and a certificate course in production of Television Programmes from the Kenya Institute of Mass Communication. She is pursuing a Master of Business Administration degree in Human Resource Management at The University of Nairobi. Ms. Wangui previously worked at the Kenya Railways Corporation as the Corporate Affairs Manager, the Teachers Service Commission (TSC) as a Graduate teacher, in KBC Television as a Producer, Television Programmes, as a lecturer at Kenya Institute of Mass Communication. She has also worked at the Capital Markets Authority (CMA) as the senior Corporate Communications Officer, at FIDA as the Programme Officer, Public Relations and Fundraising at AFC as the head of the PR department for two years. She is currently engaged in Community leadership and consultancy in Communications and Public Relations.

Mr. Robert Kibaara - Executive Director, Retail and Business Banking

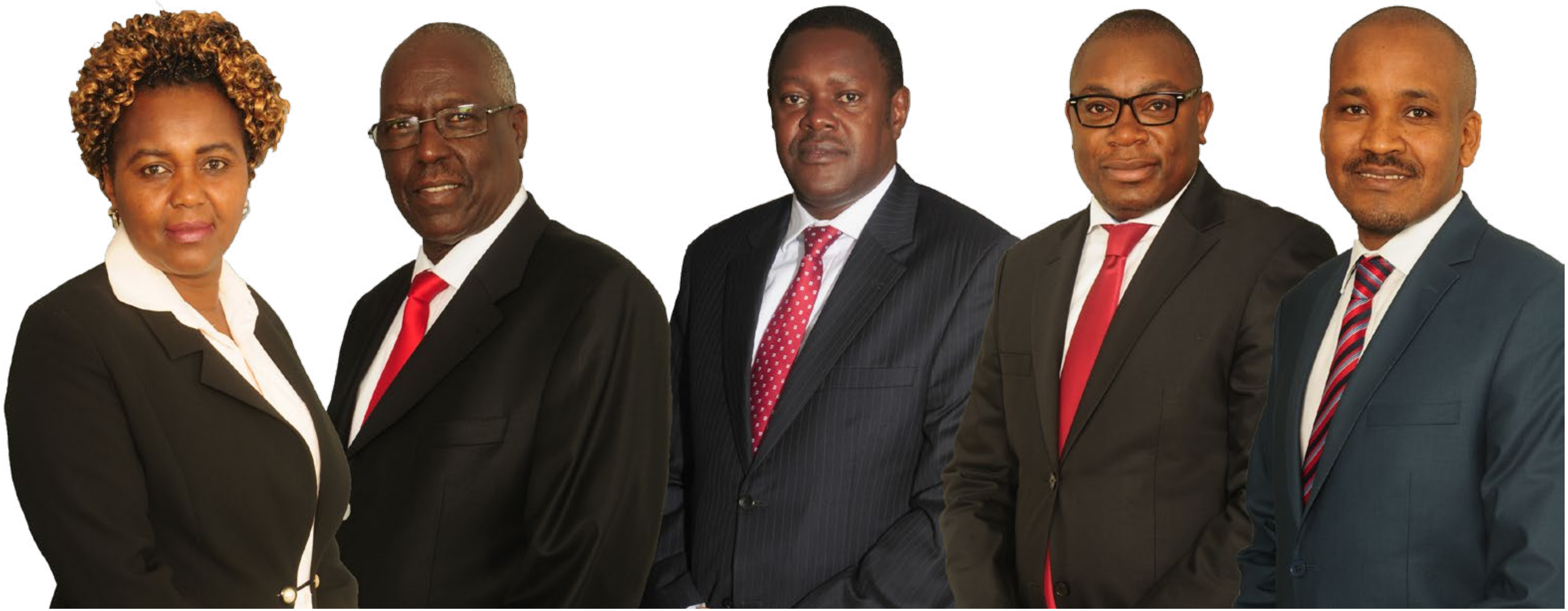
Mr. Kibaara joined the Bank in February 2013. He is a career banker with a track record of supporting, inspiring and delivering outstanding business performance. He has over 10 years management experience in two International Banks with comprehensive knowledge of strategic sales and segment management. He was elected to the Board in 2013. Prior to his current appointment as the Executive Director Retail and Business Banking, he worked for Standard Chartered Bank, PLC as the General Manager Personal Banking and New Business East Africa. He has also previously worked with Barclays Bank, Nairobi Kenya in different capacities. Mr. Kibaara is an associate of the Chartered institute of Marketing (UK). He holds a Post Graduate Diploma - Chartered Institute of Marketing (UK) and is currently pursuing a Masters of Business Administration at the Edinburgh Business School of Heriot Watt University.

Board of Directors

Mr. Habil A. Waswani - Company Secretary

Mr. Waswani joined National Bank in August 2013. He holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in Law from the Kenya School of Law and is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from United States International University in collaboration with the Columbia Business School, Columbia University, New York. He has also attended various professional management and corporate governance capacity building courses. Mr. Waswani is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a member of the Law Society of Kenya (LSK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Institute of Directors (IOD). Mr. Waswani was previously the Company Secretary and Head of Legal at Kenya Reinsurance Corporation Limited, a publicly listed reinsurance company, for a period of 4 years, prior to which, he held a similar position at Diamond Trust Bank Kenya Limited (DTB), also a publicly listed banking institution. Habil has over 12 years' experience in commercial and corporate law practice.

Board of Directors



Ms. Wangui Mwaniki
Non-Executive Director

Eng. Erastus K. Mwongera
Non-Executive Director

Mr. Richard K. Lang'at
Managing Trustee

Mr. Habil A. Waswani
Company Secretary

Mr. Robert Kibaara
Executive Director

Board of Directors

Mr. Henry K. Rotich
Cabinet Secretary
The National Treasury, Non-Executive Director

Ms. Sylvia M. Kitonga
Vice Chair
Non-Executive Director

Mr. Mohamed Abdirahman Hassan
Chairman, Non-Executive Director

Mr. Francis Atwoli
Non-Executive Director

Mr. Munir S. Ahmed
Managing Director & CEO

Senior Management

Mr. Munir S. Ahmed - Managing Director & CEO

Mr. Ahmed joined the National Bank Board in August 2012. He holds a Master of Business Administration (MBA) and Bachelor of Commerce (Hons.) degrees from The University of Nairobi. Prior to joining National Bank, Munir had gained 16 years of experience working in senior positions in commercial banking across multiple geographies including; Kenya, UK and South Africa. He started his working career as an auditor with Price Waterhouse in 1990. He later moved to Esso Oil Company Ltd, Nairobi as a Financial and Planning Manager in 1993. In 1996 he moved into banking joining Standard Chartered Bank – (K) Ltd, Nairobi as a Manager, Business Finance, Strategy and Project Appraisals. While at Standard Chartered Bank, Munir served in different positions and regions as Manager Group Business Performance, Group Finance Division in London UK , (Financial Controller) of Standard Chartered Kenya, Regional Head (Africa Finance Shared Services), Chief Financial Officer(Consumer Bank Africa Region and Regional Head Business Intelligence Unit), roles he served in London and Johannesburg for 5 years, Chief Financial Officer (South Africa), Director (Transaction Banking and Africa Regional Head - Kenya) and Head of Compliance and Assurance (East Africa). He won CEO of the Year at the Think Business Banking Awards 2014.

Mr. Robert Kibaara - Executive Director, Retail and Business Banking

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Mr. Chris Kisire - Chief Finance Officer

Mr. Kisire joined National Bank in August 2013. He holds a B.Com Degree, Accounting Option and an MBA, Management Science Option both from The University of Nairobi. He is a CPA (K) and CPS (K). He is an active member of Institute of Certified Public Accountants of Kenya (ICPAK) and Institute of Certified Public Secretaries of Kenya (ICPSK). He has worked in various companies before joining National Bank cutting across various industries (horticulture, oil, courier, media and manufacturing) both in Kenya and abroad (Uganda, United Kingdom and Zimbabwe). Chris has a wealth of experience of over twenty three years in financial management, business operations and management, strategic planning and execution, project management and board management (governance). He is also an Independent Director of Bamburi Cement Limited (subsidiary of Lafarge, France), the largest cement manufacturer in East and Central Africa. Chris is an alumnus of AMP 2010 (Advanced Management Program), a course offered jointly by Strathmore Business School (''SBS'') and IESE University, Barcelona in Spain.

Senior Management

Mr. Maingi Kaumbuthu - Director, Internal Audit

Mr. Maingi joined National Bank in August 1999. He holds a Bachelor of Commerce degree (Accounting) and Master of Business Administration (Banking and Finance). He has accounting and auditing working experience in the Government, Non Government organizations, manufacturing and FMG, financial and banking sectors. He is a Certified Public Accountant CPA (K) and Certified Information Systems Auditor (CISA).

Mr. Dismas O. Omondi - Ag. Director, Human Resources

Mr. Omondi joined the Bank in June 2013 as HR Business Partner. Later he rose to the current position of Ag. Director Human Resources in October 2014. He is a career banker with a track record of over 20 years in human capital management in various organizations. He has over 10 years management experience in various leadership positions.

Prior to his current appointment, he worked for Nairobi Women's Hospital as the General Manager Human Resources & Administration. He has also worked with World Vision, Kenya Airways, Rwandair amongst others in various capacities. He holds a Bachelors of Technology in Production Engineering and Executive MBA, both from Moi University. He is also a certified Executive Coach from Academy of Executive Coaching and is a member of the Institute of Human Resources Management.

Mr. Cromwell K. Kedemi - Director, Integrated Distribution Channels

Mr. Kedemi joined National Bank in June 2013. He holds a Bachelor's degree in Economics and Sociology from the University of Nairobi and an MSC in Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and is currently pursuing an MBA at Strathmore University, Nairobi. Cromwell is a banker with more than 20 years of experience leading growth and developing high performing teams and systems at leading international and in regional banks. He has significant experience across a broad range of banking operations including, managing delivery channels and sales team and a deep expertise in business strategy. Prior to joining the Bank, Cromwell worked for Barclays Bank of Kenya as the acting Head of Small and Medium Enterprises Banking. He also previously worked with KCB, where he was among the team that pioneered the Retail Banking sales.

Senior Management

Mr. Mohamed Abdalla - Director, Information Technology

Mr. Abdalla joined National Bank in March 2013. He has held various senior positions in a number of Multinationals including; Toyota Motor Corporation, Bic France and Coles Group in Melbourne Australia. For 15 years now, his career has spanned across the Retail, Manufacturing and Financial Services sectors. Prior to joining the Bank, Mr. Abdalla was a senior manager at the National Australia Bank in Melbourne, Australia responsible for IT resource planning, budgeting and operational initiatives on System Integration, Emerging Technologies, Enterprise Architecture and Strategic Alliances. During his stint at the Coles Group in Melbourne Australia, he was handling multivendor support services and Group Integration. Mohamed holds a Master of Information Technology degree with a Major in Networking and Business Intelligence and a Bachelor of Network Computing both from the Monash University in Australia.

Mr. Thomas Gachie - Director Operations

Mr. Gachie joined National Bank in November 2012. He holds a BSc (Mathematics and Computer Science), a postgraduate Diploma in Computer Science and an MBA(Management Science) all from the University of Nairobi and a Graduate Diploma in Banking from the University of London. Mr. Gachie also holds a Certified Information Systems Auditor (CISA), Certified Information Security Manager (CISM) and Basel II Certified Professional. He began his career at IberAfrica Systems as a SAP Consultant. He has worked at Cooperative Bank, Madison Insurance and most recently at Standard Chartered Bank as an IS Manager, East and Southern Africa (Finance Shared Service Centre). He was also Project manager, Africa Finance Systems and Processes.

Mr. Musa A. Adan - Director Islamic Banking

Mr. Adan joined the Bank in March 2013 as Head of Business development in the Islamic Banking Division. He rose to the current position of Director Islamic Banking in 2014. He is a career banker with a track record of over 20 years having worked in different management capacities in different Banks in Kenya. He has over 8 years in senior management of Islamic Banking. He formerly worked at Gulf African Bank ltd as the Regional Manager in charge of Business growth and Market acquisition. He is a pioneer in Shari'ah banking in different capacities. He holds B.com (Hons) and MBA from the University of Nairobi and ACIB-UK.

Senior Management

Mr. Habil A. Waswani - Director, Legal Services and Compliance

Mr. Waswani joined National Bank in August 2013. He holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in Law from the Kenya School of Law and is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from United States International University in collaboration with the Columbia Business School, Columbia University, New York. He has also attended various professional management and corporate governance capacity building courses. Mr. Waswani is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a member of the Law Society of Kenya (LSK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Institute of Directors (IOD). Mr. Waswani was previously the Company Secretary and Head of Legal at Kenya Reinsurance Corporation Limited, a publicly listed reinsurance company, for a period of 4 years, prior to which, he held a similar position at Diamond Trust Bank Kenya Limited (DTB), also a publicly listed banking institution. Habil has over 12 years' experience in commercial and corporate law practice.

Ms. Bernadette Ngara- Director, Marketing and Corporate Communications

Ms. Ngara serves as the Director, Marketing and Corporate Communication at National Bank. She joined the Bank in 2014. She has, in the past, handled the Marketing and Corporate Communications and CSR functions of other banks in the industry. She is a dynamic, passionate and customer centric marketing-communications specialist. Having worked in diverse industries, ranging from Manufacturing, banking (both local and international), she has brought life to brands that are startups as well as existing ones. She has particular expertise in Strategic Marketing Management, Customer Analytics and Digital Marketing. Bernadette has attended several executive leadership courses through Raiser Resource Group for Crestcom International. She holds an MA in International Marketing from University of Central England and is a Chartered Marketer (CIM).

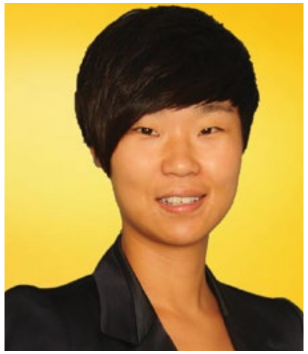
Mr. Reuben K. Koech- Ag. Director, Corporate & Institutional Banking Division

Mr. Koech joined National Bank in August 2013. He holds a Bachelor of Arts (Economics Majors) and MBA, Strategic Management Option both from the University of Nairobi. He also has certification in credit assessment and analysis by Omega of UK and Culhanne of South Africa. Reuben is a career banker with more than 15 years of experience leading growth in the Corporate Banking space and developing high performance teams at leading international as well as regional banks. He has significant experience in Corporate relationship management for public and private sectors, retail banking, credit analysis & assessment and management, complex loan syndications including PPP financing projects, renewable energy finance etc. Prior to joining the Bank, Reuben worked for The Co-operative Bank of Kenya as a Senior Manager in charge of Energy and Manufacturing Sector within Corporate Banking & Trade Finance Unit. He has also worked for Fina Bank (Now GT Bank), CfC Stanbic Bank and Standard Chartered Bank in various leadership roles.

Senior Management

Mr. George Jaba, Chief Risk Officer

Mr. Jaba joined the National Bank in September 2014 as Chief Risk Officer. He has 21 years of experience in the Banking Industry in risk management, relationship management and operations. He started his banking career at Diamond Trust as a management trainee. He also worked in various capacities in I&M Bank and rose to the position of Head of Credit Risk. He joined the National Bank from NIC Bank where he was serving as a Head of Credit Risk. He holds a Bachelor of Commerce (Accounting Option) degree and is an Associate of Kenya Institute of Bankers. He is currently pursuing an MBA at Kenyatta University.



Ms. Sandra Hua Yao, Director Business Development

Ms. Sandra Hua Yao joined the Bank in August 2014. She has over 9 years management experience in Kenya. Prior to her current appointment, Sandra worked with Orange Kenya as the Head of Orange Money. She has also previously worked with ZTE Kenya and Huawei Kenya Ltd in different capacities. She holds a Bachelor of Commerce (Marketing) from the Horizons University.

Mr. Boniface Biko, Director Business Banking

Mr. Biko joined the Bank in May 2013. He holds a Bachelor of Commerce degree from the University of Nairobi and MSc in Human Resource Management from Jomo Kenyatta University of Agriculture and Technology. He joined the Bank from Standard Chartered Bank where he was the Head of Medium Enterprises and a 6 months stint in Singapore with the same Bank as the Africa Leasing Finance Project Lead. Prior to that, he was Area Retail Manager, Branch Distribution at Barclays Bank of Kenya and also Branch Manager with the same Bank. Boniface also worked with Stanbic Bank and Co-operative Bank in the relationship management team. Mr. Biko's background in banking rounds up from Operations, Relationship Management and Credit.

Bank on better

National Bank

商业交易账户

BUSINESS TRANSACTION ACCOUNT

商业存储账户

BUSINESS SAVING ACCOUNT

电话：0703 088 900/ 0202828900 丨邮箱：callcentre@nationalbank.co.ke
网址：www.nationalbank.co.ke Facebook: National Bank of Kenya Twitter:@National_bank

肯尼亚国家银行受肯尼亚中央银行监管

Senior Management

Seated: Ms. Sandra Hua Yao, Director Business Development; Mr. Chris Kisire, Chief Finance Officer

Standing: Mr. Reuben K. Koech, Ag. Director, Corporate & Institutional Banking Division; Mr. Thomas Gachie, Director Operations; Mr. Cromwell K. Kedemi, Director, Integrated Distribution Channels; Mr. Habil A. Waswani, Director, Legal Services and Compliance; Mr. Munir S. Ahmed, Managing Director

Senior Management

Mr. George Jaba,
Chief Risk Officer

Ms. Bernadette Ngara
Director, Marketing and Corporate Communications

Mr. Robert Kibaara
Executive Director

Mr. Boniface Biko
Director Business Banking

Mr. Dismas Omondi
Ag Director, Human Resources

Mr. Maingi Kaumbuthu
Director, Internal Audit

Mr. Mohamed Abdalla
Director, Information Technology

Mr. Musa Adan
Director, Islamic Banking

AGM Notice

NOTICE IS HEREBY GIVEN that the Forty Sixth Annual General Meeting of the Shareholders of National Bank of Kenya Limited (the ''Company'') will be held at the **Jambo Conference Hall, Safari Park Hotel, off-Thika Highway, Nairobi on Friday, 27th March 2015 at 10.00 a.m.** to transact the following business:-

1. To read the Notice convening the Meeting.
2. To receive, consider and adopt the Company's audited financial statements for the year ended 31st December 2014 together with the Directors' and Auditors' reports thereon.
3. To note that the Directors do not recommend payment of dividend to shareholders for the year ended 31st December 2014.
4. To elect Directors:-
   (a) In accordance with Article 90 of the Company's Articles of Association, Ms. Sylvia M. Kitonga retires from office as a Director and being eligible offers herself for re-election.
   (b) In accordance with Article 90 of the Company's Articles of Association, Ms. Wangui Mwaniki retires from office as a Director and being eligible offers herself for re-election.
5. To authorise payment of Directors' fees.
6. To appoint the Company's Auditors, M/s. Deloitte & Touche, in accordance with Section 159(2) of the Companies Act (Cap.486) and Section 24(1) of the Banking Act (Cap.488). M/s. Deloitte & Touche have indicated their willingness to continue in office.
7. To note the Auditors' remuneration for the year 2014 and authorise the Directors to fix the Auditors' remuneration for the year 2015.
8. To transact any other business of the Annual General Meeting in respect of which notice has been given.

Special Business:

9. Approval of Bonus Issue:- To consider and, if thought fit, to pass the following resolutions as special resolutions:

(a) ''THAT subject to receipt of requisite regulatory approvals, the sum of Kenya Shillings one hundred and forty million (KShs 140,000,000) being part of the amount standing to the credit of revenue reserves be capitalised and accordingly that such sum be set free for distribution amongst the shareholders of existing ordinary shares in the capital of the Company in the share register as at 27th March 2015, to be allocated on or about 27th April 2015, on the condition that, the same be not paid in cash but applied in paying up in full at par twenty eight million (28,000,000) of the unissued ordinary shares of KShs 5.00 each in the authorized share capital of the company, and that such twenty eight million (28,000,000) shares credited as fully paid up be accordingly allotted to such shareholders in the proportion of one (1) of such new share for every ten (10) of existing issued and paid up two hundred and eighty million (280,000,000) shares then held by such shareholders respectively (fraction of a share to be disregarded), and that, the shares so distributed shall be treated for all purposes as an increase of the nominal amount of the capital of the Company held by each such shareholder and not as income and further that such shares shall rank pari passu for all purposes with the existing shares in the capital of the Company, and the directors be and are hereby authorised and directed to give effect to this resolution''; and ,

(b) THAT should any of the said twenty eight million (28,000,000) bonus shares not be issued by reason of fractions of a share being disregarded the same be retained as unallocated in the Company's reserves''.

10. Amendment of the Company's Articles of Association: - To consider and, if thought fit, to pass the following resolutions as special resolutions:
i) That the Articles of Association of the Company be amended by deleting Article 72 in its entirety and substituting it with the following new Article:
''Subject as hereinafter provided, the number of Non-Executive Directors in the company shall not be less than five (5) nor more than eight (8) including the Chairman.''

The Article 72 being substituted reads as follows:
Subject as hereinafter provided the number of directors in the company shall not be less than five nor more than eight including the Chairman.

ii) That the Articles of Association of the Company be amended by deleting Article 72(a) in its entirety and substituting it with the following new Article:

''The Board may from time to time appoint persons (other than the Chairman) of such qualifications as it may from time to time determine, and in compliance with the Banking Act, or related Central Bank of Kenya regulations and guidelines, to be Executive directors', one of whom shall be a Chief Executive Officer or Managing Director (by whatever name called) for such period and on such terms and with such powers, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), and the Board may, subject to the terms of any agreement entered into in any particular case, revoke any such appointment.''

The Article 72(a) being substituted reads as follows:
The Directors may from time to time appoint three persons (other than the Chairman) of such qualifications as the Directors may from time to time determine whether such persons are directors of the Bank or not to be Executive directors' one of whom shall be a Chief Executive Officer (by whatever name called) or Managing Director for such period and on such terms and with such powers, and at such remuneration (whether by way of salary, or commission, or participation in profits, or partly in one way, and partly in another), as they may think fit and, subject to the terms of any agreement entered into in any particular case, may revoke any such appointment. Without prejudice to any right to treat such determination as a breach of any such agreement as aforesaid the appointment of such a Director to office as aforesaid shall be subject to determination if the company in general meeting resolves that his tenure of the office of Managing Director or Chief Executive Officer be determined.

By Order of the Board,

Habil A. Waswani
Company Secretary
3rd March 2015

Notes:

1. A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
2. In the case of a member being a limited liability company or corporate body, the form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form shall be available at the Bank's website www.nationalbank.co.ke, or, the offices of the Company's Share Registrars – Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287-00100, Nairobi.
4. Shareholders who will not be able to attend the Annual General Meeting are requested to complete the proxy form and return:-
   a) by hand or email to Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287-00100, Nairobi, email: info@image.co.ke, or
   b) by hand to the Registered Office of the Company.
5. Proxies must be received not less than 48 hours before the meeting i.e. not later than 10.00 a.m. on Wednesday 25th March 2015.
6. In accordance with Article 125 of the Company's Articles of Association a copy of the Audited Financial Statements may be viewed on and obtained from the Company's website www.nationalbank.co.ke or from the Registered Office of the Company. An abridged set of the audited Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statements for year ended 31st December 2014 have been published in two daily newspapers with nationwide circulation.
7. Registration of Members and proxies attending the Annual General Meeting will commence at 7:00 a.m. and will close at 10:00 a.m. Production of a National Identification Card, Passport or other acceptable means of identification and the Member's share certificate or current Central Depository Statement of account for their shares in the Company will be required.

Mkutano Mkuu wa Pamoja wa Mwaka wa National Bank of Kenya Limited

NOTISI INATOLEWA HAPA KWAMBA , mkutano mkuu wa 46 wa pamoja wa mwaka wa wanahisa wa National Bank of Kenya Limited '' kampuni'' utafanyika katika ukumbi wa **Jambo Conference Hall**, **Safari Park Hotel kando mwa Barabara kuu ya Thika Nairobi Ijumaa Machi 27, 2015** kuanzia **saa nne asubuhi** ili kutekeleza shughuli zifuatazo za kibiashara:

1) Kusoma notisi ya kuitishwa kwa Mkutano
2) Kupokea, kuzingatia na kupitisha taarifa za matumizi ya pesa zilizofanyiwa ukaguzi kwa kipindi cha mwaka uliomalizika Desemba 31, 2014 pamoja na ripoti kutoka kwa wakurugenzi na wakaguzi.
3) Kufahamu kwamba, wakurugenzi hawapendekezi kutolewa kwa malipo yoyote ya mgawo wa faida kwa wanahisa katika kipindi cha mwaka uliomalizika Desemba 31, 2014.
4) Kuwachagua wakurugenzi;

a) Kwa mujibu wa kifungu nambari 90 cha sheria za makampuni, Bi. Sylvia M.Kitonga anastaafu kutoka ofisini kama mkurugenzi na kwa kuwa hali inamruhusu, amejitokeza kuchaguliwa tena
b) Kwa mujibu wa kifungu nambari 90 cha sheria za makampuni, Bi. Wangui Mwaniki anastaafu kutoka ofisini kama mkurugenzi na kwa kuwa hali inamruhusu, amejitokeza kuchaguliwa tena.

5) Kutoa idhini kuhusu ada za wakurugenzi
6) Kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni (sehemu ya 486) na sehemu ya 24 (1) ya sheria za benki (kifungu nambari 488), kuwateua wakaguzi wa Kampuni M/s. Deloitte & Touche ambao wameonyesha nia yao ya kuendelea na jukumu hili.
7) Kufahamu marupurupu ya wakurugenzi kwa kipindi cha mwaka 2014 na kuwaamuru wakurugenzi kuamua marupurupu ya wahasibu ya mwaka 2015.
8) Kuendesha shughuli nyinginezo za kibiashara wakati wa mkutano mkuu wa pamoja wa mwaka ambazo notisi yake itakuwa imetolewa.

Shughuli maalumu:

9) **Kuidhinisha swala la hisa za ziada:** Kuzingatia na endapo itaonekana kuwa sawa kupitisha azimio lifuatalo kama azimio maalumu:

a) KWAMBA, baada ya kupata idhini ya taratibu za kisheria, jumla ya shilingi milioni mia moja arobaini (shilingi milioni 140,000,000) ambazo ni sehemu ya kiwango cha pesa kwenye hazina ya mapato ya mikopo zifanywe kuwa mtaji na kwa utaratibu kwamba kiwango kama hicho kiwe huru kugawanywa miongoni mwa wanahisa wa hisa za kawaida walioko sasa katika mtaji wa kampuni na ambao watakuwa kwenye sajili kabla ya Machi 27, 2015 na kutolewa kabla au ifikiapo Aprili 27, 2015 mradi kiwango hicho hakitalipwa kwa pesa taslimu lakini kitumike kulipia kikamilifu milioni ishirini na nane (shilingi milioni 28,000,000) ya hisa za kawaida ambazo hazijatumika zilizo na thamani ya Ksh. 5.00 kila moja kwenye mtaji wa kampuni ulioidhinishwa na kwamba hisa kama hizo milioni ishirini na nane (28,000,000)zilizokuwa zimeshikiliwa na wanahisa kama hao mtawalia (sehemu ya hisa zilizopuuzwa) na kwamba hisa zilizosambazwa zitachukuliwa kwa hali zote kama ongezeko la kiwango kidogo cha mtaji wa kampuni ulioshikiliwa na kila mwanahisa kama huyo na wala sio kama mapato. Zaidi ni kwamba, hisa kama hizo ziwe sawa kwa hali yoyote na hisa zilizoko sasa kwenye mtaji wa kampuni na kwamba wakurugenzi wapewe uhuru na maamrisho ya kutekeleza azimio hili''; na,

b) KWAMBA, endapo hisa yoyote miongoni mwa hisa za ziada milioni ishirini na nane (28,000,000) hazitatolewa kutokana na sababu ya sehemu ya hisa zilizopuuzwa , hisa hizo zihifadhiwe kama ambazo hazijagawanywa kutoka kwa hazina ya kampuni''

10. Kufanyiwa mabadiliko kwa vifungu vya sheria za kampuni: Kuzingatia na endapo itakubalika, kupitisha azimio lifutalo kama azimio maalumu:

i) Kwamba vifungu vya sheria za kampuni vifanyiwe marekebisho kwa kuondoa kifungu 72 (a) chote na kukibalisha na kifungu kifuatacho:
'' kwa kuetegemea ilivyoonyeshwa hapa, idadi ya wakurugenzi wasio na mamlaka kwenye kampuni haitakuwa chini ya watu watano (5) au kuzidi wanane (8) akiwemo mwenyekiti.''
Kifungu nambari 72 kilichofanyiwa marekebisho kiwe kama ifuatavyo:

Notisi

Kwa kutegemea ilivyoelezwa hapa, idadi ya wakurugenzi wasio na mamlaka isiwe chini ya tano au kuzidi wanane akiwemo mwenyekiti.

ii) Kwamba vifungu vya sheria za kampuni vifanyiwe marekebisho kwa kuondoa kifungu nambari 72 (a) chote na kubadilishwa na kifungu kifuatacho:

'' Mara kwa mara , Halmashauri inaweza kuwateua watu (bali na mwenyekiti) wenye sifa kama hii itakavyoamua mara kwa mara kwa mujibu wa sheria za mabenki au masharti na kanuni husika za benki kuu ya Kenya kuwa mkurugenzi mkuu ambapo mmoja wao atakuwa afisa mkuu mtendaji au meneja mkurugenzi (kwa jina lolote atakaloitwa) kwa kipindi fulani kwa kanuni na mamlaka na marupu-rupu (kwa njia yoyote iwe mshahara au malipo ya ziada au ushiriki wa faida au kwa sehemu moja au nyingine) na kuwa halmashauri inaweza kukatiza uteuzi kama huo kwa kutegemea makubaliano yalioafikiwa kuhusiana na kila kisa.''

Kifungu nambari 72 (a) kinachobadilishwa kiwe kama ifuatavyo:

Mara kwa mara, wakurugenzi wanaweza kuwateua watu watatu (bali na mwenyekiti) wenye sifa kama za mkurugenzi na mara kwa mara kuamua endapo watu kama hao ni wakurugenzi wa benki au la kuwa wakurugenzi wakuu ambapo mmoja wao atakuwa afisa mkuu mtendaji (kwa jina lolote atakalopewa) au meneja mkurugenzi kwa kipindi fulani na kwa kanuni na mamlaka na kwa marupurupu fulani (kwa njia yoyote iwe mshahara, mapato ya ziada au ushiriki kwenye faida au kwa njia moja au nyingine) watakavyoona inafaa na kwa kutegemea mikataba ya makubaliano iliyoafikiwa kwa kila kisa wanaweza kutupilia mbali uteuzi kama huo. Bila kuathiri haki yoyote kuhusu maamuzi haya kama ukiukaji wa makubaliano yoyote kama ilivyotajwa kwenye uteuzi wa mkurugenzi kama huyo kuwa ofisini utategemea endapo maamuzi ya kampuni wakati wa mkutano mkuu itapitishwa kwamba wadhifa wake ofisini kama mkurugenzi mkuu au afisa mkuu mtendaji utasitishwa.

Kwa Amri ya Halmashauri

Habil A. Waswani
Katibu wa Kampuni
Machi 3, 2015

Muhimu:

1. Mwanachama aliye na ruhusa kuhudhuria mkutano na kupiga kura anaweza kumteua wakala kufika na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama wa Kampuni
2. Katika hali ambapo mwanachama ni kampuni maalumu au shirika, ni lazima fomu ya wakala iwe imepigwa muhuri wa kawaida au chini ya afisa au wakili aliyeidhinishwa kwa kuandika.
3. Fomu ya uwakilishi inapatikana kupitia wavuti wa Benki www.nationalbank.co.ke au ofisi ya msajili wa hisa za kampuni – Image Registrars Limited, orofa ya tano jumba la Barclays Plaza , Barabara ya Loita Slp 9287-00100, Nairobi
4. Wanahisa ambao hawataweza kuhudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya wakala na kuirudisha kwa:-
   a) Njia ya kuandika au kupitia barua pepe kwa Image Registrars Limited, orofa ya tano jumba la Barclays Plaza barabara ya Loita Slp 9287-00100, Nairobi, barua pepe : info@image.co.ke , au
   b) Kwa njia ya kupeleka kwa mkono katika ofisi za kampuni zilizosajiliwa
5) Wakala wawe wamepokelewa na kampuni saa 48 kabla ya kuanza kwa mkutano yaani kabla ya saa nne asubuhi Jumatano Machi 25, 2015.
6) Kwa mujibu wa kifungu nambari 125 cha sheria za kampuni , nakala nzima ya ripoti ya mwaka na kaguzi za pesa zinaweza kupatikana kupitia wavuti wa kampuni www.nationalbank.co.ke au ofisi ya kampuni iliyosajiliwa. Muhtasari wa mizania , taarifa kuhusu mapato, taarifa kuhusu mabadiliko ya umiliki wa hisa na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2014 zimechapishwa kupitia magazeti mawili ya kila siku yanayosambazwa kote nchini.
7) Usajili wa wanachama na wakala watakaohudhuria mkutano utaanza saa moja asubuhi na utafungwa saa nne asubuhi. Utoaji wa kitambulisho cha kitaifa, paspoti au stakabadhi nyinginezo za kujitambulisha zinazokubalika na cheti cha uanachama kuhusu umiliki wa hisa au taarifa ya sasa ya akaunti ya CDS kuhusu hisa kwenye kampuni zitahitajika.

A Word From the **Chairman**

Dear Shareholders

It is my pleasure to present to you the Annual Report and Financial Statements of the Bank for the year ended 31 December 2014. This being my fourth Annual General Meeting as Chairman of the Board of National Bank, I am happy to announce that the Bank has continued to register profitability despite the challenging business environment in the country.

Kenya Overview

Before I go into the Bank's performance, I will give you a brief economic overview of how we faired as a country in 2014.
The GDP was higher by 25.3% to Ksh. 4.76 trillion while GDP per capita was US$ 1,246. During the year, Kenya issued a US$ 500 million five-year Eurobond paying a coupon of 5.875% and a US$1.5 billion of a ten-year bond at 6.875%. The Eurobond issue attracted bids fourfold its initial target.

Kenya's GDP grew at an estimated rate of 5.3% in 2014, compared to a growth rate of 5.7% in 2013. Regional currencies experienced pressure against the US dollar with the Kenya shilling depreciating least after trading at an average of Ksh. 90.4 in December 2014, compared to an average of Ksh. 86.3 in December 2013. In 2014, remittance inflows to Kenya increased by US$ 137.9 million (11%) to US$ 1,428.5 million compared with US$ 1,290.6 million in 2013.

Business Performance

As I have highlighted earlier, the Bank performed well. The Managing Directors' statement will be explaining in detail the performance of the business and also provide a full picture of the business activities in 2014. But just to touch at high level, the Bank recorded an operating profit of Ksh 2.4 billion, 34% growth from Ksh 1.8 billion posted in the same period last year.

This was mainly attributed to an increase in market share that led to an increase in loans and advances; better management of costs and credit risk.

The improved performance of the Bank was derived mainly from growth of 66% in Loans & Advances compared to 2013. Investments in Government securities was 10% above 2013. There was also a significant increase in non-funded income, registering a 33% year on year growth.

This is because interest rates have since normalized and with improved systems, we were able to attract new as well as retain our existing customers. In the year under review, we witnessed increased business activities and low recovery of old debts. The total assets of the Bank grew by 33% and profitability before restructuring costs and taxation was up 34%. The Bank's outlets increased by 15 branches spread across the country. In addition, our agents increased to 1,120 in 2014 emanating from signing of our partnership with Kenya Post Office Savings Bank.

Banking Sector

The sector continued to record growth in assets and profitability, albeit at a lower rate than in the previous years. A number of institutions witnessed stagnation of their profits in the first and second quarters of the year, a situation which improved in the third and fourth quarters. The uncertainty about speedy economic recovery also saw many banks reduce their expansion drive and therefore opened fewer branches. However, National Bank has achieved a healthy level in the last five years.

A Word From the Chairman (Cont...)

Transformation Agenda

The board continued to focus on laying down strong foundations for an ambitious growth for the Bank to become a top tier Bank by 2017. The actions and initiatives the Board and Management have taken will enhance the foundation for sustainable business growth, both balance sheet and profitability in years to come. This will assure you of not only enhanced dividend yields but also an overall better shareholder return on investments made in the company through sustained capital appreciation.

Although there has been tremendous improvement in the business of the bank, the Board is cognisant that more work is still required to get the bank to the level of its peers. The strategy now is to ensure that the bank realizes its full potential and meets the rightful expectations of its investors.

The Bank now has the required talent with the necessary experience and background to drive our agenda. I have no doubt that this will impact positively on the bank's performance and therefore enhance wealth creation for our shareholders.

The transformation program that started in 2013 entails a number of projects that broadly include; expansion, both physical and in digital space, Agent Banking, Innovation and Development of new products as well as Customer Value Propositions for the target segments and markets.

Bonus Share and Capital

The Board of Directors are recommending to this Annual General Meeting a bonus share issue. Each ordinary shareholder will receive one share for every ten ordinary shares held. This is necessitated by the need to retain the profits of the year to meet the regulatory capital requirements as we await approval of the rights issue.

The Bank's balance sheet grew significantly in the last two years and as a result we have optimally utilized our capital. Therefore we require additional Core capital to facilitate further balance sheet growth. You will recall that you approved raising of additional capital by way of a rights issue in 2013. In 2014, we filed our application with the regulator, Capital Markets Authority and are awaiting approval to be granted this year for our bank to continue with the growth rate witnessed in the last two years.

Future outlook

We remain optimistic that with the transformation agenda that we have implemented over the past two years; and with those that are still under way through various projects slated for 2015, the Bank will be in a position to take advantage of opportunities that present themselves in the market for better performance. Execution of the transformation agenda will be phased out in a systematic methodology to ensure successful achievement of the growth objectives and optimal realization of expected results.

Appreciation

In conclusion, I wish to express gratitude to my fellow directors for their commitment, support and guidance throughout the year. I also extend thanks to the management and staff for their commitment and service to the Bank.

On behalf of the Board, management and staff of the Bank, I wish to sincerely thank our customers for choosing to partner with National Bank.

Finally to our esteemed shareholders, I am most grateful for your continued encouragement and unwavering support during the year.

Mr. Mohamed Abdirahman Hassan
Non-Executive Chairman

UJUMBE KUTOKA KWA MWENYEKITI

Ni furaha yangu kuwatangazia ripoti ya mwaka na taarifa ya kifedha ya benki kwa mwaka uliokamilika, Desemba 31, 2014. Huu ukiwa Mkutano Mkuu wa Mwaka wa nne kwangu kama Mwenyekiti wa Bodi ya Benki ya National Bank, nina furaha kuwatangazia kuwa Benki hii imeendelea kuandikisha faida licha ya changamoto zinazokumba mazingira ya kibiashara nchini.

Mtazamo wa Taifa la Kenya

Kabla ya kuzungumzia matokeo ya Benki , nitawapa muhtasari wa mtazamo wa kiuchumi wa hali ilivyokuwa nchini Kenya mwaka wa 2014. Jumla ya Mapato ya Kitaifa ya Mwaka yaliongezeka kwa asilimia 25.3 hadi shilingi trilioni 4.76 huku Jumla ya Mapato ya Kitaifa ya Mwaka ya kila mia yakiwa dola za kimarekani 1,246. Katika kipindi cha mwaka mmoja, Kenya ilitoa dhamana ya miaka tano ya dola za kimarekani 500 milioni kwa riba ya asili mia 5.88 na dhamana ya miaka kumi ya dola za kimarekani 1.5 bilioni kwa riba ya asilimia 6.875. Dhamana iliyotolewa ilivutia wazabuni wengi zaidi dhidi ya waliotarajiwa.

Jumla ya Mapato ya Kitaifa ya Mwaka (GDP) yaliongezeka kwa kiwango cha asilimia 5.3 mwaka 2014, ikilinganishwa na ongezeko la kiwango cha asilimia 5.7 mwaka wa 2013. Sarafu za eneo hili zilikumbwa na msukumo dhidi ya dola ya Marekani huku shilingi ya Kenya ikipoteza thamani baada ya kuuzwa katika wastani wa shilingi 90.4 mwezi Desemba mwaka wa 2014 ikilinganishwa na wastani wa shilingi 86.3 mwezi wa Desemba mwaka 2013. Mwaka 2014, pesa zilizokuwa zikiingia Kenya ziliongezeka kwa dola za marekani milioni 137.9 (asilimia 11) kwa dola za marekani 1,428 milioni, ikilinganishwa na dola za marekani 1,290 milioni mwaka wa 2013.

Matokeo ya Kibiashara

Kama nilivyoangazia awali, Benki hii ilifanya vyema. Taarifa ya Mkurugenzi Mkuu itatoa maelezo ya kina ya matokeo ya kibiashara na pia kutoa taswira kamili ya shughuli za kibiashara mwaka wa 2014.

Lakini kwa kugusia tu kwa kiwango cha juu, Benki hii iliandikisha faida ya shilingi bilioni 2.4 , asilimia 34 kutoka kwa shilingi bilioni 1.8 iliyoandikishwa wakati kama huu mwaka jana. Hali hii ilitokana na ongezeko la mgao wa soko , suala lililoongeza kiwango cha mikopo na rubuni; usimamizi mwema wa gharama na hatari za mikopo.

Kuimarika kwa matokeo ya benki hii kulitokana hasa na ukuaji wa asilimia 66 wa mikopo na rubuni ikilinganishwa na mwaka wa 2013. Uwekezaji katika usalama wa Serikali ulikuwa asilimia 10 zaidi ya mwaka 2013. Kadhalika, kulikuwa na ongezeko la mapato yasiyofadhiliwa yaliyoandikisha ukuaji wa asilimia 33 wa mwaka baada ya mwaka. Hii ni kutokana na sababu kuwa viwango vya riba vimerejea hali ya kawaida. Huku tukiwa na mifumo iliyoimarishwa, tuna uwezo wa kuvutia wateja wapya na kudumisha walioko. Kwa mwaka tunaoangazia tulishuhudia ongezeko la shughuli za kibishara na kiwango cha chini cha upunguzaji madeni ya zamani. Jumla ya rasilimali za Benki ziliongezeka kwa asilimia 33 na faida kabla ya gharama za uundaji upya na ulipaji ushuru ikiongezeka kwa asilimia 34. Vituo vya Benki hii viliongezeka kwa matawi 15 sehemu tofauti nchini . Pia, mawakala wetu waliongezeka na kuwa 1,120 mwaka wa 2014 kutokana na ushirikiano wetu na Benki ya Kenya Post Savings.

Sekta ya Benki

Sekta hii iliendelea kuandikisha ukuaji wa rasilmali na faida, lakini kwa kiwango cha chini ikilinganishwa na miaka ya awali. Taasisi kadha zilishuhudia udororaji wa faida zao robo ya kwanza na ya pili ya mwaka, hali iliyoimarika kipindi cha robo ya tatu nay a nne za mwaka. Kutokuwa na uhakika kuhusu kasi ya hali ya uchumi kurejea pia kulipelekea benki hii kupunguza ari ya kupanuka na hivyo kufungua matawi machache. Hata hivyo Benki ya National imeafikia kiwango kizuri katika kipindi cha miaka mitano iliyopita.

Ajenda ya Mabadiliko

Bodi hiii iliendelea kuangazia jinsi ya kuweka misingi thabiti ili kuafikia ndoto ya ukuaji wa Benki ifikiapo mwaka 2017. Hii ni hatua ya mipango ambayo Bodi ya Usimamizi imechukua kuimarisha msingi wa ukuaji wa biashara, mizania na faida miaka ijayo. Hii itakuhakikishia mgawo wa juu pamoja na mapato mema kwa wanahisa katika uwekezaji uliofanywa na kampuni hii kupitia mtaji wa kuongezeka unaohimiliwa. Japo kumekuwa na ongezeko kubwa la biashara kwenye benki hii, Bodi hii inatambua kuwa bado jitihada zaidi zinahitajika ili kuiwezesha kufikia viwango vya washindani katika sekta hii. Mkakati sasa ni kuhakikisha kuwa benki inafikia uwezo wake na kuafikia matarajio ya wawekezaji wake.

Benki hii sasa ina wafanyakazi wafaao, wenye ujuzi na elimu ya kutosha kuendesha ajenda yetu. Sina shaka kuwa hili litapelekea kuwepo kwa matokeo mema ya Benki hii na hivyo kuimarisha uzalishaji wa mali kwa wenyehisa wetu. Mpango wa kuleta mabadiliko ulioanzishwa mwaka 2013, unahusisha miradi kadha ambayo ni pamoja na ; upanuzi wa kimajengo na nafasi ya kidijitali, Huduma za Benki kupitia Uwakala, Uvumbuzi na Ustawi wa bidhaa mpya pamoja na Kauli ya Thamani ya Wateja kwa sehemu za soko zinazolengwa.

Hisa za ziada na mtaji

Katika mkutano huu mkuu wa mwaka, Bodi ya Wakurugenzi inapendekeza kutolewa kwa hisa za ziada. Kila mwenyehisa wa kawaida atapokea hisa moja kwa kila hisa kumi za kawaida alizo nazo. Hii ni muhimu ili kudumisha faida za mwaka na hivyo kuafikia matakwa ya mtaji yanayohitajika, vile vile kusubiri kuidhinishwa kutolewa kwa toleo la hisa.

Katika kipindi cha miaka miwili iliyopita, Mizania ya Benki ilikua na kutokana hayo tumetumia vyema mtaji wetu. Kwa hivyo tunahitaji mtaji zaidi ili kuwezesha ukuaji zaidi wa mizania yetu. Mtakumbuka kuwa mliidhinisha kuongezwa zaidi kwa utoaji wa mtaji kuambatana na haki mwaka 2013. Mwaka 2014, tulituma maombi yetu kwa Halmashauri ya Kudhibiti Soko na tunasubiri idhini kutolewa mwaka huu ili benki yetu iendelee kukua kwa kiwango ambacho kimeshuhudiwa kipindi cha miaka miwili iliyopita.

Mtazamo wa siku zijazo

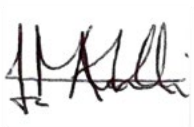
Tunasalia na matumaini kuwa ajenda hii ya mabadiliko ambayo tumetekeleza katika kipindi cha miaka miwili iliyopita; pamoja na yaliyo mbioni kupitia miradi mbali mbali iliyopangiwa mwaka wa 2015, Benki hii itakuwa katika nafasi ya kuchukua fursa zilizopo kwenye soko ili kuwa na matokeo mema. Kutekelezwa kwa ajenda ya mabadiliko kutagawanywa kwa utaratibu ili kuhakikisha maafikio ya malengo na matokeo ya juu yanayotarajiwa.

Shukrani

Mwisho, ningependa kutoa shukrani kwa wakurugenzi wenzangu kwa kujitolea kwao kusimamia na kuongoza katika kipindi cha mwaka. Kadhalika ningependa kutoa shukrani kwa usimamizi na wafanyakazi kwa kujitolea kwao kuhudumia benki.

Kwa niaba ya Bodi, usimamizi na wafanyakazi wa benki, ningependa kuwashukuru wateja wetu kwa kuchagua kuwa washirika wa National Bank.

Hatimaye, wenyehisa wetu, nawashukuru sana kwa usaidizi wenu kwa kipindi cha mwaka huu wote.



Bw. Mohamed Abdirahman Hassan
Mwenyekiti asiye na mamlaka

Dear Shareholders

I am pleased to announce that National Bank has recorded an operating profit of Ksh. 2.4 billion, 34 percent up from the Ksh. 1.8 billion posted in the same period last year, 2013. The results are mainly attributable to a marked increase in market share that led to an increase in loans and advances portfolio, better management of costs and prudent management of credit.

The Bank's business grew significantly in the year, gaining across all our main customer segments. Loans and advances to customers grew to Ksh. 65.6 billion, an increase of Ksh. 26.1 billion, translating to a 66% year on year growth. Customer deposits also grew from Ksh. 78.0 billion to Ksh. 104.7 billion, a 34% year on year increase.

This positive financial growth indicates our Transformation Strategy is beginning to bear fruits and we should all be proud of the achievements attained this year. The Bank has a healthy and growing business portfolio, is better customer focused, and is more efficient and gaining momentum towards attaining the strategic ambition of becoming a top tier bank.

The business divisions we have set up in the Transformation Program i.e. Retail, Business, Islamic, Corporate & Institutional Banking, Treasury, Bancassurance, Investor Services, Micro Finance and Chinese business, have all contributed to the robust balance sheet and profit growth registered by the bank in 2014, as well as achieving a Compounded Annual Growth Rate (CAGR) of 45% in operating profits, which is significantly higher than the targeted CAGR of 33% required to achieve top tier bank status by 2017. Our business is now well diversified and there is growth on all fronts.

Performance Review

The business grew interest income to Ksh. 10.7 billion in 2014, from Ksh. 8.2 billion over the same period in 2013, representing a 31% increase. This is a clear indication that the top line business of the Bank is growing. However, interest expense also increased by 54% from Ksh. 2.5 billion in 2013 to Ksh. 3.9 billion in 2014 largely due to high cost of funds and increased competition for deposits in the market.

Total operating expenses increased by 9% to Ksh 7.0 billion in 2014 from Ksh. 6.4 billion over the same period in 2013. This is attributable to expansion of the branch network and the one-off payments on restructuring costs. It is important to appreciate that the costs associated with the investment in the restructuring and new branches, are platforms upon which future growth in profitability will be hinged.

On the balance sheet front, net Loans and advances to customers increased to Ksh. 65.6 billion in 2014 from Ksh. 39.6 billion in 2013, which translates to a 66% increase. Deposits and balances due from banking institutions dropped to Ksh. 2.1 billion in 2014, from Ksh. 8.3 billion in 2013 on the strength of product diversification into high yielding products. Total assets increased by 33% to Ksh. 123.1 billion in the current year from Ksh. 92.6 billion in 2013, while customer deposits increased by 34% from Ksh. 78.0 billion in 2013 to Ksh. 104.7 billion in 2014.

Overall, the Bank made an operating profit of Ksh. 2.4 billion, a 34% growth over the previous year. We spent Ksh. 1.1 billion on a one-off restructuring cost to release 200 staff under Voluntary Early Retirement program. This charge resulted in a decline in total profits after tax for the year at Ksh. 0.87 billion against Ksh. 1.1 billion reported in 2013. Excluding the impact of the one-off restructuring cost, the profit after tax for 2014 is Ksh. 1.7 billion, a 53% increase over the previous year.

Strategic Milestones & Business Development

Over the past two years, the Bank has gone through tremendous change in line with the Five Year Transformation Strategy which we embarked on in March 2013. We can all be proud of the milestones achieved so far in this period. We have continued to profitably run the business while investing for the future growth of the bank towards the aim of realizing the ultimate goal of becoming a Top Tier Bank by 2017. In 2014, we continued to build on the strategic foundations we laid in 2013 and have registered notable progress.

Our staff remain the most important resource that drives business transformation strategy and growth. Therefore the Bank invested in training staff on products, operations, sales and risk management across all functions, achieving an impressive 16 training hours per headcount. In addition, we injected new experience from external market to blend well with the relationships and the institutional memory in place. I thank all our employees who have dedicated so much time and energy to make National Bank achieve the great results noted above.

The business segments – Retail Banking, Business Banking, Islamic Banking, Corporate & Institutional Banking, Treasury, Bancassurance, Investor services and Chinese Business - all continue to grow and contribute to the growth of a diversified balance sheet and revenue streams. We now have stronger sales capacity and capability in our frontline staff in branches and relationship management backed by central support and operations functions in head-office. We continue to invest in product innovation and superior service delivery standards in all our customer touch points. We have obtained a new license for Fund Management and have launched Micro Finance business and Chinese business segments in second half of 2014.

The market now notices National Bank as a worthy competitor. We have won various awards in the 2014 namely; East Africa Banking Awards for business growth (Business Banking), Product Innovation (Salary Advance Card) and Strategy (CEO of the year). Our rebranding effort also won an international award for excellence.

We continue enhancing operational efficiency of the Bank through centralization and automation of back office processes thus eliminating duplications and delivering standard service at a cost effective level. We have centralized and automated Anti-money- laundering (AML) screening and monitoring, deliver e-statements electronically, and have moved over 10 back office processes to the centre in 2014 including reconciliations, RTGS/Swift processing, filing & documentation and Credit Operations.
In 2014, the Bank expanded its network across the country which now consists of both physical traditional channels and electronic digital channels. We opened 15 new branches to bring the total to 75 branches across the country. Our ATM network grew by 26 to 123 ATMs. In addition, we have signed up Agency relationships with Posta, PostBank, Defco and own proprietary agents bringing total agents to 1,120. We have signed up strategic partners such as Kenswitch giving our customers' access to hundreds more ATMs. We have also used technology to expand the scope and reach of our distribution network by launching a new Mobile Banking (NatMobile) and Internet Banking (NatConnect) platforms.

Customer Service is vital for growth of our business in a competitive environment where there are 44 banks to choose from. We therefore invested in setting up a 24/7 Customer Contact Centre, expanding our digital and physical customer contact points, and redesigned our branch network under the rebranding to facilitate more efficient service delivery in a pleasant ambiance. We have now invested in systems to ensure uptime online operation of core systems at all times and are rolling out queue management system that will ensure our customers seat while served faster once we roll out shortly. Most important, we have trained our front line staff in better customer service management and we shall continue to conduct surveys to ensure service standards are met across our branches.

We continue to leverage our technology platform to provide cost effective transaction processing, risk management and customer service capabilities. In the year 2014, we launched Mobile and Internet Banking platforms, County Collection solutions, Utility payments solution and SMS and Agent portals. We have upgraded our card & POS systems to EMV (Chip & Pin) which has fraud prevention capabilities, and improved systems availability and performance.

We have continued to rebrand more of our branches to give our customers a similar visual and customer experience across the branch network, retrofitting the new brand to 5 flagship branches in 2014. This exercise will continue until 2017 when retrofitting of all our branches will be completed to have a better look and correct rebranding.

Business Outlook

2014 was a challenging year due to intense competition within the banking sector and shrinking margins. We project this tight stretch to persist into 2015. However, we remain optimistic and confident we will continue to grow strongly by staying focused and committed to the Transformation agenda, reclaiming market share, taking on the challenges of competition and exploiting the opportunities availed by the growing economy.

Business Banking, Islamic Banking, Micro Finance and the newly launched Chinese business segments have all registered strong growth in the year and we look forward to more business take on in 2015 in addition to the traditional businesses of Retail and Corporate Banking segments that are also growing well.

We have tasked our business segments to ensure we achieve 2015 objectives of doubling the banks customer numbers, sourcing cheap deposits and increasing non-balance sheet transaction revenues. We are also strengthening further our risk management capability and reducing the cost base of the bank.

We will upgrade our technology platform to meet the requirements of the planned business volume growth, meet our risk management requirements and enhance customer service delivery.

We shall continue to build on the growth momentum we have established, remain focused on executing the transformation strategy initiatives and drive the organizational changes needed to realize our goal of transforming National Bank of Kenya into a leading bank that is highly profitable to its shareholders, provides rewarding careers to its employees, participates in community development and positively contributes to economic development.

Conclusion

Let me conclude my statement by thanking all our Shareholders who made us record this success in 2014. I would also like to appreciate the Chairman and the Board of Directors for the support and guidance they provided to the management throughout the year 2014. I also wish to thank our customers who chose to maintain their business with the bank.

Finally, I wish to thank all the staff of the bank who worked tirelessly to deliver this great performance.

MUNIR S. AHMED
MANAGING DIRECTOR & CEO

TAARIFA KUTOKA KWA **MENEJA MKURUGENZI**

Nina furaha kutangaza kwamba benki ya National Bank imeandikisha faida ya utekelezaji shughuli ya shilingi bilioni 2.4 ambayo ni asilimia 34 kutoka shilingi bilioni 1.8 zilizopatikana wakati wa kipindi sawa na hiki mwaka 2013. Matokeo haya yalichangiwa pakubwa na upanuzi wa nafasi yetu katika soko ambao ulipelekea ongezeko la mikopo na nafasi ya malipo ya awali, usimamizi bora wa gharama na usimamizi mwafaka wa mikopo.

Biashara za benki ziliimarika kikamilifu wakati wa kipindi hiki cha mwaka na kupata ufanisi kwenye vitengo vyetu vyote vya wateja. Mikopo na malipo ya awali kwa wateja ziliongezeka hadi shilingi bilioni 65.6, hili likiwa ni ongezeko la shilingi bilioni 26.1 na kuwakilisha asilimia 66 ya ukuaji mwaka baada ya mwaka. Akiba za wateja pia ziliongezeka kutoka shilingi bilioni 78.0 hadi shilingi bilioni 104.7 na kuwakilisha ukuaji wa aslimia 34 wa mwaka baada ya mwaka.

Ukuaji halisi wa biashara unaashiria kwamba mkakati wetu wa mabadiliko umeanza kuzaa matunda na tunafaa kufurahia matokeo yaliyopatikana mwaka huu. Benki hii ikiwa na nafasi nzuri ya ukuaji wa biashara, ina mtazamo mzuri kwa wateja, ambao ni madhubiti na inaendelea kushika kasi ili kufikia malengo ya mkakati wake wa kuwa benki iliyo kileleni.

Vitengo vya biashara tulivyoandaa kwenye mkakati wa mabadiliko kama vile, wateja wa kawaida (rejareja), biashara, Uislamu, huduma za benki kwa mashirika na taasisi, fedha, huduma za bima, huduma za uwekezaji, ufadhili wa biashara ndogondogo na biashara za Kichina vimechangia pakubwa katika ukuaji wa haraka wa mizania na faida iliyoafikiwa mwaka 2014 pamoja na kupatikana kwa kiwango cha ukuaji wa pamoja wa mwaka (CAGR) wa asilimia 45 kwenye faida za utekelezaji. Kiwango hiki ni cha juu ikilinganishwa na kiwango cha asilimia 33 kinachotarajiwa kufikiwa na benki iliyo kileleni mwaka 2017. Kwa sasa, biashara yetu imepanuliwa vyema na kuna ukuaji wa vitengo vyote.

Mtazamo wa matokeo:

Biashara iliimarisha matokeo yake ya riba hadi shilingi bilioni 10.7 mwaka 2014 kutoka shilingi bilioni 8.2 wakati wa kipindi sawa na hiki mwaka 2013 na kuwakilisha ongezeko la asimia 13. Hili ni dhihirisho kamili kwamba malengo ya juu ya biashara ya benki yanaendelea kukua. Hata hivyo, gharama za riba zilizongezeka kwa asilimia 54 kutoka shilingi bilioni 2.5 mwaka 2013 hadi shilingi bilioni 3.9 mwaka 2014. Matokeo haya yalichangiwa zaidi na gharama za juu za hazina na ongezeko la ushindani wa uwekaji akiba kwenye soko.

Jumla ya gharama za utekelezaji kazi ziliongezeka kwa asilimia 9 na kufikia shilingi bilioni 7.0 mwaka 2014 kutoka shilingi bilioni 6.4 kipindi sawa na hiki mwaka 2013. Hii ilitokana na upanuzi wa mtandao wa matawi na mfumo wa malipo ya kuleta mabadiliko. Ni muhimu kutambua kwamba gharama zilizotokana na uwekezaji wa kuleta mabadiliko na matawi mapya ni msingi ambao ukuaji wa faida siku za usoni utategemea.

Kwa upande wa mizania, faida halisi na malipo ya awali kwa wateja ziliongezeka hadi kufikia shilingi bilioni 65.6 mwaka 2014 kutoka shilingi bilioni 39.6 mwaka 2013 hili likiwa ni ongezeko la asilimia 66. Akiba na masalio kutokana na taasisi za benki zilishuka hadi shilingi bilioni 2.1 mwaka 2014 kutoka shilingi bilioni 8.3 mwaka 2013. Hii ilichangiwa zaidi na upanuzi wa bidhaa kwa malengo ya kuleta mapato zaidi. Raslimali kwa jumla ziliongezeka kwa asilimia 33 kutoka shilingi bilioni 123.1 kipindi hiki cha mwaka kutoka shilingi bilioni 92.6 mwaka 2013 huku akiba ya wateja ikiongezeka kwa asilimia 34 kutoka shilingi bilioni 78 mwaka 2013 hadi shilingi bilioni 104.7 mwaka 2014.

Kwa jumla, benki ilipata faida ya shilingi bilioni 2.4 hii ikiwa ni ongezeko la asilimia 34 ikilinganishwa na mwaka uliotangulia. Tulitumia shilingi bilioni 1.1 katika gharama za marekebisho kufidia zaidi ya wafanyakazi 200 waliostaafu mapema kwa hiari yao. Zoezi hili lilipelekea kupungua kwa faida ya jumla baada ya ushuru kipindi hiki cha mwaka kwa shilingi bilioni 0.87 dhidi ya shilingi bilioni 1.1 zilizoandikishwa mwaka 2013. Bila kujumuisha athari za gharama za kufanyia marekebisho, faida baada ya ushuru mwaka 2014 ni shilingi bilioni 1.7 hii ikiwa ni ongezeko la asilimia 53 ikilinganishwa na mwaka uliotangulia.

Mikakati ya mafanikio na ukuaji wa biashara:

Kwa kipindi cha miaka miwili iliyopita, benki imeshuhudia mabadiliko makubwa chini ya mkakati wake wa miaka mitano wa kuleta mabadiliko ambao tulianzisha mwezi Machi mwaka 2013. Sote tunaweza kufurahia ufanisi uliopatikana hadi sasa wakati wa kipindi hiki. Tumeendelea kuendesha biashara huku tukipata faida na kuwekeza kwa ukuaji wa benki siku za baadaye tukiwa na lengo la kuafikia ndoto yetu ya kuwa benki iliyo kileleni ifikiapo mwaka 2017. Mwaka 2014, tuliendelea kuimarisha msingi wa mikakati yetu tuliyoanzisha mwaka 2013 na kuandikisha mafanikio yanayoonekana.
Wafanyakazi wetu wangali kiungo muhimu kinachoendesha mkakati wa kuleta mabadiliko na ukuaji. Kwa sababu hiyo, benki iliwekeza katika utoaji mafunzo ya wafanyakazi na bidhaa, utekelezaji shughuli, mauzo na usimamizi wa hatari zinazokabili biashara kwenye vitengo vyake vyote vya utekelezaji na kuafikia saa 16 za utoaji mafunzo kwa kila mfanyakazi. Zaidi ya hayo, tulitumia maarifa mapya tuliyopata kutoka masoko ya nje na kwa pamoja kuyatumia vyema na ujuzi wetu wa kitaasisi ulioko. Nawashukuru wafanyakazi wetu wote ambao wamejitolea kwa wakati na nguvu zao ili kuifanya National Bank kuafikia matokeo yaliyotajwa hapo awali.

Vitengo vya biashara , huduma za benki kwa wateja wa kawaida (reja reja), huduma za benki, uislamu, mashirika na taasisi, fedha, bima, huduma za uwekezaji na biashara za kichina kwa pamoja zinaendelea kukua na kuchangia pakubwa kwa ukuaji wa mizania pana na njia za mapato. Kwa sasa, tuna uwezo mkubwa wa mauzo na wafanyakazi kwenye ofisi za mbele wenye ujuzi katika matawi yetu na uhusiano mzuri wa usimamizi unaosaidiwa na ofisi yetu kuu. Tunaendelea kuwekeza katika ubunifu wa bidhaa na viwango vya hali ya juu vya huduma katika vituo vyetu vyote vya kuwahudumia wateja. Tumepata leseni mpya ya usimamizi wa hazina na tumezindua kitengo cha biashara za chumi ndogo na zile za kichina mwaka 2014.

Kwa sasa, soko limeanza kutambua National Bank kama mshindani mkubwa. Tumeshinda matuzo mbali mbali mwaka 2014 kama vile; East Africa Banking Awards for business Growth (kitengo cha benki), product Innovation (salary advance Card) na strategy (Afisa mkuu mtendaji wa mwaka). Juhudi zetu za kubadili hali yetu pia zilishinda tuzo la kimataifa kwa utendaji bora wa kazi.
Tunazidi kuimarisha utoaji wa huduma za benki kupitia uwekaji mtandao uliojumuishwa pamoja shughuli za ndani hivyo kuondolea mbali urudiaji wa nakala na kuimarisha viwango vya utoaji huduma kwa gharama nafuu .Tumejumuisha na kuweka pamoja mtandao wa kuzuia wizi wa pesa (AML) na uchunguzi, kutuma taarifa za akaunti (statements) kwa njia ya kielektroniki na kuhamisha huduma nyingi zinazotolewa kutoka nyuma hadi mbele mwaka 2014 ikiwemo maridhiano, kutuma pesa kwa haraka (RTGS/ swift processing), ujazaji na uhifadhi wa maelezo na shughuli za utoaji mikopo.

Mnamo 2014, benki ilipanua matawi ya mtandao wake kote nchini ambayo kwa sasa yanahusisha mbinu za zamani za utoaji huduma na zile za kielektroniki. Tulifungua matawi mapya 15 na kuyafanya jumla kufikia 75 kote nchini. Mtandao wetu wa ATM uliongezeka kwa mitambo 26 na kufikia 123. Zaidi ya hayo, tumetia sahihi ya makubaliano ya ushirikiano wa uwakala na Post-Bank, Defco na maajenti wetu hivyo kufanya idadi ya maajenti kufikia 1, 120. Tumeweka sahihi mkataba wa ushirikiano kama vile Kenswitch na hivyo kuwapa nafasi wateja wetu kuafikia mamia ya mitambo ya ATM. Pia, tumetumia teknolojia kupanua uwezo wetu na kufikia mtandao wetu wa usambazaji kwa kuzindua huduma mbili za benki tamba (Natmobile) na huduma za benki kupitia intaneti (NatConnect).

Huduma kwa wateja ni muhimu kwa ukuaji wa biashara katika mazingira yenye ushindani ambayo yana idadi ya benki 44. Kwa sababu hiyo, tuliwekeza kwa kuanzisha vituo vinavyowahudumia wateja usiku na mchana , kupanua vituo vyetu vya utoaji huduma kupitia mfumo wa dijiteli na vituo vya kuwahudumia wateja moja kwa moja na kubadili sura ya mtandao wa matawi yetu ili kuimarisha utoaji wa haraka wa huduma kwa njia inayoridhisha. Kwa sasa, tumewekeza kwenye mifumo kuhakikisha shughuli kamilifu za moja kwa moja kupitia mifumo yetu muhimu nyakati zote na kuondoa mfumo wa usimamizi kwa kupiga foleni utakaohakikisha wateja wetu wanaketi huku wakipata huduma kwa njia ya haraka. Muhimu ni kwamba, tumetoa mafunzo kwa wahudumu wetu wa ofisi za mbele kuhusu utoaji wa huduma bora na tutaendelea kufanya tafiti kuhakikisha kwamba viwango vya huduma za hali ya juu vimeafikiwa katika matawi yetu yote.
Tunazidi kutumia vyema jukwaa letu la kiteknolojia ili kutoa huduma zinazofaa kwa gharama nafuu, kuzuia hatari na kuimarisha uwezo wa kuwahudumia wateja. Mnamo mwaka 2014, tulizindua utoaji wa huduma kupitia simu tamba na intaneti, suluhu la ukusanyaji mapato katika kaunti, ulipiaji huduma, SMS na kitengo cha maajenti. Tumeimarisha kadi yetu na mfumo wa POS hadi EMV (Chip and Pin) ambayo ina uwezo wa kuzuia wizi na kuimarisha upatikanaji wa mifumo na matokeo.

Tumeendelea kuimarisha hali ya matawi yetu mengi ili kuwapa wateja huduma zilizo sawa katika mtandao wa matawi yetu, kuimarisha bidhaa mpya hadi matawi matano mwaka 2014. Zoezi hili litaendelea hadi mwaka 2017 wakati uimarishaji wa matawi yetu yote utakamilika ili kuyapa sura mpya.

Mtazamo wa kibiashara

Mwaka 2014 ulikuwa na changamoto nyingi kutokana na ongezeko la ushindani wa benki na kupungua kwa viwango vya biashara. Tunabashiri kwamba hali hii itaendelea mwaka 2015. Hata hivyo, tuna imani kwamba tutaendelea kukua imara na kuendelea kuangazia ajenda yetu ya kuleta mabadiliko, kurejesha nafasi yetu masokoni, kukabiliana na changamoto za ushindani na kutumia vyema nafasi zilizoko za ukuzaji uchumi.
Vitengo vya huduma za biashara ya benki, uislamu, chumi ndogo na biashara mpya iliyozinduliwa ya kichina zimeandikisha matokeo thabiti ya ukuaji kipindi hiki cha mwaka na tunatarajia biashara zaidi mwaka 2015 bali na biashara za kawaida za wateja wa kawaida na kitengo cha mashirika ambazo bado zinaendelea vyema.
Tumeyapa majukumu maeneo yetu ya biashara kuhakikisha kwamba tumeafikia malengo yetu ya mwaka 2015 ya kuongeza marudufu wateja wetu wa benki, kutafuta gharama nafuu za uwekaji pesa na kuongeza shughuli za mapato zisizojumuishwa kwenye mizania. Pia, tunaimarisha zaidi uwezo wetu wa kukabiliana na usimamizi wa hatari na kupunguza gharama za benki.
Tutaimarisha kitengo chetu cha teknolojia ili kuafikiana na mahitaji ya viwango vya ukuaji wa biashara vinavyotarajiwa , kuafikiana na mahitaji ya kukabiliana na athari za biashara na kuimarisha huduma zetu kwa wateja.
Tutazidi kudumisha kasi ya ukuaji ambayo tumeanzisha, kuendelea kuangazia mbinu za mkakati wa kuleta mabadiliko na kuendesha mabadiliko ya kimashirika yanayohitajika kuafikia lengo letu la kuibadilisha National Bank kuwa benki inayoongoza ambayo itazalisha faida ya juu kwa wanahisa wake, kuwazawadia wafanyakazi wake, kushiriki kwenye maendeleo ya kijamii na kuchangia kikamilifu katika maendeleo ya kiuchumi.

Hitimisho

Ningependa kuhitimisha taarifa yangu kwa kuwashukuru wanahisa wetu wote ambao walituwezesha kupata ufanisi mwaka 2014. Pia, ningependa kumpongeza mwenyekiti na halmashauri ya wakurugenzi kutokana na mchango wao na mwongozo ambao walidhihirisha kwa usimamizi kipindi chote cha mwaka 2014. Pia, ningependa kuwapongeza wateja wetu ambao walichagua kudumisha biashara zao na benki.
Mwisho, ningependa kuwashukuru wafanyazi wote wa benki ambao walitekeleza majukumu yao bila kuchoka ili kufanikisha matokeo haya.

MUNIR S. AHMED
MENEJA MKURUGENZI NA AFISA MKUU

Statement of Corporate Governance

The overall control over the activities, affairs, operations, business and property of the Bank is vested in the Bank's Board of Directors.

Corporate governance continues to be a key priority of the Board in exercise of its mandate as it accounts and reports to all stakeholders of the Bank about the procedures, systems and controls they have put in place to safeguard their interests in line with the highest standards of corporate governance. The Board of Directors of the Bank is committed to ensure full compliance with all relevant or applicable laws in the sector, the "Guidelines on Corporate Governance Practices for Public Listed Companies in Kenya" issued by the Capital Markets Authority, the Banking Act and the Central Bank of Kenya (CBK) Prudential Guidelines as well as all the Bank's internal policies.

The Board as the focal point of corporate governance is committed to ensuring that the Bank's business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics.

In this respect, the Board confirms that the Bank complies with all relevant laws, regulations, including the provisions of the Banking Act and the prudential regulations issued by the CBK.

Board of Directors

The Board fulfills its fiduciary obligations to the shareholders and other stakeholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, the Managing Director exercises delegated authority to conduct the day-to-day business of the Bank. All Board members are expected to act in a professional manner, thereby upholding the core values of integrity and enterprise with due regard to their fiduciary duties and responsibilities and in accordance with the Bank's code of ethics.

The current Board comprises of seven non-executive directors (including the Chairman) and two executive directors (including the Managing Director).

The Board considers all of the non-executive directors to be independent and free of any business relationship or other circumstances that could materially interfere with the exercise of objective or independent judgment. Board members possess extensive experience in a variety of disciplines, including; banking, business and financial management, all of which are applied in the overall management of the Bank. All non-executive directors are subject to periodic retirement and re-election to the Board, in accordance with the Bank's Articles of Association.

The Board meets regularly and the directors are given appropriate and timely information to enable them to maintain full and effective control over strategic, financial, operational and compliance issues. The remuneration of all directors is subject to regular monitoring to that levels of remuneration and compensation are appropriate. Non-executive directors are paid an annual fee in addition to a sitting allowance for every meeting attended. They are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes.

The Board frequently reviews operations of sub-committees constituted to supplement its functions. These include:

Board Nomination and Remuneration Committee

The membership of the Committee comprises three non-executive directors and two executive directors. The Committee which meets at least once every quarter, is responsible for proposing new nominees to the Board, assessing the performance and effectiveness of directors and staff and ensuring, through annual reviews, that the Board composition reflects an appropriate mix of skills and expertise required. The Committee is also mandated to periodically review and recommend to the full Board the remuneration of executive directors and senior management staff and the bankwide structure of compensation.

Board Audit Committee

This Committee comprises four non-executive directors, and meets at least once every quarter. The Committee is mandated to check the quality of financial reporting, strengthening the control environment and the effectiveness of the internal and external auditing functions, advising the Board on best practices, monitors compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedure, ensuring quality, integrity, effectiveness and reliability of the Bank's systems. The Committee also reviews the proposed work plans for the Internal Audit function each year.

Board Risk Committee

This Committee comprises four non-executive directors, and meets at least once every quarter. The Committee is mandated to provide oversight on risk management and the compliance issues facing the Bank and ensuring quality, integrity, effectiveness and reliability of the Bank's risk management framework is maintained. The Committee defines the scope of the risk management work, ensures that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time, and ultimately, monitors the Bank's compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedures.

Board Credit & Remedial Committee

The Committee comprises six non-executive directors and meets at least once every month. The primary responsibilities of the Committee include; periodic review and oversight of the overall lending policy of the Bank, deliberate and consider loan proposals beyond the credit discretion limits extended to management, on an ongoing basis, as well as review lending approved by management within its discretionary limits. The Committee reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management as well as assist the Board in discharging its responsibility to review the quality of the loan portfolio and ensure adequate bad debts provisions are maintained in line with the CBK prudential guidelines. The Committee also provides oversight over all legal and remedial measures being taken on non performing loans.

Board and Director Evaluation

In line with the requirements of the Bank's Corporate Governance Policy and the relevant prudential guideline issued by the CBK, each member of the Board (including the Chairman) conducts a peer as well as self-evaluation of the Board and the returns made to the CBK.

Attendance of Board Meetings

The Board meets regularly and has a formal schedule of matters reserved for periodic deliberation. The directors receive appropriate and timely information to enable them exercise full and effective control over strategic, financial, operational, compliance and governance matters of the Bank.

Name of Non-executive Director	No. of meetings in the year 2014	No. of meetings attended	% Attendance
Mohamed A. Hassan	8	8	100
Sylvia M. Kitonga	8	8	100
Managing Trustee -NSSF	8	8	100
Cabinet Secretary - National Treasury	8	6	75
Eng. Erastus K. Mwongera	8	8	100
Francis L. Atwoli	8	4	50
Wangui Mwaniki	8	8	100

Internal Control Systems

The Bank has well defined written policies and procedures to ensure that best practices are followed in conducting the day-to-day operations and financial reporting as well as in implementing strategic action plans approved by the Board. A well-structured organization chart ensures that there is adequate segregation of duties. Structures and systems have been defined in the Bank's policies and procedures to facilitate complete, accurate and timely execution of transactions, operations and commitments and the safeguarding of assets. Financial information is prepared using appropriate accounting policies, which are applied consistently. The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, manage and ensure compliance with applicable laws and regulations and enhance resilience to external events.

To assist management in fulfilling its mandate and to ensure compliance with the laid-down policies and procedures, various management committees have been established. The roles, responsibilities and composition of some of the key management committees are given below:

Executive Management Committee ("EMC")

The EMC is chaired by the Managing Director and comprises other senior management staff. It meets regularly and ensures that all financial and operational plans of the Bank are monitored and implemented as per the Board approved strategy. The Committee tracks the implementation of Bank's business projects, financial and staff performance trends, forecasts and actual performance against budgets and prior periods and regularly reports the same to the Board.

Executive Credit Committee ("ECC")

In accordance with the Bank's Credit Policy, the ECC is chaired by the Managing Director and comprises other senior management staff including the Chief Risk Officer. The Committee reports to the Board Credit & Remedial Committee on credit risk and credit approval matters every month. The ECC meets regularly to review and approve customer credit applications within limits delegated by the Board and from time to time to analyse the Bank's overall credit risk management.

Assets and Liability Committee ("ALCO")

This Committee is chaired by the Managing Director and comprises other members of senior management staff. The ALCO, which meets at least once each month, is mandated to optimise returns, whilst prudently managing and monitoring the assets and liabilities of the Bank. The ALCO is responsible for controlling and managing the Bank's interest rate risk (price), market risk, currency risk and liquidity risk, in addition to ensuring compliance with the Bank's Investment Policy, and statutory requirements relating to liquidity, foreign exchange exposure and cash ratio.

Executive Operations Risk Committee ("EORC")

The EORC reports to the Board Risk Committee and is chaired by the Managing Director and comprises other senior management staff. The EORC meets at least once every month and is responsible for identifying major areas of business operations prone to operational risks, implementing respective mitigations and implementing suitable policy guidelines for managing and mitigating operational risk and reviewing audit irregularities relating to operations.

Relations with Shareholders

The Board recognizes the importance of good communication with all shareholders. The Annual General Meeting (AGM) as well as published annual reports and financial statements are used as an opportunity to communicate with all shareholders. The Bank always gives its shareholders due notice of the AGM as defined in its Memorandum and Articles of Association and in compliance with the Companies Act.

Shareholders have direct access to the Bank, its Company Secretary and the Shares Registrar who respond to the correspondence received from the shareholders on a wide range of issues.
The Company through its Share Registrar (Image Registrars Limited), files returns regularly in line with the requirements of the Companies Act and the Capital Markets Act.

Statement of Corporate Governance (Cont..)

The number of shareholders of the Company as at 31 December 2014 was 48,829, distributed as shown hereunder.

A. Top 10 Shareholders as at 31 December 2014

No	Names	Number of Shares	% of shares
1	Board of Trustees National Social Security Fund	134,547,725	48.10%
2	The Cabinet Secretary to The National Treasury	63,000,000	22.50%
3	Kenya Reinsurance Corporation Limited	4,000,000	1.40%
4	Best Investment Decisions Limited	1,625,000	0.60%
5	NIC Custodial Services A/C 077	1,161,360	0.40%
6	Co-op Bank Custody A/C 4003a	1,118,300	0.40%
7	Equity Nominee Ltd A/C00084	1,038,300	0.40%
8	Craysell Investments Limited	1,033,220	0.40%
9	Natbank Trustee & Investment Services Ltd A/C 1	945,000	0.30%
10	Eng. Ephraim Mwangi Maina	913,227	0.30%
11	Others	70,617,868	25.20%
	Total	**280,000,000**	**100.00%**

B. Investor Distribution Summary as at 31 December 2014

Range	Number of Shareholders	Number of Shares	Percentage of Shares held
1 to 1,000	33,249	15,765,474	5.63%
1,001 to 10,000	14,803	28,740,468	10.26%
10,001 to 100,000	727	18,253,668	6.52%
100,001 to 1,000,000	42	9,716,485	3.47%
1,000,001 to 10,000,000	6	9,976,180	3.56%
10,000,001 to 100,000,000	1	63,000,000	22.50%
100,000,001 to 1,000,000,000	1	134,547,725	48.06%
TOTAL	**48,829**	**280,000,000**	**100.00%**

C. Investor Shareholding Profile as at 31 December 2014

Category	Number of Shareholders	Number of Shares	Percentage of Shares held
Local Individual	46,985	57,687,706	20.60%
Local Corporate	1,703	221,110,126	78.97%
Foreign Individual	132	834,907	0.30%
Foreign Corporate	9	367,261	0.13%
Total	**48,829**	**280,000,000**	**100.00%**

The Managing Director and CEO National Bank, Mr. Munir Ahmed and the President of the Republic of Kenya, H.E Uhuru Kenyatta during the PSV cashless launch held at KICC

The Managing Director and CEO National Bank, Munir Ahmed hands over a cheque of kshs.100,000 to the Director Kenya Paraplegic Organization, Mr.Timothy Wanyonyi towards the Kenya Paraplegic Organization, Hope on the Wheels-2014.

The Managing Director and CEO National Bank (right),signs a cheque during a donation ceremony towards the administration police staff welfare. Looking on is the Deputy Inspector general of Police in charge of Administration Police, Samuel Arachi.

The Managing Director and CEO National Bank, Munir Ahmed waters a tree during the launch of a tree planting partnership with Kirinyaga County Looking on is the Governor Kirinyaga County, Hon. Joseph K. Ndathi.

Annual Corporate Social Responsibility Report - 2014

Our Corporate Social Responsibility (CSR) policy is at the core of our daily operations and guides our future progress. This is because we recognize that CSR is critical to long-term business success. Every year the bank sets aside a substantial budget allocation for CSR to ensure that the Bank plays its rightful role in the betterment of our society. We do this by creating value for our customers, the society, and the environment in which we do business. We ensure that we operate our business in a manner that accounts for the social and environmental impact and also develop policies that integrate responsible practices into daily business operations and at the same time report on progress made toward implementing these practices.

In 2014, our main focus was the environment. The Bank committed to support the Government in improving the forest cover and protecting our water tables through a countrywide tree planting project that will see the Bank plant 2 million trees by 2017. The bank is also involved in charity and strives to reach out to more deserving sectors in the society including; The Environment, health, sports, education and vulnerable groups, among other sectors.

The Environment

In the recent past the danger of Global Warming has become common knowledge with its attendant rise on water bodies which have resulted in flood ravaging the globe. Global warming is caused by emission of greenhouse gases into the atmosphere thus depleting the ozone layer. Trees have a solution to this through their resilience and strength in absorbing these gas emissions. Today, Kenyan forests are being threatened by rapidly increasing human population which has led to an increase in human activities and encroachment of forestland. This has resulted in rapid environmental degradation hence reducing our existing natural resource base to meet current and future societal needs.

The bank's current reforestation programme is anticipated to have numerous benefits not only bolstering the environment but also the economy of our Country. Trees are also known to be very useful in reducing carbon-dioxide, a major contributor to Green House Gases and replenishing the air with oxygen. Apart from these, trees improve the aesthetic value of the environment. They also provide shade, prevent erosion, help minimize flooding and act as wind breakers thereby protecting us from the adverse effects of windstorm and hazards of nature.

In the year under review, through the flagship of the Bank's tree planting campaign dubbed ''plant a tree for a better life'', 276,000 trees were planted across the Country. This was done in collaboration with various schools, the scouts movement and Kirinyaga County. This campaign will continue into 2015 with more partnerships to ensure that the bank meets its target.

Education

In 2014 the Bank continued with the annual schools trophy programme that saw various schools and institutions, pupils and students rewarded for excellence in academics and sporting activities. Other donations included; donation towards the purchase of blankets and beddings to Bishop Lawi Imathiu school in Meru and sponsorship of Ngarairiga girls Secondary school classic half marathon.

Health

In order to increase access to quality and affordable health care, the Bank continued to support initiatives by health care service providers through the provision of medical equipment for specialized health care services. During the year under review, the bank donated Ksh. 100,000 towards the First Lady's Beyond zero Campaign.

Sports

The Bank recognizes the major role that sports and sporting activities play in promoting the wellbeing and cohesion of the citizens. In 2014, the Bank sponsored the all Africa Challenge trophy. The Bank also provided tracksuits and sports shoes to the Kenya Air force Cross Country team.

Vulnerable Groups

In the year under review the Bank renewed the adoption of the SOS family house at a cost of Ksh.1.8 Million. This will cater for the upkeep of the ten children in the home for a period of one year. Other donations under the category of vulnerable groups included donation of foodstuff to Mama Fatuma Children's home and to Mama Theresa Home.


We listen
closely so we can
serve you better.

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2014 which show the state of affairs of National Bank of Kenya Limited (the "bank") and its subsidiaries (together the "group").

ACTIVITIES

The principal activity of the bank and its subsidiaries, which are licensed under the Banking Act, is the provision of banking, bank assurance, financial and related services.

RESULTS FOR THE YEAR	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Profit before taxation	1,303,131	1,812,168	1,203,326	1,779,444
Taxation	(432,429)	(699,365)	(402,628)	(689,548)
Profit for the Year	870,702	1,112,803	800,698	1,089,896

DIVIDEND

i) The directors do not recommend the payment of a dividend to the holders of the preference shares over and above any further dividend that may be paid to them and the ordinary share holders in respect of the financial year ended 31 December 2014 (2013- 1.5%).

ii) The directors do not recommend the payment of a dividend to the holders of the ordinary shares in respect of the financial year ended 31 December 2014 (2013- Sh 0.33 per share).

DIRECTORS

The present members of the board are as shown on page 8. Mr. S K Okero resigned as an executive director with effect from 1 April 2014.

AUDITORS

The auditors, Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159(2) of the Companies Act and subject to approval by the Central Bank of Kenya under Section 24(1) of the Banking Act.

ON BEHALF OF THE BOARD

H A Waswani
Company Secretary
Nairobi
3 March 2015

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and the Banking Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and the bank and of the group's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Chairman	Managing Director

3 March 2015

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NATIONAL BANK OF KENYA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Kenya Limited and its subsidiaries, set out on pages 48 to 119 which comprise the consolidated and bank statements of financial position as at 31 December 2014, and the consolidated and bank statements of profit or loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated and bank statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiaries as at 31 December 2014 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act and the Banking Act.

Report on Other Legal Requirements

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

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

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA ***Fred Okwiri - P/No 1699.***

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
3 March 2015

Bank on better

National Bank

National Premium.

Experience it to believe it!

National Bank presents premium services for select customers. It's a relationship based on an understanding of how important you are and how premium your time. We promise you a whole new experience!

NATIONAL BANK OF KENYA

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
INTEREST INCOME	5	10,697,180	8,165,790	10,697,180	8,165,790
INTEREST EXPENSE	6	(3,899,729)	(2,527,676)	(3,907,301)	(2,527,676)
NET INTEREST INCOME		6,797,451	5,638,114	6,789,879	5,638,114
Fee and commission income		2,136,425	1,613,570	2,003,628	1,562,722
Fee and commission expense		(5,178)	(7,158)	(5,178)	(7,158)
NET FEE AND COMMISSION INCOME	7	2,131,247	1,606,412	1,998,450	1,555,564
Gains on foreign exchange dealings	8	434,229	309,323	434,229	309,323
Other operating income	9	571,267	941,303	571,267	941,303
Operating expenses	10(a)	(6,977,202)	(6,395,344)	(6,936,638)	(6,377,220)
Impairment losses on loans and advances	17(c)	(525,307)	(287,640)	(525,307)	(287,640)
OPERATING PROFIT		2,431,685	1,812,168	2,331,880	1,779,444
Restructuring costs	10(b)	(1,128,554)	-	(1,128,554)	-
PROFIT BEFORE TAXATION		1,303,131	1,812,168	1,203,326	1,779,444
TAXATION CHARGE	12	(432,429)	(699,365)	(402,628)	(689,548)
PROFIT FOR THE YEAR		870,702	1,112,803	800,698	1,089,896
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Gains on re-measurement of available for sale financial assets	16(c)	16,997	-	16,997	-
Items that will not be reclassified subsequently to profit or loss:					
Gain on revaluation of property (net)	23(b)	-	966,493	-	966,493
Deferred tax on revaluation	21	-	(289,948)	-	(289,948)
TOTAL OTHER COMPREHENSIVE INCOME		16,997	676,545	16,997	676,545
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		887,699	1,789,348	817,695	1,766,441
EARNINGS PER SHARE - basic & diluted	13	Sh 3.11	Sh 2.32	Sh 2.86	Sh 2.24

NATIONAL BANK OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2014

	Notes	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	14	17,195,213	9,500,412	16,965,482	9,392,681
Deposits and balances due from banking institutions	15	2,033,662	8,283,461	2,033,662	8,283,461
Government securities	16	30,091,040	27,400,349	30,091,040	27,400,349
Loans and advances to customers (net)	17	65,641,491	39,566,678	65,641,491	39,566,678
Other assets	18	2,000,651	2,733,320	1,898,187	2,733,320
Other investments	19	168,305	136,667	168,305	136,667
Due from a subsidiary company	20(a)	-	-	98,845	46,533
Corporate tax recoverable	12(c)	423,518	-	431,696	-
Investment in subsidiary companies	22	19,963	19,963	19,963	19,963
Property and equipment	23(a)	4,551,542	3,914,347	4,550,257	3,913,888
Operating lease prepayments	24	419	425	419	425
Intangible assets	25	966,192	1,000,095	965,539	999,070
TOTAL ASSETS		123,091,996	92,555,717	122,864,886	92,493,035
LIABILITIES					
Customer deposits	26	104,733,709	77,992,820	104,733,709	77,992,820
Deposits and balances due to banking institutions	27	5,077,625	824,858	5,077,625	824,858
Other liabilities	28	971,351	1,438,920	854,119	1,417,492
Taxation payable	12(c)	-	273,873	-	272,633
Due to a subsidiary company	20(b)	21,976	21,976	21,976	21,976
Borrowings	29(a)	38,085	31,070	38,085	31,070
Unclaimed dividends	21	25,227	83,801	25,460	83,894
Deferred tax liability					
TOTAL LIABILITIES		110,867,973	80,667,318	110,750,974	80,644,743
CAPITAL RESOURCES					
Share capital	30	7,075,000	7,075,000	7,075,000	7,075,000
Property revaluation surplus		1,188,147	1,201,022	1,188,147	1,201,022
Revenue reserve		3,378,423	3,277,535	3,268,312	3,237,428
Statutory reserve		565,456	334,842	565,456	334,842
Investment revaluation reserve		16,997	-	16,997	-
SHAREHOLDERS' FUNDS		12,224,023	11,888,399	12,113,912	11,848,292
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		123,091,996	92,555,717	122,864,886	92,493,035

The financial statements on pages 48 to 119 were approved and authorised for issue by the board of directors on 3 March 2015 and were signed on its behalf by:

Chairman

Vice Chairman

Managing Director

Secretary

NATIONAL BANK OF KENYA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserve Sh'000	Statutory reserve Sh'000	Investment revaluation Sh'000	Total Sh'000
At 1 January 2013		7,075,000	564,018	2,564,301	263,857	-	10,467,176
Total comprehensive income for the year		-	676,545	1,112,803	-	-	1,789,348
Transfer of excess depreciation		-	(56,487)	56,487	-	-	-
Deferred tax on excess depreciation		-	16,946	(16,946)	-		-
Transfer to statutory reserve		-	-	(70,985)	70,985	-	-
Dividends declared - year 2012	29(a)	-	-	(368,125)	-	-	(368,125)
At 31 December 2013		7,075,000	1,201,022	3,277,535	334,842	-	11,888,399
At 1 January 2014		7,075,000	1,201,022	3,277,535	334,842	-	11,888,399
Total comprehensive income for the year		-	-	870,702	-	16,997	887,699
Transfer of excess depreciation		-	(18,393)	18,393	-	-	-
Deferred tax on excess depreciation		-	5,518	(5,518)	-	-	-
Transfer to statutory reserve		-	-	(230,614)	230,614	-	-
Dividends declared - year 2013	29(a)	-	-	(552,075)	-	-	(552,075)
At 31 December 2014		7,075,000	1,188,147	3,378,423	565,456	16,997	12,224,023

The property revaluation surplus represents the surplus arising from the revaluation of properties and is not distributable.

The statutory reserve represents the excess of loan loss provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39, on financial instruments. The statutory reserve is not distributable.

The investment revaluation reserve represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Revenue reserve relates to the cumulative retained earnings from operations and is distributable.

NATIONAL BANK OF KENYA LIMITED

BANK STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	Share capital Sh'000	Revaluation surplus Sh'000	Revenue reserve Sh'000	Statutory reserve Sh'000	Investment revaluation Sh'000	Total Sh'000
At 1 January 2013		7,075,000	564,018	2,547,101	263,857	-	10,449,976
Total comprehensive income for the year		-	676,545	1,089,896	-	-	1,766,441
Transfer of excess depreciation		-	(56,487)	56,487	-	-	-
Deferred tax on excess depreciation		-	16,946	(16,946)	-	-	-
Transfer to statutory reserve		-	-	(70,985)	70,985	-	-
Dividends declared - year 2012	29(a)	-	-	(368,125)	-	-	(368,125)
At 31 December 2013		7,075,000	1,201,022	3,237,428	334,842	-	11,848,292
At 1 January 2014		7,075,000	1,201,022	3,237,428	334,842	-	11,848,292
Total comprehensive income for the year		-	-	800,698	-	16,997	817,695
Transfer of excess depreciation		-	(18,393)	18,393	-	-	-
Deferred tax on excess depreciation		-	5,518	(5,518)	-	-	-
Transfer to statutory reserve		-	-	(230,614)	230,614	-	-
Dividends declared - year 2013	29(a)	-	-	(552,075)	-	-	(552,075)
At 31 December 2014		7,075,000	1,188,147	3,268,312	565,456	16,997	12,113,912

The property revaluation surplus represents the surplus arising from the revaluation of properties and is not distributable.

The statutory reserve represents the excess of loan loss provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39, on financial instruments. The statutory reserve is not distributable.

The investment revaluation reserve represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Revenue reserve relates to the cumulative retained earnings from operations and is distributable.

NATIONAL BANK OF KENYA LIMITED
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2014

	Note	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash (used in)/generated from operations	31(a)	(1,025,184)	10,667,136	(1,171,263)	10,600,617
Taxation paid	12(c)	(1,188,394)	(200,734)	(1,165,391)	(184,837)
Net cash (used in)/generated from operating activities		(2,213,578)	10,466,402	(2,336,654)	10,415,780
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	23(a)	(1,057,100)	(703,005)	(1,056,024)	(703,005)
Purchase of intangible assets	25	(267,328)	(219,964)	(267,328)	(219,964)
Proceeds from disposal of property and equipment		26,804	2,425	26,804	2,425
Purchase of other investments	19	(1,280)	-	(1,280)	-
Net cash used in investing activities		(1,298,904)	(920,544)	(1,297,828)	(920,544)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	29(a)	(545,060)	(365,684)	(545,060)	(365,684)
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(4,057,542)	9,180,174	(4,179,542)	9,129,552
CASH AND CASH EQUIVALENTS AT 1 JANUARY		12,759,126	3,578,952	12,651,395	3,521,843
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31(b)	8,701,584	12,759,126	8,471,853	12,651,395

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2014

1. REPORTING ENTITY

National Bank of Kenya Limited (''the bank'') and its subsidiaries (together, the ''group'') provide banking, bancassurance, financial and related services. The bank is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya. The bank's shares are listed on the Nairobi Securities Exchange.

The address of the bank's registered office is as follows:

National Bank Building
18 Harambee Avenue
P.O Box 72866 City Square
00200 Nairobi.

2. ACCOUNTING POLICIES

Statement of compliance

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

For the Kenyan companies Act reporting purposes, in these financial statements the balance sheet is represented by/is equivalent to the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRS)

i) New standards and amendments to published standards effective for the year ended 31 December 2014

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities	The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. • To qualify as an investment entity, a reporting entity is required to: • obtain funds from one or more investors for the purpose of providing them with investment management services; • commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and measure and evaluate performance of substantially all of its investments on a fair value basis. Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities. Application of these standards has not had any impact on the disclosures or the amounts recognised in these financial statements as the group is not an investment entity (assessed based on the criteria set out in IFRS 10 as at 1 January 2014)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

i) New standards and amendments to published standards effective for the year ended 31 December 2014 (Continued)

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.The amendments have been applied retrospectively. As the group does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the group's financial statements.
Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets	The amendments to IAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements applicable to when the recoverable amount of an asset or a CGU is measured at fair value less costs of disposal. These new disclosures include the fair value hierarchy, key assumptions and valuation techniques used which are in line with the disclosure required by IFRS 13 Fair Value Measurements. As the group does not have any cash-generating units (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the group's financial statements.
Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting	The amendments to IAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness. As the group does not have any derivatives that are subject to novation, the application of these amendments has had no impact on the disclosures or on the amounts recognised in the company's financial statements.
IFRIC 21 Levies	IFRIC 21 addresses the issue as to when to recognise a liability to pay a levy imposed by a government. The Interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The Interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the group's financial statements.

2. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2014.

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IAS 16 and IAS 41	1 January 2016
Amendments to IAS 19	1 July 2014
Amendments to IFRS's Annual improvements 2010- 2012 cycle	1 July 2014
Amendments to IFRS's Annual improvements 2011- 2013cycle	1 July 2014

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods

The directors of the group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the group.

IFRS 15 Revenue from Contracts with Customers

In May 2014, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

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

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the group uses the straight-line method for depreciation and amortisation for its property, plant and equipment, and intangible assets respectively. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 36 Impairment of Assets regarding impairment testing of a cash generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations (Continued)

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The amendments to IFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016.

The directors of the group do not anticipate that the application of these amendments to IFRS 11 will have a material impact on the group's financial statements.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments to IAS 16 and IAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The directors of the company do not anticipate that the application of these amendments to IAS 16 and IAS 41 will have a material impact on the group's consolidated financial statements as the group is not engaged in agricultural activities.

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction in the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The directors of the group do not anticipate that the application of these amendments to IAS 19 will have a significant impact on the group's financial statements.

Annual Improvements to IFRSs 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below

- The amendments to IFRS 2 (i) change the definitions of 'vesting condition' and 'market condition'; and (ii) add definitions for 'performance condition' and 'service condition' which were previously included within the definition of 'vesting condition'. The amendments to IFRS 2 are effective for share-based payment transactions for which the grant date is on or after 1 July 2014.

- The amendments to IFRS 3 clarify that contingent consideration that is classified as an asset or a liability should be measured at fair value at each reporting date, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39 or a non-financial asset or liability. Changes in fair value (other than measurement period adjustments) should be recognised in profit and loss. The amendments to IFRS 3 are effective for business combinations for which the acquisition date is on or after 1 July 2014.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2014 and future annual periods (Continued)

Annual Improvements to IFRSs 2010-2012 Cycle (Continued)

- The amendments to IFRS 8 (i) require an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have 'similar economic characteristics'; and (ii) clarify that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if the segment assets are regularly provided to the chief operating decision-maker.
- The amendments to the basis for conclusions of IFRS 13 clarify that the issue of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. As the amendments do not contain any effective date, they are considered to be immediately effective.
- The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses.
- The amendments to IAS 24 clarify that a management entity providing key management personnel services to a reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required.

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

Annual Improvements to IFRSs 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.
The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

a) the property meets the definition of investment property in terms of IAS 40; and
b) the transaction meets the definition of a business combination under IFRS 3

The directors do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

iv) Early adoption of standards

The group did not early-adopt any new or amended standards in 2014.

2 ACCOUNTING POLICIES (Continued)

Basis of preparation
The consolidated financial statements have been prepared under the historical cost convention modified to include the revaluation of certain properties and investments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary for the year ended 31 December 2014. Subsidiaries are those companies in which the bank has power to exercise control over the operations of the entities. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group. Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

(a) Changes in ownership interests in subsidiaries without change of control

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

(b) Disposal of subsidiaries

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

Interest income and expense

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

Fees and commissions

In the normal course of business, the group earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Fees and commission income, including account servicing fees, investment management fees, placement fees, commission on insurance business rendered and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

2 ACCOUNTING POLICIES (Continued)

Foreign currency trading income

This arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in exchange rates. It comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised foreign exchange differences.

Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable.

Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and accumulated impairment losses.

Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss. Each year , the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves.

The group's policy is to professionally revalue property at least once every five years. The last valuation was carried out as at 31 December 2013.

Depreciation

Freehold land is not depreciated.

Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual instalments over their estimated useful lives. The annual rates in use are:

Buildings on long leasehold and freehold land	2%
Buildings on short leasehold land	Over the unexpired period of the lease
Computers	20%
Motor vehicles	20%
Equipment, furniture and fittings	12.5%

Short leasehold land refers to leases whose lease period does not exceed 50 years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Leasehold land

Payments to acquire leasehold interest in land are treated as operating lease prepayments and amortised over the period of the lease.

Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, costs that are clearly associated with an identifiable and unique product which

2 ACCOUNTING POLICIES (Continued)

Computer software development costs (Continued)

will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset.
Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

Work in progress

Work in progress relates to the acquisition of banking software and related hardware; and the construction of the banking halls for the branches under the branch expansion program. Costs include materials, direct labour and any other direct expenses incurred in respect of the project. Depreciation of these assets commences when the assets are ready for their intended use.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

(i) Current taxation

The corporate tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

(ii) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

(iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

2 ACCOUNTING POLICIES (Continued)

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which they arise.

Offsetting financial instruments

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

Statutory reserve

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

Property revaluation surplus

This arises on revaluation of land and buildings and is not distributable. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retain earnings. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

Investments revaluation reserve

This represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Retirement benefit costs

i) The group's defined contribution pension scheme

The group operates a defined contribution scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules. The group's contribution is charged to profit or loss.

ii) Statutory defined contribution pension scheme

The group also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The group's obligations under the scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Sh 200 per employee per month. The group's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period.
Certain employees of the group are entitled to service gratuity on resignation or termination of employment based on the salary at the time of such resignation or termination of services. The service gratuity is provided for in the financial statements as it accrues to each employee.

2 ACCOUNTING POLICIES (Continued)

Other investments

Other investments comprise quoted and unquoted equity instruments. Unquoted investments are classified as available for sale and are stated at cost less impairment loss where applicable. Quoted investments are classified as fair value through profit or loss and are stated at their fair value determined by the published price in the stock exchange markets they are traded in.

Financial instruments

i) Recognition

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument.

ii) Classification and Measurement

Financial assets

The group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise.

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances are recognized when cash is advanced to borrowers. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Held to maturity

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

Available-for-sale financial assets

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

ii) Classification and Measurement (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Where fair value cannot be reliably measured, the unquoted investment is carried at cost. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the group's right to receive payment is established.

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

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the group will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is included in profit or loss for the period.

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

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 then collectively assessed for impairment together with financial assets with similar risk characteristics.

Objective evidence that financial assets are impaired can include observable data that comes to the attention of the group about the following loss events:

- Significant financial difficulty of the borrower
- 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 a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

2 ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment and uncollectability of financial assets (Continued)

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

a) Assets carried at amortised cost

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

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

b) Assets carried at fair value

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

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

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cashflows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Financial liabilities

Debt and equity instruments are classified, as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

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

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Derecognition of financial liability

Financial liabilities are derecognised and the consideration paid and payable is recognized in profit or loss.

2 ACCOUNTING POLICIES (Continued)

Repurchase agreement transactions

Securities purchased from the Central Bank of Kenya under agreements to resell ('' reverse repo's''), are disclosed as balances with the Central Bank of Kenya as they are held to maturity after which they are repurchased and are not negotiable/discounted during the tenure. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective yield method.

Leasing

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

The group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Contingent liabilities

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

Fiduciary activities

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

Cash and cash equivalents

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

Dividends

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Comparatives

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

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

i) Critical accounting judgments in applying the group's accounting policies

Impairment losses on loans and advances

The group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Held -to-maturity investments

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

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the group considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The group also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equaling most of the sales proceeds at the end of the lease); and
- the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

ii) Key sources of estimation uncertainty

Property and equipment

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

Fair value measurement and valuation

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair values of an asset or liabilities, the group uses market –observable data to the extent it is available. Where level 1 inputs are not available, the group engages third party qualified valuers to perform the valuation.

4. CAPITAL MANAGEMENT

Regulatory capital

The group's objectives when managing capital are:

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

Capital adequacy and use of regulatory capital are monitored by management, employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

Banking business

The Central Bank of Kenya requires each bank to:

a) Hold the minimum level of regulatory capital of Shs 1 billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 8%;
c) Maintain a core capital of not less than 8% of total deposit liabilities and
d) Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

In addition to the above minimum capital adequacy ratios of 8% and 12% with effect from January 2013, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively, with effect from January 2015. The capital conservation buffer is made up of high quality capital which should comprise mainly of common equity, premium reserves and retained earnings.

The bank had met all the above requirements by the Central Bank of Kenya as at 31 December 2014 and 31 December 2013.

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

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

- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, qualifying subordinated liabilities and collective impairment allowances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

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

There have been no material changes in the bank's management of capital during the period.

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

	2014 Sh'000	2013 Sh'000
Tier 1 capital		
Ordinary share capital	7,075,000	7,075,000
Retained earnings	3,268,312	3,237,428
	10,343,312	10,312,428
Tier 2 capital		
Revaluation surplus (25%)	297,037	300,256
Statutory reserves	565,456	334,842
	862,493	635,098
Total regulatory capital	11,205,805	10,947,526
Risk weighted assets		
On- balance sheet	77,381,999	41,629,218
Off- balance sheet	3,051,022	3,703,575
	80,433,021	45,332,793

	2014	2013
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum - 12%)	13.9%	18.2%
Tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum - 8%)	12.9%	17.1%

4. CAPITAL MANAGEMENT (Continued)

Capital allocation

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

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Bank Risk and Bank Credit Committees, and is subject to review by the Bank Credit, Finance, Information & Technology Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives are also taken into account.

The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

	GROUP AND BANK	
	2014 Sh'000	**2013 Sh'000**
5. INTEREST INCOME		
Loans and advances	7,562,961	4,765,803
Deposits and balances due from banking institutions	149,749	170,859
Repurchase agreements with Central Bank of Kenya	5,467	58,781
Treasury bills – Held to maturity	259,057	447,744
Treasury bonds – Held to maturity	2,433,703	2,479,658
Treasury bonds – Held for trading	286,243	242,945
	10,697,180	8,165,790

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INTEREST EXPENSE

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
(a) On deposits:				
Fixed and short term deposits	2,767,534	1,691,936	2,775,106	1,691,936
Savings accounts	62,850	54,558	62,850	54,558
Demand deposits	782,709	629,792	782,709	629,792
	3,613,093	2,376,286	3,620,665	2,376,286
(b) On borrowed funds:				
Repurchase agreement with Central Bank of Kenya	8,455	5,949	8,455	5,949
Placements from banks and financial institutions	278,181	145,441	278,181	145,441
	286,636	151,390	286,636	151,390
	3,899,729	2,527,676	3,907,301	2,527,676

7. FEES AND COMMISSION

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
(a) INCOME				
Letters of credit	113,556	36,221	113,556	36,221
Foreign currency transactions fees and commissions	332	10,507	332	10,507
Local currency transactions fees and commissions	1,743,428	1,320,818	1,610,631	1,269,970
Ledger fees	279,109	246,024	279,109	246,024
	2,136,425	1,613,570	2,003,628	1,562,722
(b) EXPENSE				
Letters of credit	(5,178)	(7,158)	(5,178)	(7,158)
	2,131,247	1,606,412	1,998,450	1,555,564

Included in group local currency transactions fees and commissions in Sh 132,797,135 (2013 - Sh 50,848,299) relating to commissions collected by National Bank Insurance agency, a subsidiary company.

8. GAINS ON FOREIGN EXCHANGE DEALINGS

Gains on foreign currency dealings arose from dealings in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

	GROUP AND BANK	
	2014 Sh'000	2013 Sh'000
9. OTHER OPERATING INCOME		
Bad debts recovered	402,707	738,064
Fair value losses on government securities held for trading (note 16(c))	-	(2,888)
Securities trading held for trading	28,098	62,088
Rental income	42,870	55,324
Gain on disposal of property and equipment	18,987	2,425
Miscellaneous income	48,247	42,847
Gain on revaluation of other investment (note 19)	30,358	43,443
	571,267	941,303

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
10 (a) OPERATING EXPENSES				
Staff costs (Note 11)	3,673,389	3,570,349	3,643,040	3,557,848
Directors' emoluments- fees	21,124	19,677	21,124	19,677
Directors' emoluments- other (executive remuneration)	55,985	118,034	55,985	118,034
Depreciation (note 23)	349,603	326,847	349,353	326,847
Amortisation of operating lease prepayments (note 24)	6	148	6	148
Amortisation of intangible assets (note 25)	301,231	237,937	300,859	237,937
Repairs and maintenance	163,601	181,204	162,677	181,113
Security	238,232	169,184	238,232	168,950
Telephone and postage	169,608	150,497	169,571	150,050
Operating lease rentals	252,968	178,233	252,968	177,033
Rates and insurance	111,976	99,877	110,832	99,839
Contribution to deposit protection fund	103,712	93,032	103,712	93,032
Software fees	233,033	240,558	231,791	238,209
Training & research	36,880	44,267	36,830	44,161
Legal and other professional fees	230,479	183,779	230,479	183,538
Auditors' remuneration	9,817	9,107	9,117	8,612
Banking license and fee	10,396	8,575	10,396	8,565
Revaluation deficit (note 23(b))	-	13,895	-	13,895
Other operating expenses	1,015,162	750,144	1,009,666	749,732
	6,977,202	6,395,344	6,936,638	6,377,220
10 (b) RESTRUCTURING COSTS				
Voluntary early retirement costs	1,128,554	-	1,128,554	-

The above costs relates to the amounts incurred in the voluntary early retirement exercise conducted in the year.

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
11. STAFF COSTS				
Salaries and wages	3,045,075	2,998,238	3,018,953	2,987,412
Pension costs - defined benefit scheme	-	877	-	877
- defined contribution scheme	347,975	356,225	344,057	354,908
National Social Security Fund Contributions	4,392	4,139	4,364	4,125
Other staff costs	275,947	210,870	275,666	210,526
	3,673,389	3,570,349	3,643,040	3,557,848
12. TAXATION				
(a) Taxation charge				
Current taxation:				
Current taxation based on the chargeable profit for the year	500,732	838,874	470,791	829,161
Prior year current tax over provision	(9,729)	-	(9,729)	-
	491,003	838,874	461,062	829,161
Deferred taxation (note 21):				
Current year credit	(33,470)	(140,727)	(33,330)	(140,831)
Prior year (over)/under provision	(25,104)	1,218	(25,104)	1,218
	(58,574)	(139,509)	(58,434)	(139,613)
	432,429	699,365	402,628	689,548

12. TAXATION

(b) Reconciliation of taxation charge to the expected taxation based on accounting profit

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Accounting profit before taxation	1,303,131	1,812,168	1,203,326	1,779,444
Tax at the applicable rate of 30%	390,939	543,650	360,998	533,833
Tax effect of expenses not deductible for tax	170,655	167,479	170,655	167,479
Tax effect of income not taxable	(94,332)	(12,982)	(94,192)	(12,982)
Prior year current tax over provision	(9,729)	-	(9,729)	-
Prior year deferred taxation (over)/under provision	(25,104)	1,218	(25,104)	1,218
	432,429	699,365	402,628	689,548

(c) Corporate tax (recoverable)/payable

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
At 1 January	273,873	(364,267)	272,633	(371,691)
Charge for the year (note 12(a))	491,003	838,874	461,062	829,161
Paid in the year	(1,188,394)	(200,734)	(1,165,391)	(184,837)
At 31 December	(423,518)	273,873	(431,696)	272,633

13. EARNINGS PER SHARE

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

13. EARNINGS PER SHARE (Continued)

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
Earnings				
Profit after tax (Sh '000)	870,702	1,112,803	800,698	1,089,896
Preference dividend (Sh'000)				
- 1.5% negotiated preferential dividend	-	85,125	-	85,125
- Participation pari passu with ordinary shareholders	-	377,955	-	377,955
Total preference dividend	-	463,080	-	463,080
Earnings attributable to ordinary shareholders (Sh'000)	870,702	649,723	800,698	626,816
Weighted average number of ordinary shares ('000)				
At 31 December	280,000	280,000	280,000	280,000
Earnings per share				
Basic and diluted (Sh)	3.11	2.32	2.86	2.24

The holders of the non-cumulative preference shares are entitled to a non-cumulative dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the preference share capital, if the directors declare a dividend on ordinary shares. In addition, whenever the profits of the group in respect of any year are more than sufficient to pay the preferential dividend, the holders of preference shares are entitled to participate in the surplus pari passu with the holders of ordinary shares.

There were no potentially dilutive instruments outstanding at the end of the reporting period.

14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
Cash on hand	2,980,344	3,501,986	2,750,613	3,394,255
Balances with Central Bank of Kenya				
- Cash ratio requirement	5,449,666	4,108,110	5,449,666	4,108,110
- Other	8,765,203	1,890,316	8,765,203	1,890,316
	17,195,213	9,500,412	16,965,482	9,392,681

As at 31 December 2014, the cash ratio requirement was 5.25% (2013 – 5.25%) of eligible deposits. The cash ratio requirement funds are not available for the day to day operations of the bank and are non interest bearing.

	GROUP AND BANK 2014 Sh'000	2013 Sh'000
15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS		
Deposits due from banking institutions:		
Foreign currency deposits	695,756	91,779
Balances due from banking institutions:		
Local currency	1,337,906	7,801,164
Foreign currency	-	390,518
	1,337,906	8,191,682
	2,033,662	8,283,461
Maturity analysis of deposits and balances due from banking institutions:		
Maturity within 91 days after placement	2,033,662	8,191,682
Maturity 91 days after placement	-	91,779
	2,033,662	8,283,461

The effective interest rate on deposits due from banking institutions at 31 December 2014 was 8% (2013 – 8%).
Included in deposits due from banking institutions is an amount of Sh nil (2013-Sh 90,133,000) held under lien as collateral for letters of credit and guarantees issued to the group's customers.

	GROUP AND BANK 2014 Sh'000	2013 Sh'000
16. GOVERNMENT SECURITIES		
(a) Government securities are categorised as follows;		
Treasury bills held to maturity - At amortised cost	2,439,311	3,370,504
Treasury bonds held to maturity – At amortised cost	11,866,906	12,327,085
Treasury bonds held to maturity (long term non – negotiable) – At amortised cost*	11,171,207	11,167,034
Treasury bonds held for trading – At fair value through profit or loss	-	535,726
Treasury bonds – Available for sale (at fair value)	4,613,616	-
	30,091,040	27,400,349

16. GOVERNMENT SECURITIES (Continued)

*The Government of Kenya issued the group with long term non-negotiable treasury bonds amounting to Sh 20 billion on 1 June 2007 in part settlement of its debt with the group. In January 2008, the Government of Kenya cleared the balance of debt outstanding as at 31 December 2007 with a zero coupon non- negotiable bond of Sh1.062 billion. The bonds began maturing during the year 2010.

	GROUP AND BANK	
	2014	2013
	Sh'000	Sh'000
(b) Maturity analysis of Government securities:		
(i) Treasury bills held to maturity		
Maturing less than 1 year	2,439,311	3,370,504
(ii) Treasury Bonds - Held to Maturity		
Maturing less than 1 year	-	231,532
Maturing between 3 and 5 years	4,465,994	3,183,583
Maturity between 5 and 10 years	7,400,912	6,898,478
Maturity Over 10 years	-	2,013,492
	11,866,906	12,327,085
(iii) Treasury bonds- (long term non- negotiable bonds) Held to maturity		
Interest bearing:		
Maturing less than 1 year	-	-
Maturing between 3 and 5 years	5,155,202	5,075,833
Maturing between 5 and 10 years	6,016,005	6,091,201
	11,171,207	11,167,034
(iv) Treasury Bonds – Held for trading		
Maturing between 3 and 10 years	4,613,616	535,726
Total Government securities	30,091,040	27,400,349

16. GOVERNMENT SECURITIES (Continued)

	GROUP AND BANK	
	2014 Sh'000	2013 Sh'000
(c) Movement of treasury bonds held for trading –		
At fair value		
At 1 January	535,726	1,069,049
Purchased during the year	4,060,893	-
Disposed during the year	-	(530,435)
Fair value loss (note 9)	16,997	(2,888)
At 31 December	4,613,616	535,726

(d) The weighted average effective interest rate for Government securities is as summarized below:

	2014 %	2013 %
Treasury bills – At amortised cost	8.50	9.78
Treasury bonds – At amortised cost	11.84	11.72
Treasury bonds – At fair value through profit or loss	10.90	11.91

	GROUP AND BANK	
	2014	2013
	Sh'000	Sh'000
17 (a) LOANS AND ADVANCES TO CUSTOMERS		
Gross loans and advances:		
Overdrafts	4,223,799	3,392,783
Mortgages	16,049,000	12,227,092
Loans	47,765,445	25,818,249
	68,038,244	41,438,124
Provision for impaired loans and advances:		
- Individually assessed	(2,263,409)	(1,757,713)
- Collectively assessed	(133,344)	(113,733)
	(2,396,753)	(1,871,446)
NET LOANS AND ADVANCES TO CUSTOMERS	65,641,491	39,566,678

Included in net advances are loans and advances amounting to Sh 4,784,720,222 (2013 – Sh 2,411,936,000), net of specific provisions, which have been classified as non-performing (impaired).
Included in loans and advances to customers are staff loans amounting to Sh 4,851,152,443 (2013 – Sh 4,644,893,000). The effective interest rate on loans and advances was 14.90% as at 31 December 2014 (2013-16.01 %).

	GROUP AND BANK	
	2014	2013
	Sh'000	Sh'000
(b) ANALYSIS OF GROSS ADVANCES BY MATURITY		
Maturing:		
Within one year	16,230,099	6,272,820
One year to three years	10,797,191	8,393,113
Three to five years	36,149,114	11,342,567
Over five years	4,861,840	15,429,624
	68,038,244	41,438,124
(c) PROVISION FOR LOANS AND ADVANCES		
At 1 January	1,871,446	1,583,806
Additional provisions during the year	525,307	287,640
At 31 December	2,396,753	1,871,446

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
18. OTHER ASSETS				
Interbank clearing items	560,075	1,081,147	560,075	1,081,147
Rent and service charge receivable	44,192	43,028	44,192	43,028
Cabled transactions	-	389,921	-	389,921
Pesapoint deposit and Mpesa deposits	348,692	335,401	348,692	335,401
Other receivables	1,047,692	883,823	945,228	883,823
	2,000,651	2,733,320	1,898,187	2,733,320

19. OTHER INVESTMENTS

	GROUP AND BANK	
	2014 Sh'000	2013 Sh'000
Unquoted		
Available for sale investments		
At cost:		
IDB Capital Limited	1,501	1,501
African Export Import Bank (US$ 10,000)	8,895	7,615
SWIFT	2,161	2,161
	12,557	11,277
Quoted		
Fair value through profit or loss		
At market value:		
VISA International	137,362	111,192
Safaricom Limited	18,386	14,198
	155,748	125,390
	168,305	136,667
Movement in investments:		
At I January	136,667	93,224
Additions – African Export Import Bank	1,280	-
Fair value gain (note 9)	30,358	43,443
At 31 December	168,305	136,667

19. OTHER INVESTMENTS (Continued)

Visa International shares were allotted to the group at no cost by virtue of the group's membership to the Visa International network of users and are quoted at the New York Stock Exchange.

Safaricom shares are quoted on the Nairobi Securities Exchange.

Society for Worldwide Interbank Financial Telecommunication (SWIFT) shares are allocated to an institution based on the institution contribution to the SWIFT network. The share allocation takes place every three years the last of which was done in early 2012. The transfer value of one SWIFT was fixed at EUR 3,300 at the June 2011 General Meeting of shareholders.

The group does not have either management or voting control over the investee companies and it's percentage shareholding is insignificant.

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
20. RELATED PARTY BALANCES				
a) Due from a subsidiary				
NBK Insurance Agency Limited	-	-	(98,845)	(46,533)
b) Due to a subsidiary				
Natbank Trustee and Investment Services Limited	21,976	21,976	21,976	21,976
21. DEFERRED TAX LIABILITY				
The net deferred income tax liability is attributable to the following items:				
Liabilities:				
Revaluation surplus on property	486,798	492,316	486,798	492,316
Assets:				
Excess of depreciation over capital allowances	(195,568)	(206,305)	(195,335)	(206,211)
Unrealised fair value loss on Government securities	(225,175)	(168,090)	(225,175)	(168,090)
Gratuity provision	(825)	-	(825)	-
General provisions	(40,003)	(34,120)	(40,003)	(34,121)
	(461,571)	(408,515)	(461,338)	(408,422)
Net deferred tax liability	25,227	83,801	25,460	83,894
Movement on the deferred tax account is as follows:				
At 1 January	83,801	(66,638)	83,894	(66,441)
Prior year under/(over) provision –note 12 (a)	(25,104)	1,218	(25,104)	1,218
Charged to other comprehensive income	-	289,948	-	289,948
Profit or loss credit – note 12(a)	(33,470)	(140,727)	(33,330)	(140,831)
At 31 December	25,227	83,801	25,460	83,894

22. INVESTMENT IN SUBSIDIARY COMPANIES

	GROUP AND BANK	
	2014 Sh'000	**2013 Sh'000**
At cost:		
Natbank Trustee and Investment Services Limited, 100% owned	19,963	19,963
Kenya National Capital Corporation	-	-
Limited, 100% owned	-	-
NBK Insurance Agency Limited 100% owned	-	-
	19,963	19,963

All the subsidiary companies have their financial year ending 31 December and are incorporated as limited liability companies. They are incorporated in Kenya under the Companies Act and domiciled in Kenya.

All the subsidiaries are 100% owned and fully controlled by the Bank.

The group financial statements include the results of one of the subsidiaries, NBK Insurance Agency Limited which is consolidated and began trading in 2010. The principal activity of the company is the provision of insurance agency services.

The other 2 subsidiaries, Natbank Trustee and Investment Services Limited and Kenya National Capital Corporation Limited are dormant and have not been consolidated since they are insignificant. Consolidation of the subsidiaries therefore has no material impact on the group's net assets and profit for the year and hence does not add any real value to the shareholders.

The results and net assets of the consolidated subsidiary company are as outlined below:

NBK Insurance Agency Limited

	GROUP AND BANK	
Summarised statement of financial position	**2014 Sh'000**	**2013 Sh'000**
Total assets	235,288	109,307
Total liabilities	(125,177)	(69,200)
Net assets	110,111	40,107
Summarised statement of profit and loss and other comprehensive income		
Revenue	132,797	50,848
Profit before income tax	99,805	32,724
Income tax expense	(29,801)	(9,817)
Total comprehensive income for the year	70,004	22,907

22. INVESTMENT IN SUBSIDIARY COMPANIES (Continued)

NBK Insurance Agency Limited (Continued)

	2014 Sh'000	2013 Sh'000
Summarised statement of cash flows		
Net cash generated from operating activities	123,076	52,105
Net cash used in from investing activities	(1,076)	(1,483)
Net increase in cash and cash equivalents	122,000	50,622
Cash and cash equivalents at beginning of year	107,731	57,109
Cash and cash equivalents at end of year	229,731	107,731

The results and net assets of the dormant subsidiaries not consolidated are as outlined below:

(a) *Natbank Trustee and Investment Services Limited*

Summarised statement of financial position

	2014 Sh'000	2013 Sh'000
Total assets	21,976	21,976
Total liabilities	(19,963)	(19,963)
Net assets	2,013	2,013
Summarised statement of profit and loss and other comprehensive income	-	-
Summarised statement of cash flows	-	-

(b) *Kenya National Capital Corporation Limited*

	2014 Sh'000	2013 Sh'000
Summarised statement of financial position		
Total assets	-	-
Total liabilities	-	-
Net assets	-	-
Summarised statement of profit and loss and other comprehensive income	-	-
Summarised statement of cash flows		

23 (a) PROPERTY AND EQUIPMENT - GROUP

GROUP

	Land and buildings Sh'000	Long leasehold land and Buildings on long and short leasehold land Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	Leasehold Improvements Sh'000	Total Sh'000
COST OR VALUATION							
At 1 January 2013	233,217	1,328,986	1,170,320	850,637	257,036	753,489	4,593,685
Additions	-	-	198,432	40,629	262,264	201,680	703,005
Disposals	-	-	(14,837)	(31,241)	-	-	(46,078)
Write-off	-	-	(6,792)	(4,013)	-	-	(10,805)
Transfers from capital work in progress	-	31,939	12,259	25,818	(123,933)	53,917	-
Transfers from operating lease prepayments (note 24)	-	14,138	-	-	-	-	14,138
Reclassified to intangible assets (note 25)	-	-	-	-	(93,156)	-	(93,156)
Surplus on revaluation (note 23(b))	(28,217)	855,805	-	-	-	-	827,588
Deficit on revaluation (note 23(b))	-	(13,895)	-	-	-	-	(13,895)
At 31 December 2013	205,000	2,216,973	1,359,382	881,830	302,211	1,009,086	5,974,482
Comprising:							
Cost	-	-	1,359,382	881,830	302,211	1,009,086	3,552,509
Valuation – 2009	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2013	205,000	2,216,973	1,359,382	881,830	302,211	1,009,086	5,974,482
At 1 January 2014	205,000	2,216,973	1,359,382	881,830	302,211	1,009,086	5,974,482
Additions	-	-	264,193	88,457	697,072	7,378	1,057,100
Disposals	-	-	(77,902)		-	-	(77,902)
Write-off	-	-	-	(8,232)	(51,103)	(36,710)	(96,045)
Transfers from capital work in progress	-	-	-	-	(247)	247	-
At 31 December 2014	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
Comprising:							
Cost	-	-	1,545,673	962,055	947,933	980,001	4,435,662
Valuation – 2014	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2014	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT - GROUP (Continued)

GROUP

	Land and buildings	Long leasehold land and Buildings on long and short leasehold land	Motor vehicles, equipment, furniture and fittings	Computers	Capital work in progress	Leasehold Improvements	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
DEPRECIATION							
At 1 January 2013	8,644	88,297	665,240	771,556	-	386,633	1,920,370
Charge for the year	3,484	33,236	122,216	43,633	-	124,278	326,847
Disposal	-	-	(14,837)	(31,241)	-	-	(46,078)
Transfers	-	2,000	-	-	-	(2,000)	-
Transfer from operating lease prepayments	-	3,244	-	-	-	-	3,244
Write-off	-	-	(3,496)	(1,847)	-	-	(5,343)
Written back on revaluation	(12,128)	(126,777)	-	-	-	-	(138,905)
At 31 December 2013	-	-	769,123	782,101	-	508,911	2,060,135
At 1 January 2014	-	-	769,123	782,101	-	508,911	2,060,135
Charge for the year	-	32,708	115,341	48,734	-	152,820	349,603
Disposal	-	-	(70,085)	-	-	-	(70,085)
Write-off	-	-	-	(4,947)	-	(28,613)	(33,560)
At 31 December 2014	-	32,708	814,379	825,888	-	633,118	2,306,093
NET BOOK VALUE (Valuation)							
At 31 December 2014	205,000	2,184,265	731,294	136,167	947,933	346,883	4,551,542
At 31 December 2013	205,000	2,216,973	590,259	99,729	302,211	500,175	3,914,347
NET BOOK VALUE (Cost basis)							
At 31 December 2014	60,917	486,912	731,294	136,167	947,933	346,883	2,710,106
At 31 December 2013	62,160	501,227	590,259	99,729	302,211	500,175	2,055,761

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT – BANK (Continued)

BANK

	Land and buildings	Long leasehold land and Buildings on long and short leasehold land	Motor vehicles, equipment, furniture and fittings	Computers	Capital work in progress	Leasehold Improvements	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
COST OR VALUATION							
At 1 January 2013	233,217	1,328,986	1,170,320	850,637	257,036	753,489	4,593,685
Additions	-	-	198,432	40,629	262,264	201,680	703,005
Disposals	-	-	(14,837)	(31,241)	-	-	(46,078)
Transferred to subsidiary	-	-	(1,440)	(49)	-	-	(1,489)
Write-off	-	-	(6,792)	(4,013)	-	-	(10,805)
Transfers from capital work in progress	-	31,939	12,259	25,818	(123,933)	53,917	-
Reclassified to intangible assets (note 25)	-	-	-	-	(93,156)	-	(93,156)
Transfers from operating lease prepayments	-	14,138	-	-	-	-	14,138
Surplus on revaluation (note 23(b))	(28,217)	855,805	-	-	-	-	827,588
Deficit on revaluation (note 23(b))	-	(13,895)	-	-	-	-	(13,895)
At 31 December 2013	205,000	2,216,973	1,357,942	881,781	302,211	1,009,086	5,972,993
Comprising:							
Cost	-	-	1,357,942	881,781	302,211	1,009,086	3,551,020
Valuation – 2009	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2013	205,000	2,216,973	1,357,942	881,781	302,211	1,009,086	5,972,993
At 1 January 2014	205,000	2,216,973	1,357,942	881,781	302,211	1,009,086	5,972,993
Additions	-	-	263,343	88,231	697,072	7,378	1,056,024
Disposals	-	-	(77,902)		-	-	(77,902)
Write-off	-	-	-	(8,232)	(51,103)	(36,710)	(96,045)
Transfers from work in progress	-	-	-	-	(247)	247	-
At 31 December 2014	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
Comprising:							
Cost	-	-	1,543,383	961,780	947,933	980,001	4,433,097
Valuation – 2014	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2014	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT – BANK (Continued)

BANK

	Land and buildings	Long leasehold land and Buildings on long and short leasehold land	Motor vehicles, equipment, furniture and fittings	Computers	Capital work in progress	Leasehold Improvements	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
DEPRECIATION							
At 1 January 2013	8,644	88,297	665,240	771,556	-	386,633	1,920,370
Charge for the year	3,484	33,236	122,216	43,633	-	124,278	326,847
Disposal	-	-	(14,837)	(31,241)	-	-	(46,078)
Transfers	-	2,000	-	-	-	(2,000)	-
Transfered to subsidiary		-	(1,028)	(2)			(1,030)
Transfer from operating lease prepayments	-	3,244	-	-	-	-	3,244
Write-off	-	-	(3,496)	(1,847)	-	-	(5,343)
Written back on revaluation	(12,128)	(126,777)	-	-	-	-	(138,905)
At 31 December 2013	-	-	768,095	782,099	-	508,911	2,059,105
At 1 January 2014	-	-	768,095	782,099	-	508,911	2,059,105
Charge for the year	-	32,708	115,122	48,703	-	152,820	349,353
Disposal	-	-	(70,085)	-	-	-	(70,085)
Write-off	-	-	-	(4,947)	-	(28,613)	(33,560)
Written back on revaluation	-	-	-	-	-	-	-
At 31 December 2014	-	32,708	813,132	825,855	-	633,118	2,304,813
NET BOOK VALUE	205,000	2,184,265	730,251	135,925	947,933	346,883	4,550,257
At 31 December 2014							
At 31 December 2013	205,000	2,216,973	589,847	99,682	302,211	500,175	3,913,888
NET BOOK VALUE (Cost basis)							
At 31 December 2014	60,917	486,913	730,251	135,925	947,933	346,883	2,708,822
At 31 December 2013	62,160	501,227	589,847	99,682	302,211	500,195	2,055,302

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT – BANK (Continued)

Included in computers, motor vehicles, equipment, furniture and fittings are assets with a cost of Sh 1,022,207,636 (2013 – Sh 980,634,051) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 174,174,163 (2013 – Sh 174,569,654).

Included in land and buildings on long and short leasehold land are assets with a cost of Sh 1,042,610,644 (2013 – Sh 1,042,610,644) that have been charged to the National Social Security Fund to secure facilities previously granted to the bank by the Fund.

Capital work in progress mainly relates to the acquisition of banking software related hardware; and the branch expansion programme.

The group's properties were last revalued as at 31 December 2013 by independent valuers, Legend Valuers Limited, registered valuers and estate agents. Legend Valuers are members of the Institute of Surveyors of Kenya and have appropriate qualifications and relevant and recent experience in the fair value measurement of properties in the various locations in Kenya. Valuations were made on the basis of open market value for existing use and by reference to market evidence of recent transactions for similar properties. The book values of the properties were adjusted to the revalued amounts. Any increase arising on the revaluation was recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset were recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss.

Land and building with a total carrying value of Sh 2,389,266,000 (2013 Sh 2,421,973,000) are categorised under level 3 fair value hierachy as their value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices. There were no transfers between the various levels during the year.

	GROUP AND BANK		
(b) ANALYSIS OF SURPLUS ON REVALUATION	**Freehold land and buildings**	**Long leasehold land and Buildings on long and short leasehold land**	**Total**
31 December 2013	**Sh'000**	**Sh'000**	**Sh'000**
Surplus on revaluation – cost	22,000	926,366	948,366
Deficit on revaluation – cost	(50,217)	(70,561)	(120,778)
Net surplus on revaluation	(28,217)	855,805	827,588
Add back depreciation written back on revaluation	12,128	126,777	138,905
Revaluation surplus charged to other comprehensive income (gross)	(16,089)	982,582	966,493
Less deferred tax at 30%	4,827	(294,775)	(289,948)
Revaluation surplus charged to other comprehensive income (net)	(11,262)	687,807	676,545
Deficit on revaluation charged to profit or loss (note 10)	-	(13,895)	(13,895)

24. OPERATING LEASE PREPAYMENTS

	GROUP AND BANK	
	2014 Sh'000	2013 Sh'000
COST		
At 1 January	525	14,663
Transfers to long leasehold land (note 23)	-	(14,138)
At 31 December	525	525
AMORTISATION		
At 1 January	100	3,196
Transfers to long leasehold land (note 23)	-	(3,244)
Charge for the year	6	148
At 31 December	106	100
NET BOOK VALUE		
At 31 December	419	425

25. INTANGIBLE ASSETS

	GROUP Computer software	GROUP Capital work in progress	GROUP Total	BANK Computer software	BANK Capital work in progress	BANK Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2013	1,403,708	98,785	1,502,493	1,403,708	98,785	1,502,493
Additions	218,912	1,052	219,964	218,912	1,052	219,964
Reclassified from property and equipment (note 23)	93,156	-	93,156	93,156	-	93,156
Transfers from capital work in progress	98,785	(98,785)	-	98,785	(98,785)	-
Transfered to subsidiary	-	-	-	(1,863)	-	(1,863)
At 31 December 2013	1,814,561	1,052	1,815,613	1,812,698	1,052	1,813,750
At 1 January 2014	1,814,561	1,052	1,815,613	1,812,698	1,052	1,813,750
Additions	71,672	195,656	267,328	71,672	195,656	267,328
Transfers from capital work in progress	(15,808)	15,808	-	(15,808)	15,808	-
At 31 December 2014	1,870,425	212,516	2,082,941	1,868,562	212,516	2,081,078
AMORTISATION						
At 1 January 2013	577,581	-	577,581	577,581	-	577,581
Charge for the year	237,937	-	237,937	237,937	-	237,937
Transfered to subsidiary	-	-	-	(838)	-	(838)
At 31 December 2013	815,518	-	815,518	814,680	-	814,680
At 1 January 2014	815,518	-	815,518	814,680	-	814,680
Charge for the year	301,231	-	301,231	300,859	-	300,859
At 31 December 2014	1,116,749	-	1,116,749	1,115,539	-	1,115,539
NET BOOK VALUE						
At 31 December 2014	753,676	212,516	966,192	753,023	212,516	965,539
At 31 December 2013	999,043	1,052	1,000,095	998,018	1,052	999,070

Capital work in progress relates to ongoing work in respect of implementation of a new core banking system and acquisition of software and database licenses.

Included in intangible assets are assets with a cost of Sh 352,209,936 (2013 – Sh 326,414,564) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 70,441,987 (2013 – Sh 65,282,912).

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
26. CUSTOMER DEPOSITS				
Fixed deposit accounts	30,941,468	16,467,828	30,941,468	16,467,828
Savings accounts	15,702,825	14,914,548	15,702,825	14,914,548
Current and demand accounts	50,749,167	43,875,488	50,749,167	43,875,488
Foreign currency deposits	7,340,249	2,734,956	7,340,249	2,734,956
	104,733,709	77,992,820	104,733,709	77,992,820
MATURITY ANALYSIS OF CUSTOMER DEPOSITS				
a) From Government and parastatals:				
Payable within 90 days	55,154,173	39,051,005	55,154,173	39,051,005
Payable after 90 days and within one year	2,152,055	4,593,156	2,152,055	4,593,156
	57,306,228	43,644,161	57,306,228	43,644,161
b) From Private Sector and individuals				
Payable within 90 days	41,364,567	30,106,829	41,364,567	30,106,829
Payable after 90 days and within one year	6,062,914	4,241,830	6,062,914	4,241,830
	47,427,481	34,348,659	47,427,481	34,348,659
At 31 December	104,733,709	77,992,820	104,733,709	77,992,820

The effective interest rate on interest bearing customer deposits at 31 December 2014 was 4.1% (2013 – 1.8%).

27. DEPOSITS AND BALANCES DUE TO BANKING AND FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2014	2013	2014	2013
	Sh'000	Sh'000	Sh'000	Sh'000
Deposits due to banking and financial institutions	5,077,625	824,214	5,077,625	824,214
Balances due to banking and financial institutions	-	644	-	644
	5,077,625	824,858	5,077,625	824,858

The effective interest rate on deposits due to banking institutions at 31 December 2014 was 6.3% (2013 – 9.0%). The deposits are payable within 90 days after the end of the reporting period.

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
28. OTHER LIABILITIES				
Bills payable	183,949	247,909	183,949	247,009
Other liabilities	787,402	1,191,011	670,170	1,170,483
	971,351	1,438,920	854,119	1,417,492

29. DIVIDENDS

a) Unclaimed dividends

	2014 Sh'000	2013 Sh'000
At 1 January	31,070	28,629
Dividends declared – for year 2013/2012	552,075	368,125
Dividends paid	(545,060)	(365,684)
At 31 December	38,085	31,070

Unclaimed dividends relates to dividends declared in past years by the group but not collected by the shareholders or their representatives.

b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividend is to be proposed at the next annual general meeting in respect of 2014.

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

	GROUP AND BANK 2014 Sh'000	2013 Sh'000
30. SHARE CAPITAL		
Authorised:		
1,400,000,000 Ordinary shares of Sh 5 each	7,000,000	7,000,000
1,200,000,000 Preference shares of Sh 5 each	6,000,000	6,000,000
	13,000,000	13,000,000
Issued and fully paid:		
280,000,000 Ordinary shares of Sh 5 each	1,400,000	1,400,000
1,135,000,000 Preference shares of Sh 5 each	5,675,000	5,675,000
	7,075,000	7,075,000

The following special rights and privileges are attached to the preference shares:

a) The holders of such non-cumulative preference shares shall be entitled to receive out of the profits of the bank as a first charge a non-cumulative preferential dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the Preference Shares held by them respectively if the directors declare a dividend on the distributable profits.

b) Whenever the profits of the bank in respect of any year shall be more than sufficient to pay the preferential dividend aforesaid to the close of such year, the holders of the preference shares shall be entitled to participate in the surplus pari passu with the holders of the ordinary shares provided that such participation shall be non-cumulative.

c) In the event of the bank being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first place in repaying the holders of the said preference shares, and of any other shares entitled to rank pari passu with them, the full amount paid up thereon, and, subject as aforesaid, such surplus assets shall belong to and be divided among the other members of the company.

d) The holders of the preference shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the bank.

e) The preference shares aforesaid shall be issued to such persons and on such terms and conditions as the board may think fit.

31. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
a) *Reconciliation of profit before taxation to cash generated from operations*				
Profit before taxation	1,303,131	1,812,168	1,203,326	1,779,444
Adjustments for:				
Depreciation	349,603	326,847	349,353	326,847
Amortisation of intangible assets	301,231	237,937	300,859	237,937
Amortisation of operating lease prepayments	6	148	6	148
Write-off - fixed assets	62,485	5,462	62,485	5,462
Loss on revaluation of fixed assts	-	13,895	-	13,895
Gain on disposal of equipment	(18,987)	(2,425)	(18,987)	(2,425)
Gain on revaluation of other investments	(30,358)	(43,443)	(30,358)	(43,443)
Profit before working capital changes	1,967,111	2,350,589	1,866,684	2,317,865
Increase in cash ratio requirement	(1,341,556)	(1,492,995)	(1,341,556)	(1,492,995)
Increase in Government securities	(2,673,694)	(612,239)	(2,673,694)	(612,239)
Decrease in deposits and balances due from financial institutions	91,779	334,513	91,779	334,514
Increase in loans and advances to customers	(26,074,813)	(11,220,010)	(26,074,813)	(11,220,010)
Decrease /(increase)in other assets	732,669	(1,718,329)	835,133	(1,718,329)
Increase in amount due from subsidiary	-	-	(52,312)	(20,453)
Increase in customer deposits	26,740,889	22,801,395	26,740,889	22,801,395
(Decrease)/increase in other liabilities	(467,569)	254,172	(563,373)	240,829
Decrease in short term borrowings	-	(29,960)	-	(29,960)
Cash (used in)/generated from operations	(1,025,184)	10,667,136	(1,171,263)	10,600,617

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. NOTES TO THE STATEMENT OF CASH FLOWS

b) Analysis of the balances of cash and cash equivalents

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
Cash on hand (note 14)	2,980,344	3,501,986	2,750,613	3,394,255
Balances with Central Bank of Kenya (note 14)	8,765,203	1,890,316	8,765,203	1,890,316
Deposits and balances due from banking institutions (note 15)	2,033,662	8,191,682	2,033,662	8,191,682
Deposits and balances due to banking institutions (note 27)	(5,077,625)	(824,858)	(5,077,625)	(824,858)
	8,701,584	12,759,126	8,471,853	12,651,395

C) Analysis of the increase in Government securities

	GROUP 2014 Sh'000	GROUP 2013 Sh'000	BANK 2014 Sh'000	BANK 2013 Sh'000
Movement in Government securities (note 16)	(2,690,691)	(612,239)	(2,690,691)	(612,239)
Non- cashflow items- revaluation of available for sale bonds (note 16(c))	16,997	-	16,997	-
Included in the cashflow statement	(2,673,694)	(612,239)	(2,673,694)	(612,239)

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk- includes currency, interest rate and price risk

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework. The board has established a Board Audit and Risk Committee and a risk department to assist in the discharge of this responsibility. The board has also established the Credit, Finance, Information & Technology Committee, the tender committee and operations and marketing committees which are responsible for developing and monitoring risk management in their respective areas.

These committees comprise of non executive members and report regularly to the Board of Directors

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 group's Audit and Risk 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 Audit and Risk Committee is assisted in these functions by internal audit and the risk departments. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The risk department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

(i) 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 its Credit, Finance, Information & Technology Committee. A separate credit department, reporting to the Credit, Finance, Information & Technology Committee, is responsible for oversight of the group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Finance, Information & Technology Committee or the Board of Directors as appropriate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(i) Credit risk (Continued)

- *Reviewing and assessing credit risk*. The Credit department 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 gradings* 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 eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Credit, Finance, Information & Technology Committee.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department 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.

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

The table below represents the maximum credit risk exposure to the group at 31 December 2014 and 2013, without taking into account any collateral held or other credit enhancements attached.

		GROUP AND BANK	
		2014	**2013**
		Sh'000	**Sh'000**
	On- balance sheet items		
a)	Government securities held for trading	-	535,726
	Government securities available for sale	4,613,616	-
	Government securities held to maturity	25,477,424	26,864,623
		30,091,040	27,400,349
b)	Deposits and balances due from banking institutions		
	- Local Currency	1,337,906	8,191,682
	- Foreign Currency	695,756	91,779
		2,033,662	8,283,461

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(i) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

		GROUP AND BANK	
		2014 Sh'000	**2013 Sh'000**
c)	Loans and advances to customers:		
	Loans to individuals:		
	- Overdrafts	381,155	355,518
	- Credit cards	104,744	70,894
	- Term loans	15,787,547	19,257,367
	- Mortgages	5,066,290	4,991,080
		21,339,736	24,674,859
	Loans to corporate entities:	4,169,554	2,961,371
	- Overdrafts	-	5,000
	- Credit cards	31,088,692	6,560,881
	- Term loans	11,440,262	7,236,013
	- Mortgages		
		46,698,508	16,763,265
		68,038,244	41,438,124
d)	Other assets		
	Interbank clearing items	560,075	1,081,147
	Total on balance sheet items	100,723,021	78,203,081

The group does not perceive any significant credit risk on the following financial assets:

- Investments in Government securities and Central Bank of Kenya.
- Off balance sheet items

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the group has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks with high credit ratings.

Classification of loans and advances

The table below represents the maximum credit risk exposure to the group at 31 December, after taking into account credit enhancements attached.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(i) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

2014

Loans and advances to customers

	GROUP AND BANK			
	Gross amounts Shs'000	Impairment Allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	56,545,319	-	56,545,319	86
Past due but not impaired	4,444,796	(133,344)	4,311,452	7
Impaired	7,048,129	(2,263,409)	4,784,720	7
	68,038,244	(2,396,753)	65,641,491	100
2013				
Neither past due nor impaired	33,477,399	-	33,477,399	85
Past due but not impaired	3,791,076	(113,733)	3,677,343	9
Impaired	4,169,649	(1,757,713)	2,411,936	6
	41,438,124	(1,871,446)	39,566,678	100

Each business unit is required to implement group credit policies and procedures, with credit approval authorities delegated from the group Credit, Finance, Information & Technology Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the group Credit, Finance, Information & Technology 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 the Internal Audit department.

Impaired loans

Impaired loans and advances are those for which the group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the group's internal credit risk grading system as required by the regulator.

According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non performing.

Past due but not impaired loans

Loans and advances 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. Loans under this category are no more than 90 days overdue.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(i) Credit risk (Continued)

Loans and advances that are neither past due nor impaired

The group classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a statutory provision at 1% is made and appropriated under statutory reserves.

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 groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy

The group writes off a loan / security balance (and any related allowances for impairment losses) 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 will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral held

The group holds collateral against loans and advances to customers in the form of cash, mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2014 or 2013.

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)
32. FINANCIAL RISK MANAGEMENT
(i) Credit risk (Continued)

Loans and advances to customers

	2014 Sh'000	2013 Sh'000
Against individually impaired		
Property	3,993,881	2,394,344
Against collectively impaired		
Property	3,815,743	2,285,660
Other		-
Against past due but not impaired		
Property	8,116,480	9,181,758
Other	-	-
Against neither past due nor impaired		
Property	31,469,853	8,374,303
Other	-	6,802,388
Total	47,395,957	29,038,453

Concentrations of risk

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

a) Advances to customers- gross

	GROUP AND BANK			
	2014 Sh'000	%	2013 Sh'000	%
Agriculture	2,923,843	4	2,721,268	7
Manufacturing	3,556,008	5	3,801,256	9
Wholesale and retail trade	6,885,316	10	3,845,713	9
Transport and communications	2,899,333	4	3,825,713	9
Mining and quarrying	481,955	1	618,480	2
Building and construction	7,789,566	12	1,320,217	3
Foreign trade	1,377,063	2	170,561	-
Business services	624,253	1	4,540,102	11
Real estate	16,506,521	24	12,227,092	30
Social community and personal services	23,912,163	35	5,494,250	13
Others	1,082,223	2	2,873,472	7
	68,038,244	100	41,438,124	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT
(i) Credit risk (Continued)
Concentrations of risk (Continued)

b) Off balance sheet items (letters of credit and guarantees)

	2014 Sh'000	%	2013 Sh'000	%
Social community and personal services	163,891	3	122,540	3
Business services	402,222	8	300,739	8
Wholesale and retail	1,095,804	20	819,326	20
Transport and communication	924,675	17	691,374	17
Manufacturing	1,233,630	23	922,378	23
Other	1,530,535	29	1,144,372	29
	5,350,757	100	4,000,729	100

Settlement risk

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

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

(ii) Liquidity risk

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 department 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.

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. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month.
Details of the reported bank ratio of net liquid assets to deposits and balances due to banking institutions and customer deposits at the reporting date and during the reporting period were as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(ii) Liquidity risk (Continued)
Exposure to liquidity risk (Continued)

	2014	2013
At 31 December	32%	42%
Average for the period	28%	39%
Maximum for the period	39%	53%
Minimum for the period	21%	29%
Statutory minimum requirement	20%	20%

The table below presents the cash flows payable by the group under non-derivative financial liabilities by the remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the group manages the inherent liquidity risk based on expected undiscounted inflows.

	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Customer deposits	104,733,709	88,733,289	12,208,436	3,791,984	-	-	104,733,709
Deposits and balances due to banking institutions	5,077,625	5,073,978	3,647	-	-	-	5,077,625
Due to a subsidiary company	21,976	-	-	-	-	21,976	21,976
Total financial liabilities	**109,833,310**	**93,807,267**	**12,212,083**	**3,791,984**	**-**	**21,976**	**109,833,310**
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	17,195,213	17,100,635	45,256	49,322	-	-	17,195,213
Deposits and balances due from banking institutions	2,033,662	1,984,489	23,530	25,643	-	-	2,033,662
Government securities held for trading	4,613,616	-	-	-	-	4,613,616	4,613,616
Government securities held to maturity	25,477,424	1,366,528	-	1,459,982	8,366,757	14,284,157	25,477,424
Loans and advances to customers (net)	65,641,491	13,381,467	2,611,545	5,845,665	23,413,850	20,388,964	65,641,491
Other assets-Interbank clearing items	560,075	560,075	-	-	-	-	560,075
Total financial assets	**115,521,481**	**34,393,194**	**2,680,331**	**7,380,612**	**31,780,607**	**39,286,737**	**115,521,481**
NET LIQUIDITY GAP	**5,688,171**	**(59,414,073)**	**(9,531,752)**	**3,588,628**	**31,780,607**	**39,264,761**	**5,688,171**
31 December 2013							
Total financial liabilities	78,839,654	65,717,818	4,402,027	8,697,833	-	21,976	78,839,654
Total financial assets	85,832,047	28,861,524	858,863	7,237,465	13,146,225	35,727,970	85,832,047
NET LIQUIDITY GAP	**6,992,393**	**(36,856,294)**	**(3,543,164)**	**(1,460,368)**	**13,146,225**	**35,705,994**	**6,992,393**

32. FINANCIAL RISK MANAGEMENT

(ii) Liquidity risk (Continued)

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

The gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

iii) 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

Overall responsibility for management of market risk rests with a management committee of the group, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

a) Interest rate risk

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

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

ALCO closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(iii) Market risks (Continued)

a) Interest rate risk (Continued)

The table below summarises the exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The group does not bear an interest rate risk on off balance sheet items.

	Less than 1 month	1 month less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years	Over 5 years	Non-interest bearing	Total
31 December 2014									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	17,195,213	17,195,213
Deposits and balances due from banking institutions	42,121	44,097	20,767	-	-	-	2,307	1,924,370	2,033,662
Government securities held for trading	-	-	-	-	-	-	4,613,616	-	4,613,616
Government securities held to maturity	-	1,366,528	-	-	1,459,982	8,366,757	14,284,157	-	25,477,424
Loans and advances to customers (net)	13,381,467	2,611,545	1,402,149	4,443,516	9,283,279	14,130,571	20,388,964	-	65,641,491
Total financial assets	**13,423,588**	**4,022,170**	**1,422,916**	**4,443,516**	**10,743,261**	**22,497,328**	**39,289,044**	**19,119,583**	**114,961,406**
FINANCIAL LIABILITIES									
Customer deposits	20,046,132	11,410,260	2,563,900	1,228,084	-	-	-	69,485,333	104,733,709
Deposits and balances due to banking institutions	-	5,077,625	-	-	-	-	-	-	5,077,625
Due to a subsidiary company	-	-	-	-	-	-	-	21,976	21,976
Total financial liabilities	**20,046,132**	**16,487,885**	**2,563,900**	**1,228,084**	**-**	**-**	**-**	**69,507,309**	**109,833,310**
INTEREST RATE SENSITIVITY GAP	**(6,622,544)**	**(12,465,715)**	**(1,140,984)**	**3,215,432**	**10,743,261**	**22,497,328**	**39,289,044**	**(50,387,726)**	**5,128,096**
31 December 2013									
Total financial assets	9,861,805	848,638	4,052,580	2,901,622	9,273,668	16,555,997	23,899,010	17,357,580	84,750,900
Total financial liabilities	22,886,513	8,731,979	2,685,859	1,074,262	-	-	-	43,461,041	78,839,654
INTEREST RATE SENSITIVITY GAP	**(13,024,708)**	**(7,883,341)**	**1,366,721**	**1,827,360**	**9,273,668**	**16,555,997**	**23,899,010**	**(26,103,461)**	**5,911,246**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(iii) Market risks (Continued)

a) Interest rate risk (Continued)

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

Interest rate risks – Increase/decrease of 5% in Net Interest Margin

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

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

The table below sets out the impact on future net interest income of an incremental 5% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2014.

	Amount at 31-Dec Sh'000	Scenario 1 5% increase in net interest margin Sh'000	Scenario 2 5% decrease in net interest margin Sh'000
2014			
Profit Before Taxation	1,203,326	1,542,820	863,832
Adjusted Core Capital	10,343,312	10,580,958	10,105,666
Adjusted Total Capital	11,205,805	11,443,450	10,968,159
Risk Weighted Assets (RWA)	80,433,021	80,433,021	80,433,021
Adjusted Core Capital to RWA	12.86%	13.15%	12.56%
Adjusted total Capital to RWA	13.93%	14.23%	13.64%
2013			
Profit Before Taxation	1,779,444	1,985,619	1,573,269
Adjusted Core Capital	10,253,450	10,397,772	10,109,128
Adjusted Total Capital	10,888,546	11,032,869	10,744,225
Risk Weighted Assets (RWA)	45,332,793	45,342,793	45,322,793
Adjusted Core Capital to RWA	17.03%	17.27%	16.80%
Adjusted total Capital to RWA	18.09%	18.32%	17.85%

Assuming no management actions, a series of such rises would increase/decrease net interest income for 2014 by Sh 339,493,950 (2013- Sh. 206,175,000). Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.24% and 0.24% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.24% and 0.24% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(iii) Market risks (Continued)

b)Foreign exchange risk

The group operates wholly within Kenya and its assets and liabilities are carried in local currency.

The group maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The group is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The group's currency position and exposure are managed within the exposure guideline of 10% (2014 - 10%) of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The exchange rates used for translating the major foreign currency balances at the year end were as follows:

	2014 Sh	2013 Sh
US Dollar	90.70	86.45
GB Pound	141.45	142.87
EURO	110.18	119.05

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

b)Foreign exchange risk (Continued)

The table below summarises the group's exposure to foreign currency exchange rate risk as at the end of the reporting period.

	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	OTHER Sh'000	TOTAL Sh'000
Cash and balances with Central Bank of Kenya	15,828,758	1,092,093	173,645	68,436	32,281	17,195,213
Deposits and balances due from banking institutions	1,337,906	644,280	2,966	36,271	12,239	2,033,662
Government securities held for trading	4,613,616	-	-	-	-	4,613,616
Government securities held to maturity	25,477,424	-	-	-	-	25,477,424
Loans and advances to customers (net)	54,349,734	11,291,654	95	8	-	65,641,491
Other investments	30,943	137,362	-	-	-	168,305
Other assets-Inter bank clearing items	560,075	-	-	-	-	560,075
Total financial assets	**102,198,456**	**13,165,389**	**176,706**	**104,715**	**44,520**	**115,689,786**
FINANCIAL LIABILITIES						
Customer deposits	97,369,134	7,271,998	17,326	66,020	9,231	104,733,709
Deposits and balances due to banking institutions	724,833	4,253,777	99,013	2	-	5,077,625
Due to a subsidiary company	21,976	-	-	-	-	21,976
Total financial liabilities	**98,115,943**	**11,525,775**	**116,339**	**66,022**	**9,231**	**109,833,310**
NET BALANCE SHEET POSITION	**4,082,513**	**1,639,614**	**60,367**	**38,693**	**35,289**	**5,856,476**
NET OFF BALANCE SHEET POSITION	4,908,532	291,136	84,982	66,107	-	5,350,757
As at 31 December 2013						
Total financial assets	81,597,479	3,921,633	162,262	227,205	60,135	85,968,714
Total financial Liabilities	75,272,601	3,470,076	12,583	80,755	3,638	78,839,653
NET BALANCE SHEET POSITION	**6,324,878**	**451,557**	**149,679**	**146,450**	**56,497**	**7,129,061**
NET OFF BALANCE SHEET POSITION	**6,146,256**	**411,963**	**13,956**	**110,737**	**50,718**	**6,733,630**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT

(iii) Market risks (Continued)

b) Foreign exchange risk

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

The Foreign exchange risks sensitivity analysis is based on the following assumptions:

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

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2014.

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

	Amount at 31-Dec Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 0% depreciation Sh'000
2014			
Profit Before Taxation	1,203,326	1,025,930	1,380,722
Adjusted Core Capital	10,343,312	10,219,135	10,467,489
Adjusted Total Capital	11,205,805	11,081,627	11,329,982
Risk Weighted Assets (RWA)	80,433,021	80,433,021	80,433,021
Adjusted Core Capital to RWA	12.86%	12.71%	13.01%
Adjusted total Capital to RWA	13.93%	13.78%	14.09%
2013			
Profit Before Taxation	1,779,444	1,728,523	1,830,365
Adjusted Core Capital	10,253,450	10,202,529	10,304,371
Adjusted Total Capital	10,888,546	10,837,626	10,939,468
Risk Weighted Assets (RWA)	45,332,793	45,330,693	45,350,393
Adjusted Core Capital to RWA	17.03%	16.95%	17.11%
Adjusted total Capital to RWA	18.09%	18.00%	18.17%

Assuming no management actions, a series of such appreciation /depreciation would decrease/ increase operating income for 2014 by Sh 175,198,700 (2013- Sh 50,921,000). In addition, a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.1% respectively, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.01% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iv) Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

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

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

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

At 31 December 2014		**GROUP AND BANK**		
	Level 1 Sh'000	**Level 2 Sh'000**	**Level 3 Sh'000**	**Level 4 Sh'000**
Financial Assets				
Government securities held for trading	4,613,616	-	-	4,613,616
Equity investments	155,748	-	-	155,748
Non- financial Assets				
Land and buildings	-	-	2,389,266	2,389,266
	4,769,364	-	2,389,266	7,158,630
At 31 December 2013				
Financial Assets				
Government securities held for trading	535,726	-	-	535,726
Equity investments	125,390	-	-	125,390
Non- financial Assets				
Land and buildings	-	-	2,421,973	2,421,973
	661,116	-	2,421,973	3,083,089

There were no transfers between levels 1, 2 and 3 during the year.

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. CONTINGENCIES AND COMMITTMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

In common with other banks, the group conducts business involving acceptances, guarantees, performances and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2014 Sh'000	2013 Sh'000
Letters of credit	1,514,381	1,531,472
Letters of guarantee	3,828,833	2,980,810
Other	449,496	392,944
Forwards and swaps	2,228,400	-
Pending lawsuits	-	64,800
	8,021,110	4,970,026

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

Letters of guarantee are issued by the group to guarantee performance by the customers to third parties. The group will only be required to meet these obligations in the event of customer default.

The pending lawsuits relate to claims by customers and former employees against the group in the normal course of business. The amounts claimed have not been provided in the financial statements since the directors, based on advice received from the group's legal advisors, are of the opinion that no significant claims will crystallise.

Concentrations of letters of credit and guarantees are covered under note 32.

	2014 Sh'000	2013 Sh'000
b) Capital commitments		
Authorised and contracted for	212,622	415,489
Authorised but not contracted for	-	-

The authorized and contracted capital commitments largely relate to procurement of software and hardware needed in the implementation of a channel manager, ERP system and a Bancassurance system.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. CONTINGENCIES AND COMMITTMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

c) Operating lease arrangements

The group as a lessor

Rental income earned during the year was Sh 42,870,000 (2013 – Sh 55,324,000). At the end of the reporting period, the group had contracted with tenants for the following future lease receivables:

	2014 Sh'000	2013 Sh'000
Within one year	22,569	57,915
In the second to fifth year inclusive	40,069	94,178
After five years	-	12,705
	62,638	164,798

Leases are negotiated for an average term of 5 years and rentals are reviewed annually. The leases are cancellable with a penalty. Tenants are required to pay full rent for the quarter in which termination of lease notice is given.

The group as a lessee

At the end of the reporting period, the group had outstanding commitments under operating leases which fall due as follows:

	2014 Sh'000	2013 Sh'000
Within one year	158,067	154,705
In the second to fifth year inclusive	505,986	253,655
After five years	55,924	8,088
	719,977	416,448

Operating lease payments represent rentals payable by the group for some of its branch premises. Leases are negotiated for an average term of 6 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. RETIREMENT BENEFIT OBLIGATIONS

The group makes contributions to a defined contribution pension scheme and a defined contribution provident fund in respect of eligible non unionisable and unionisable employees respectively. It also contributes to the statutory defined pension scheme, the National Social Security Fund. Contributions to the company plans are determined by the rules of the plan and totalled Sh 347,975,000 (2013 – Sh 356,225,000) in the year. Contributions to the statutory scheme are determined by local statute and are currently set at Sh. 200 per employee per month. For the year ended 31 December 2014, the group contributed Sh 4,200,400 (2013 – Sh. 4,139,000) to the statutory scheme.

Previously, the group had been operating a defined benefit scheme. This was converted to a defined contribution scheme on 1 July 2004. As at the conversion date, six members declined to convert and elected to remain in the Defined Benefit Scheme. However, in 2006, five out of the six members who had initially declined conversion accepted to convert, leaving only one member in the defined benefit scheme who stayed in the scheme until he left the group's employment during the year ended 31 December 2014. No amounts have been recognized in profit or loss in respect of this defined benefit plan during the year (2013 – Sh 876,996). The group's liability in the pension scheme is limited to the extent of its unpaid contributions to the scheme.

The scheme's funds are jointly managed by Genesis Kenya Investment Management Limited and Pine Bridge Investment .

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placings are made in the bank by directors and companies associated to directors. Advances to customers at 31 December 2014 include advances and loans to companies associated to directors.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

	2014 Sh'000	2013 Sh'000
(a) Advances to customers:		
Directors (note 35(d))	113,283	88,024
Employees	4,851,152	4,644,893
	4,964,435	4,732,917
(b) Customer deposits:		
Directors (note 35(d))	46,667	40,267
Natbank Trustee & Investment services Limited	21,976	21,976
National Social Security Fund	3,983,418	676,944
	4,052,061	739,187
Contributions to the statutory defined contribution pension scheme, the National Social Security Fund	4,200	4,125

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. RELATED PARTY TRANSACTIONS (Continued)

(d) The volumes of related party transactions with directors during the year and the outstanding amounts at the year-end are as follows:

	2014 Sh'000	2013 Sh'000
Loans and advances:		
At 1 January	88,024	6,322
Advanced during the year	22,182	89,944
Interest charged	2,701	895
Repayments during the year	(17,281)	(9,137)
At 31 December	95,626	88,024
Deposits:		
At 1 January	40,267	11,364
Received during the year	90,973	131,664
Withdrawn during the year	(84,573)	(102,761)
At 31 December	46,667	40,267

Key management compensation

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

	GROUP		BANK	
	2014 Sh'000	2013 Sh'000	2014 Sh'000	2013 Sh'000
Salaries and other short-term employment benefits	183,144	308,748	183,144	300,990
Pension and gratuity	14,973	7,195	14,973	7,195
	198,117	315,943	198,117	308,185
Directors' remuneration				
Fees for services as a director	21,124	19,677	21,124	19,677
Other emoluments (included in key management compensation above)	55,985	118,034	55,985	118,034
	77,109	137,711	77,109	137,711

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NOTES TO THE FINANCIAL STATEMENTS (Continued)

36. FIDUCIARY ACTIVITIES

The group holds asset security documents on behalf of customers with a value of Sh 3,952,972,100 (2013 – Sh 6,252,306,147).

Most of these securities are held by the custody services department. The assets held comprise deposits with financial institutions, Government securities, and quoted and unquoted securities.

37. SEGMENTAL REPORTING

The group adopted IFRS 8 Operating Segments which became effective for the periods beginning 1 January 2011. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the corporation that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess performance. Thus, under IFRS 8, the major reporting segment is banking with other income comprising less than 10% of total income. This is the information which has been reported in these financial statements. Therefore, no further segmental information has been provided.

38. ASSETS PLEDGED AS SECURITY

No deposits due from foreign banks (Sh 2013 - Sh 91,779,073) were under lien as collateral for the letters of credit and guarantees issued to the group's customers.

39. NON FINANCIAL DISCLOSURES

STRATEGIC RISK

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It is a risk that can significantly impact on the achievement of the institution's vision and strategic objectives as documented in the strategic plan.

Who manages strategic risk?

The Board of Directors is responsible for the preparation and implementation of the bank's strategy. The board delegates implementation to the managing director and the senior management team who execute strategy. The Board through its Board Audit and Risk Committee (BARC) works together with senior management to ensure that the bank meets its strategic goals and objectives.

How we manage strategic risk

The bank sets strategic goals and objectives, evaluates its strategic position and develops appropriate strategies and then translates those strategies into a 5 year Strategic plan.

Each department or branch head is responsible for directing strategies in their respective units and ensures that such strategies are aligned to the overall strategy of the Bank. Regular comparison of actual performance to desired outcomes serves as an important check on the success of implementing approved strategies, and allows management to take timely remedial actions to address significant deviations from set targets.

The bank's capital planning is risk-based. It takes into account the banks current and future capital needs, anticipated capital expenditures, dividend payment forecasts and desirable capital levels.

The bank employs stress-testing techniques in its strategic planning and management processes to assess any potential threats to the implementation of the strategies.

The bank's internal control system subjects bank strategies to audit reviews. The results of such audit reviews, including any issues and weaknesses identified are reported to the Board and senior management. The Board and senior management are responsible for effective implementation of strategies. Reports on strategic issues are made on quarterly basis.

39. NON FINANCIAL DISCLOSURES (Continued)

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks that arise in the normal course of business.

Who manages operational risk?

Senior management is responsible for management of operational risks by implementing and maintaining throughout the institution, policies, processes and systems for managing operational risk in all material products, services and activities, consistent with the bank's risk appetite and tolerance.

How does the bank manage operational risk?

The bank has established risk management and internal control procedures to address operational risks.
Some of the banks policies rules and procedures include; procurement policy; ant-money laundering policy; asset management policy; outsourcing policy; capital management policy; code of conduct; delegation of authority; segregation of duties; audit coverage; compliance; succession planning; mandatory leave; staff compensation; recruitment and training; dealing with customers; complaint handling; record keeping; Management Information Systems (MIS) and physical controls.

Internal controls are designed to provide reasonable assurance that the bank has efficient and effective operations; safeguard its assets; produce reliable financial reports; and comply with applicable laws and regulations.

The bank provides adequate capital to cover losses emanating from internal sources (operation activities, bank's systems, people and processes) and loss from external environment. A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met.

REPUTATIONAL RISK

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Who manages reputational risk?

Ultimate accountability for reputational risk management rests with the board of directors and senior management by addressing explicitly reputational risk as a distinct and controllable risk to the institution's safety and soundness. Employees and representative of the bank have a responsibility to contribute positively to the bank's reputation.

How we manage reputational risk?

Corporate governance principles require the bank to manage reputation risk by addressing corporate culture, management integrity matters and have code of conduct and relevant policies. The Bank has a code of conduct policy, conflict of interest policy, anti-corruption policy aim at encouraging ethical behaviors in the work place. A log of complaints and other events with reputational implication is maintained and analyzed regularly to guide in mitigating the risk.

COMPLIANCE RISK

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

Who manages compliance risk?

The ultimate accountability for compliance risk management rests with the board, which is aware of the major aspects of the institution's compliance risk.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39. NON FINANCIAL DISCLOSURES (Continued)

How we manage compliance risk?

The Compliance Department monitors the bank's compliance with statutory regulations and directives from other regulatory bodies by:

a) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations as required.

b) Tracking, escalating and reporting significant issues and findings to senior management and the Board of Directors through BARC.

c) Implementing or assisting with reviews of policies, procedures and training. This is done by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.

d)Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

40. INCORPORATION

The bank and its subsidiaries are incorporated and domiciled in Kenya under the Companies Act.

41. CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh'000).


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PROXY FORM

Shareholder's Member/CDSC No. ______________________________

The Company Secretary
National Bank of Kenya Limited
Harambee Avenue
P.O. Box 72866-00200
NAIROBI

I/We .... of (address) ....
....

being a member/members of National Bank of Kenya Limited, hereby appoint:-

....of (address) ....
....

and failing him, the Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 46th Annual General Meeting of the Company to be held on **Friday, 27 March 2015** at **10.00 a.m.** or at any adjournment thereof.

As witness my/our hand/hands is/are set this .... Day of .... (Month) 2015.

Signed ______________________________

NOTE: 1. A proxy need not be a member.
2. In the case of a corporate body the proxy must be under its Common Seal.
3. This proxy must be delivered to the Company's registered office not later than 10.00 a.m. on **Wednesday, 25 March 2015.**

Shareholder Admission Letter

Please complete this form and note that it must be produced at the Company's Annual General Meeting by your proxy for admission.

Name .... Signature ....
Shareholder's Member/CDSC Number ....

The 46th Annual General Meeting of National Bank of Kenya Limited to be held at the Jambo Conference Hall, Safari Park Hotel off - Thika Highway, Nairobi **Friday, 27 March 2015** at 10.00 a.m.

FOMU YA UWAKILISHI

Nambari ya mwanachama/ akaunti ya CDSC ______________________________

Katibu wa Kampuni
National Bank of Kenya Limited
Harambee Avenue
SLP 72866-00200
NAIROBI

Mimi/sisi..

Kutoka (anwani)..

Kama mwanachama/wanachama wa National Bank of Kenya Limited, namteua/ twamteua:-

....

Kutoka (anwani)..

au akikosa, mwenyekiti wa Mkutano kuwa wakala wangu/wetu, ili kupiga kura kwa niaba yangu/yetu wakati wa mkutano wa 46 wa pamoja wa mwaka wa Kampuni utakaofanyika **Ijumaa Machi 27, 2015 kuanzia saa nne asubuhi** au kuahirishwa kwake.

Kama shahidi ninatia/ tunatia sahihi hii/hizi siku ya .... Mwezi wa .... 2015.

Sahihi ______________________________________

MUHIMU: 1. Si lazima kwa wakala kuwa mwanachama

2 . Katika hali ambapo mwanachama ni shirika, fomu ya uwakilishi iwe imepigwa mhuri Wake

3 . Ni lazima fomu hii ya uwakilishi kuwasilishwa katika ofisi za benki zilizosajiliwa kabla ya **Jumatano Machi 25, 2015.**

Barua ya Kumruhusu mwanachama kuhudhuria mkutano

Tafadhali jaza fomu hii na ufahamu kwamba ni lazima itolewe nawe au wakala wako ili kukuruhusu kuhudhuria Mkutano wa pamoja wa mwaka wa kampuni.

Jina .... Sahihi ....

Nambari ya mwanachama/ nambari ya CDSC ....

Mkutano wa 46 wa Pamoja wa Mwaka wa National Bank of Kenya Limited utakaofanyika katika jumba la Jambo Conference Hall, Safari Park Hotel, Barabara kuu ya **Thika, Ijumaa Machi 27, 2015** kuanzia saa nne asubuhi

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2. Times Tower Branch
P.O. Box 56330 00200,Nairobi
Tel: 020-2213087
Fax: 020-2213084
MOBILE:0711038000
E-Mail: timestower@nationalbank.co.ke

3. Inland Container Depot Agency
P.O. Box 41862 00100-GPO Nairobi,
Tel: 020-2828000
Mobile: 0711038000
E-mail:icdagency@nationalbank.co.ke

4. Hill Plaza Branch
P.O. Box 45219 00100-GPO Nairobi
Tel: 020-2828000
Mobile: 0711038000
E-Mail: hill@nationalbank.co.ke

5. NSSFAgency
P.O. Box 45219 00100 Nairobi
Tel: 020-2828000
Mobile: 0711038000
E-mail:callcentre@nationalbank.co.ke

6. Hospital Branch
P.O. Box 30763 00100-GPO Nairobi
Tel: 020-2828000
Mobile: 0726610097/0711038000
E-Mail: hospital@nationalbank.co.ke

7. Kenyatta Avenue Branch
P.O. Box 30645- 00100-GPO Nairobi
Tel: 020-340880/8/340887
Mobile: 0722-205253/4 -0733618663/4
E-Mail: kenyatta@nationalbank.co.ke

8. Kenyatta Amanah
P.O. Box 30645- 00100-GPO Nairobi
Tel: 020-340880/8/340887
Mobile: 0722-205253/4 -0733618663/4

9. Eastleigh Amanah Branch
P.O. Box 16131-00610 Nairobi
Tel: 020-2828000
Mobile: 0711038000
E-Mail: eastleigh@nationalbank.co.ke

10. Awendo Branch
P.O. Box 200 Sare-Awendo
Tel: 020-2828000
Mobile: 0711038000
E-Mail: awendo@nationalbank.co.ke

11. Bomet
P.O. Box 539-20400 Bomet
Tel: 020-2188235/2828000
Mobile: 0711038000
Email: callcentre@nationalbank.co.ke

12. Bungoma Branch
P.O. Box 25 Bungoma
Tel: 020-2828000
Mobile: 0711038000
E-Mail: bungoma@nationalbank.co.ke

13. Busia Branch
P.O. Box 264 Busia
Tel: 020-2828000
Mobile: 0711038000
E-Mail: busia@nationalbank.co.ke

14 .Eldoret Branch
P.O. Box 3111 -30100 Eldoret
Tel: 053-2062545/6/7
Mobile:0734575590/0713790791
E-Mail: eldoret@nationalbank.co.ke

15. Eldoret International Airport Agency
P.O. Box 3111-30100, Eldoret
Tel: 020-2828000
Mobile: 0711038000
Email: eldoretairport@nationalbank.co.ke

16. Embu Branch
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Email :embu@nationalbank.co.ke

17. Kakamega Branch
P.O. Box 1773-50100 Kakamega
Tel: 020-2828000
Mobile: 0711038000
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18. Kapsabet Branch
P.O. Box 34 Kapsabet
Tel: 020-2828000
Mobile: 0711038000
E-Mail: kapsabet@nationalbank.co.ke

19. Karatina Branch
P.O. Box 1490 -10101 Karatina
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Mobile: 0711038000
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20. Kiambu branch
P.O. Box 2090 00900 Kiambu
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21. Kisii branch
P.O. BOX 2435 Kisii
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Email: Kisii@nationalbank.co.ke

22. Kitale branch
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Tel: 020-2828000
Mobile: 0711038000
Email: Kitale@nationalbank.co.ke

23. Kitui Branch
P.O. Box 166 -90200 Kitui
Tel: 020-2828000
Mobile: 0711038000
E-Mail: kitui@nationalbank.co.ke

24. Kisumu branch
P.O Box 1152 – 40100 Kisumu
Tel: 020-2828000
Mobile: 0711038000
Email: kisumu@nationalbank.co.ke

25. Limuru Branch
P.O. Box 240-00217 Limuru
Tel: 020-2828000
Mobile: 0711038000
E-Mail: limuru@nationalbank.co.ke

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26. Meru Branch
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27.Molo Branch
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Tel: 21301181/2317172/3/4
Mobile: 0711038000
E-Mail: molo@nationalbank.co.ke

28. Nakuru Branch
P.O. Box 1013-20100 Nakuru
Tel: 020-2828000
Mobile: 0711038000
E-Mail: nakuru@nationalbank.co.ke

29. Narok Branch
P.O. Box 348 Narok
Tel: 020-2828000
Mobile: 0711038000
E-Mail: narok@nationalbank.co.ke

30. Nkrumah Road Branch
Mombasa
P.O. Box 90363 -80100 Mombasa
Tel: 020-2828000
Mobile: 0711038000
E-Mail: nkrumah@nationalbank.co.ke

31. Nyeri Branch
P.O. Box 1629 -10100 Nyeri
Tel: 020-2828000
Mobile: 0711038000
E-Mail: nyeri@nationalbank.co.ke

32. Ongata Rongai Branch
P.O. Box 590-00511, Ongata Rongai
Tel: 020-2828000
Mobile: 0711038000
E-Mail ongatarongai@nationalbank.co.ke

33. Portway House Branch
P.O Box 87770 -80100 Mombasa
Tel: 020-2828000
Mobile: 0711038000
E-Mail: portway@nationalbank.co.ke

34. Port Agency (Kilindini)
P.O. Box 87770 Mombasa
Tel: 020-2828000
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E-Mail:portagency@nationalbank.co.ke

35. Ruiru Branch
P.O. Box 93 -00232 Ruiru
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Mobile: 0711038000
E-Mail: ruiru@nationalbank.co.ke

36. Malindi Branch
P.O. Box 2016-80200, Malindi
Tel: 020-2828000
Mobile: 0711038000
Email: Malindi@nationalbank.co.ke

37. Ukunda Branch
P.O. Box 457-80400, Ukunda
Tel: 020-2828000
Mobile: 0711038000
E-mail: Ukunda@nationalbank.co.ke

38. Upper Hill (TSC Building)
P.O. Box 59396-00200, City Square
Tel: 020-2828000
Mobile: 0711038000
Email: upperhill@nationalbank.co.ke

39. Nandi Hills Branch
P.O. Box 264-30301 Nandi Hills
Tel: 020-2828000
Mobile: 0711038000
Email: nandihills@nationalbank.co.ke

40. Migori Branch
P.O. Box 1071-40400, Suna
Tel: 020-2828000
Mobile: 0711038000
Email: migori@nationalbank.co.ke

41. Westlands Branch
P.O. Box 1613-00606 Nairobi
Tel: 020-2828000
Mobile: 0711038000
Email: westlands@nationalbank.co.ke

42. African Cargo Handling Limited (ACHL)-Agency
JKIA
P.O. Box 30763-00100, Nairobi
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Mobile: 0711038000
E-Mail: callcentre@nationalbank.co.ke

43. Wilson Airport
P.O. Box 30763-00100 Nairobi
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Email: wilson@nationalbank.co.ke

44. J.K.I.A
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E-Mail: jkia@nationalbank.co.ke

45. Moi's Bridge
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46. Mutomo Branch
P.O. Box 177-90201 Mutomo
Tel: 020-2828000
Mobile: 0711038000
E-Mail: mutomo@nationalbank.co.ke

47. Kianjai Branch
P.O. Box 1774-60200 Meru
Tel: 020-2828000
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E-Mail: kianjai@nationalbank.co.ke

48. Kenyatta University
P.O. Box 93 -002300 Ruiru
Students Business Centre, KU
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E-Mail: kenyattauniversity@nationalbank.co.ke

49. St. Pauls University
P.O. Box 240-00217 Limuru
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50. Moi University
P.O. Box 3111 -30100 Eldoret
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Tel: 020-2828000
Mobile: 0711038000
E-Mail: moiuniversity@nationalbank.co.ke

51. Moi International Airport, Mombasa
P.O. Box 87770 -80100 Portway
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E-Mail:moiinternationalairport@nationalbank.co.ke

52. Maua
P.O. Box 559-60600 Maua
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E-Mail:maua@nationalbank.co.ke

53. Machakos Branch
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55. Mtwapa Branch
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56. Changamwe Branch
P.O. Box 92958-80102 Changamwe
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Mobile: 0711038000
E-Mail:changamwe@nationalbank.co.ke

57. Garissa Branch
P. O. Box 1648-70100 Garissa
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58. Technical University of Mombasa
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59. Seku
P.O. Box 1658-90200 Kitui
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60. Thika Branch
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61. Sameer Business Park
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62. Greenspan Branch
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63. Bondeni
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64. Lunga Lunga
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65. Mountain Mall
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66. Kilifi
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67. Ngong Road
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68. Moi Avenue
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70. Wajir Branch
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71. Nyali Centre
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72. Kericho
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73. Mandera
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74. Isiolo
P.O. Box 709-60300 Isiolo
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75. Kisumu - Premium
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