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VICTORIA COMMERCIAL BANK

Elevating Relationships

ANNUAL REPORT
& FINANCIAL STATEMENTS
TWENTY FIFTEEN


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CONTENTS

SECTION ONE

CORPORATE INFORMATION

REGISTERED OFFICE

Mezzanine Floor, Victoria Towers,
Kilimanjaro Avenue, Upper Hill
PO Box 41114- 00100, Nairobi

AUDITOR

PricewaterhouseCoopers
PwC Tower,
Waiyaki Way/Chiromo Road, Westlands
Nairobi, Kenya
PO Box 43963-00100 Nairobi

PRINCIPAL CORRESPONDENTS

Mashreq Bank Psc NEW YORK
Mashreq Bank Psc LONDON
Mashreq Bank Plc DUBAI
Standard Chartered Bank FRANKFURT
Standard Chartered Bank LONDON
Standard Chartered Bank NEW YORK
Standard Chartered Bank TOKYO
Standard Chartered Bank JOHANNESBURG

MAIN LAWYERS

Njoroge Regeru & Company Advocates
Theuri Wanjohi & Company Advocates
Raffman, Dhanji, Elms and Virdee Advocates
Taibjee and Bhalla Advocates

BOARD OF DIRECTORS

Kanji D Pattni
CHAIRMAN

Yogesh K Pattni, Ph.D
MANAGING DIRECTOR

Silvano O Kola

Rajan P Jani / ALTERNATE **Yadav Jani**

Ketaki Sheth

Mukesh S Shah

Zarqa N Ahmed

Ketaki Sheth
COMPANY SECRETARY

PRINCIPLE OFFICERS

Yogesh K Pattni, Ph.D
MANAGING DIRECTOR

Manish L Parmar
GENERAL MANAGER

Nitin H Jethwa
GENERAL MANAGER

Dharmesh M Vaya
ASSISTANT GENERAL MANAGER

Azmina Pattni
BRANCH MANAGER

Mitesh Chouhan
CREDIT ADMIN MANAGER

Hezron Kamau
FINANCE MANAGER

Alpesh C Parmar
TREASURY MANAGER

Varsha Lakhman
BRANCH MANAGER

Fiddelice Otwani
HUMAN RESOURCES MANAGER

The directors submit their report together with the audited financial statements for the year ended 31 December 2015 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which disclose the state of affairs of Victoria Commercial Bank Limited (the "Bank").

PRINCIPAL ACTIVITIES

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

RESULTS AND DIVIDEND

Profit for the year of Shs 713,800,000 (2014: Shs 464,345,000) has been added to retained earnings. During the year, the Bank paid an interim dividend of Shs 91,125,000 (2014: Shs 147,180,000). The directors do not recommend payment of a final dividend.

STATEMENT ON CORPORATE GOVERNANCE

Corporate governance involves the manner in which the business and affairs of an institution are governed by its board and senior management and provides the structure through which the objectives of the institution are set, and the means of attaining those objectives and monitoring performance are determined.

These structures are aimed at maintaining and increasing shareholder value simultaneously with the satisfaction of other stakeholders in the context of the institution's corporate mission.

THE BOARD OF DIRECTORS

Kanji D. Pattni	Chairman
Yogesh K Pattni Ph.D	Managing Director
Rajan P Jani	Non-Executive Director
Sylvano O. Kola	Non-Executive Director
Ketaki Sheth	Non-Executive Director
Zarqa N Ahmed	Non-Executive Director
Mukesh S. Shah	Non-Executive Director

GOVERNANCE PRINCIPLES

The Board of Directors is composed of the Chairman, five non-executive directors and the Managing Director, all of whom have extensive business and banking experience applied in the management of the Bank. The Board meets regularly to review the Bank's performance against business plans in addition to formulating and implementing strategy as well as discharge its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The Central Bank of Kenya Prudential Guidelines require that appointment of all directors must be approved by Central Bank, a requirement that the Bank has complied with.

The Board has delegated authority for the conduct of the day to day business to the Management. However, the Board retains responsibility for establishing and maintaining the Bank's overall internal control of financial, operational and compliance issues.

The Board has four main functional committees (Audit, Credit, Nomination and Remuneration, and Risk Management) which meet at least on quarterly basis with the main functions outlined below. These are supported by Management committees charged with implementing various decisions of the Board.

All the Bank's Directors and employees adhere to the principles of the Code of Conduct in all of their dealings on behalf of the Bank. The code of conduct ensures that all actions are in the overall best interests of the Bank and reflects commitment to maintaining the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

All the Directors are committed to act honestly and in the best interests of the Bank. The Board also ensures that the Directors' personal interests do not conflict with their duty to the Bank and to all the stakeholders. The following are the board and management committees of Victoria Commercial Bank Limited with brief description of their key role, composition and membership as well as the frequency of the meetings.

BOARD AUDIT COMMITTEE (BAC)

This Committee provides independent oversight of the bank's financial reporting and internal control system, ensure checks and balances within the Bank are in place and recommends remedial actions regularly.

The committee comprises of three non- executive directors. In addition, the Chairperson of the Committee can invite members to attend meetings as may be necessary.

The external and internal auditors of the Bank shall have free access to the Audit Committee. The Auditors can request the Chairperson of the Committee to convene a meeting to consider any matter that the auditors believe should be brought to the attention of directors or shareholders.

The BAC is chaired by an independent non-executive director and meets once every quarter as per its terms of reference.

BOARD RISK MANAGEMENT COMMITTEE (BRMC)

This Committee assists the board of directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The responsibility to ensure quality, integrity and reliability of the bank's risk management is delegated to the BRMC.

The committee comprises of three non- executive directors. In addition, the Chairperson of the Committee can invite members to attend meetings as may be necessary.

The Risk and Compliance Function of the Bank has free access to the BRMC.

The BRMC is chaired by an independent non-executive director and meets once every quarter as per its terms of reference.

BOARD CREDIT COMMITTEE (BCC)

This Committee assists the board of directors in reviewing and overseeing the overall lending of the Bank. The committee also monitors and reviews the quality of the Banks' portfolio and ensures adequate levels of loan loss provisions are maintained. The BCC deliberates and considers loan applications beyond the discretionary limits of the Credit Risk Management Committee.

The Committee comprises of two non-executive directors and the Managing Director, who is an executive director. The BCC is chaired by an independent non-executive director and meets once every quarter as per its terms of reference. In addition, the Chairperson of the Committee can invite members to attend meetings as may be necessary.

BOARD NOMINATION AND REMUNERATION COMMITTEE (BNRC)

The objective of this Committee is to assist the Board undertake structured assessment of candidates for membership of the Board and senior executives as well as regular review of structure, size and composition of the board and make recommendations on any adjustments deemed necessary.

The Committee also oversees the compensation system's design and operation in line with clearly defined remuneration principles.

The Committee comprises of three non-executive directors and the Managing Director, who is an executive director.

The BNRC is chaired by an independent non-executive director and meets at least twice every year as per its terms of reference.

EXECUTIVE COMMITTEE (EXCO)

This committee is the link between the Board and the management of the Bank. It assists the Managing Director in implementing operational plans, the annual budget and periodic review of the Bank's overall strategies.

The Committee comprises of the senior management of the bank.

The Committee is chaired by the Managing Director of the Bank and meets at a minimum of twice per month unless otherwise notified by the Chairperson to the committee.

RISK MANAGEMENT AND COMPLIANCE COMMITTEE

This Committee assists the board risk management Committee in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The Committee is chaired by the Risk Officer and members include all the line managers and a representative of the senior management team. In addition, the chair person can invite other members of the bank as may be necessary.

The Committee meets once every quarter as per its terms of reference.

ASSETS AND LIABILITIES COMMITTEE (ALCO)

ALCO is responsible for monitoring and managing the assets and liabilities of the Bank. This includes managing interest rate movements, liquidity, treasury risk management, cost of funds/margins, reviewing and monitoring bank deposit base, foreign exchange exposure and capital adequacy. The Committee also recommends appropriate steps with regards the areas above in line with the CBK/Risk Management guidelines.

The committee comprises mainly of the executive team and is chaired by the Head of Treasury.

The Committee meets at a minimum once a month as per its terms of reference.

CREDIT RISK MANAGEMENT COMMITTEE

The objectives of the Credit Risk Management Committee are to review, oversee, decline and approve the credit facilities in line with the lending policy set by the Board Credit Committee.

The committee also deals with the day to day management of loans and advances as well as off- balance sheet facilities in accordance with the Credit Policies of the Bank.

The committee is chaired by the General Manager in charge of credit. Other members are the senior management team, relationship managers, credit Manager, legal Officer and the committee secretary. The committee reports to the Board Credit Committee.

The Committee meets on monthly basis as per its terms of reference.

DIRECTORS' REPORT

ICT STEERING COMMITTEE

ICT Committee's responsibilities include directing the investigation and development of ICT requirements; developing long term strategies and plans for ICT services; recommending and implementing approved systems, policies and strategies; recommending and approving hardware and software changes; ensuring accurate management information is available on a timely and reliable manner and that appropriate security arrangements are in place including information security.

The Committee is chaired by Managing Director and membership consists of representatives from senior management, the IT function, Credit Manager, Operations Officer as well as the Project Manager.

The Committee meets once every three months as per its terms of reference.

BOARD AND DIRECTORS EVALUATION

The Board, on an annual basis, carries out a self-assessment of its members. Each board member evaluates fellow board members as well as the Chairman of the Board. An evaluation of the performance of the Managing Director during the period under review is also carried out.

The assessment is broad based and encompasses all aspects of management of the business and particularly the contribution of each board member. Effectiveness, participation, attendance and co-operation amongst directors also form part of the basis of the assessment. Mix of skills and experiences of each director are taken into consideration. All directors and the Chairman will continue making these assessments on an annual basis.

ATTENDANCE AT BOARD MEETINGS

Name	Jan 29, 2015	Feb 26, 2015	March 25, 2015	May 26, 2015	June 29, 2015	July 30, 2015	Aug 25, 2015	Sep 28, 2015	Oct 26, 2015	Nov 19, 2015
K D Pattni (Chairman)	P	P	P	P	P	P	P	P	P	AP
Yogesh K Pattni Ph. D (Managing)	P	P	P	P	P	P	P	P	P	P
S O Kola	P	P	P	P	P	P	P	P	P	P
Rajan P Jani	P	P	P	P	P	AP	P	P	P	P
Ketaki Sheth	P	P	P	P	P	P	P	P	P	P
Zarqa N Ahmed	P	P	P	P	P	P	P	P	P	P
Mukesh Shah	P	P	P	P	P	P	P	P	P	P

P - Present A - Absent AP - Apology

AUDITOR

The Bank's auditor, PricewaterhouseCoopers, continues in office in accordance with the provisions of Section 159(2) of the Companies Act and Section 24(1) of the Banking Act.

By order of the Board
KANJI D PATTNI

CHAIRMAN
4 March 2016

BUSINESS AND OPERATIONAL HIGHLIGHTS

The Bank has consistently delivered record results through a difficult period for the global economy and banking industry

Financial Results 2015

Net Operating income up 22% to

KShs 1,221m

2014: KShs 1,002m

Profit before taxation up 45% to

KShs 919m

2014: KShs 635m

Loans and advances to customers up 20% to

KShs 13,124m

2014: KShs 10,979m

Deposits from customers up 14 % to

KShs 14,024m

2014: KShs 12,289m

Shareholders' equity up 22 % to

KShs 3,512m

2014: KShs 2,876m

Asset Base 16 % to

KShs 20,020m

2014: KShs17,244m

Operational Highlights

Impressive financial performance in 2015 mainly due to higher interest income and non-funded income largely driven by increase in loans and advances .The growth has been largely supported by an increase in customer deposits and shareholder's equity. Capital gains realised upon divesture from associate investment further boosted annual profits. This results were realised despite challenges in the macroeconomic environment.

Profitability driven by focused strategy involving liquidity and capital management, credit risk management, efficiency and customer service

Business growth leveraged on our strong capital base and liquidity position

Non-financial Highlights

Employees

61

2014: 56

Branches

3

2014: 3

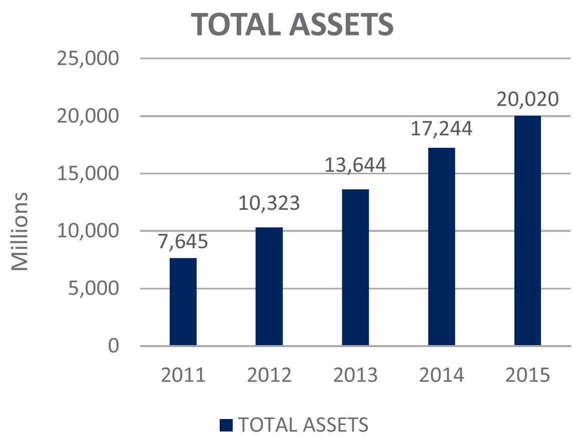
Tight control of the cost base and disciplined investment leading to a Return on Equity of 28.78% in 2015

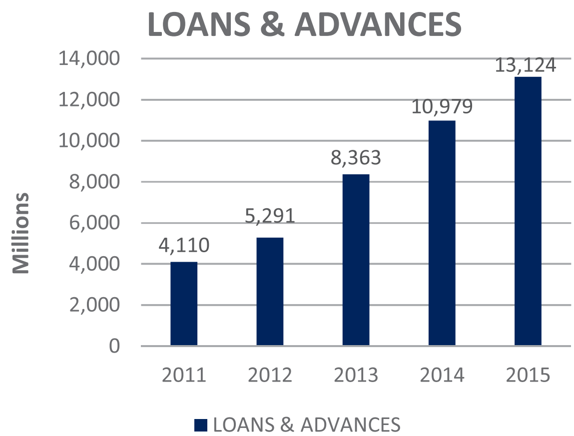
Continued community partnership and deepening of relationships with various stakeholders with substantial amount spent on corporate social responsibility activities in 2015.

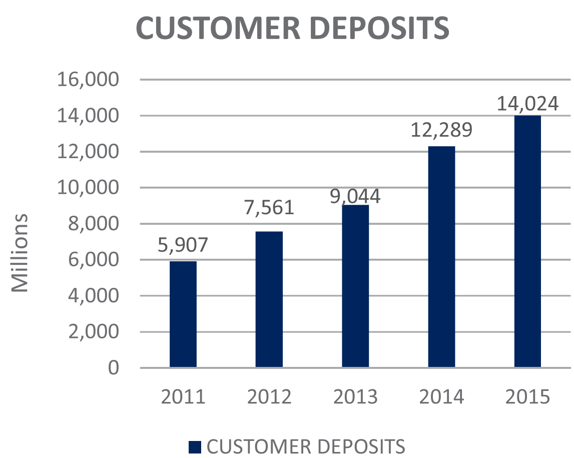
FIVE-YEAR FINANCIAL REVIEW

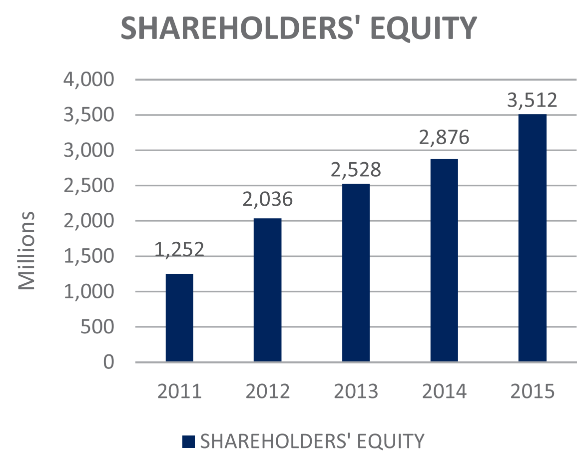
	2011	2012	2013	2014	2015
BALANCE SHEET	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Assets					
Government securities	1,245,675	2,101,258	1,165,666	2,399,880	2,823,790
Loans and advances to customers	4,110,436	5,291,220	8,363,452	10,979,238	13,124,420
Property and equipment	145,430	142,547	137,418	185,373	235,466
Other assets	2,143,694	2,787,794	3,977,706	3,679,601	3,836,396
Total assets	7,645,235	10,322,819	13,644,242	17,244,092	20,020,072
Liabilities					
Customer deposits	5,906,502	7,560,894	9,043,645	12,288,662	14,024,406
Long term borrowings	-	312,800	1,482,686	1,387,418	1,305,428
Other liabilities	486,254	413,119	589,767	692,464	1,178,729
Total liabilities	6,392,756	8,286,813	11,116,098	14,368,544	16,508,563
Shareholder's funds	1,252,479	2,036,006	2,528,144	2,875,548	3,511,509
Total equity and liabilities	7,645,235	10,322,819	13,644,242	17,244,092	20,020,072
INCOME STATEMENT					
Interest income	740,070	1,352,816	1,375,389	1,754,695	2,379,856
Interest expense	(269,216)	(693,018)	(604,255)	(902,899)	(1,325,394)
Net interest income	470,854	659,798	771,134	851,796	1,054,462
Non- funded income	108,452	146,475	189,534	204,929	196,042
Operating income	579,306	806,273	960,668	1,056,725	1,250,504
Credit impairment credit / (charge)	15,337	5,692	(7,505)	(10,982)	(20,026)
Other operating expenses	(264,956)	(321,081)	(366,781)	(410,858)	(553,537)
Profit before income tax and exceptional items	329,687	490,884	586,382	634,885	676,941
Exceptional items	-	-	-	-	242,161
Profit before tax after exceptional items	329,687	490,884	586,382	634,885	919,102
Income tax expense	(99,437)	(140,352)	(154,479)	(170,540)	(205,302)
Profit for the year	230,250	350,532	431,903	464,345	713,800
PERFORMANCE RATIOS					
Earnings per share (Shs)	11.54	12.85	14.82	15.86	23.87
Dividend Per share (Shs)	2.00	3.50	4.50	5.00	3.00
Return on average shareholder's funds	27.99%	29.85%	25.70%	23.50%	28.78%
Return on average assets	4.76%	5.46%	4.89%	4.11%	4.93%
Non performing loans to total loans and advances	0%	0%	0%	0%	0%
Net advances to customer deposits (%)	69.59%	70.00%	92.48%	89.34%	93.58%
CAPITAL STRENGTH					
Core capital to customer deposits	20.30%	26.40%	25.40%	21.30%	23.80%
Core capital to total risk weighted assets	21.40%	24.50%	19.80%	18.20%	18.60%
Total capital to total risk weighted assets	22.00%	25.10%	20.40%	19.20%	19.30%

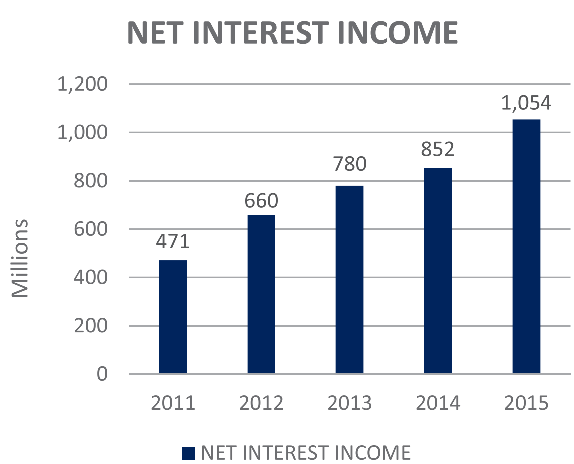
FIVE-YEAR FINANCIAL REVIEW

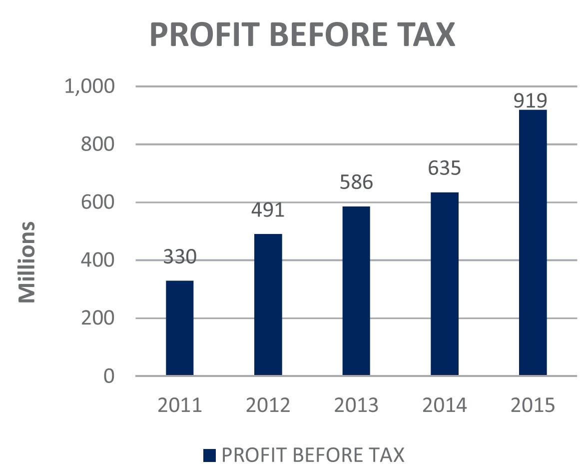












STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 as at the end of the financial year and of the Banks profit or loss for that year. It also requires the directors to ensure that the Bank maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank.

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

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

The Directors are of the opinion that the financial statements give a true and fair view of the financial position of the Bank at 31 December 2015 and of the Bank's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on 4 March 2016 and signed on its behalf by:

-- Director

-- Director

-- KETAKI SHETH
Director /Company Secretary

-- Director

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF VICTORIA COMMERCIAL BANK LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Victoria Commercial Bank Limited (the "Bank") set out on pages 11 to 61. These financial statements comprise the statement of financial position at 31 December 2015, and the statement of profit or loss, and statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the Kenyan Companies Act.

Report on other legal requirements

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

i) we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the 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 profit or loss account are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge – P/No 1244.

Certified Public Accountants-
Nairobi

17 March 2016

STATEMENT OF PROFIT OR LOSS

	Notes	2015 Shs'000	2014 Shs'000
Interest income	5	2,379,856	1,754,695
Interest expense	6	(1,325,394)	(902,899)
Net interest income		1,054,462	851,796
Credit impairment charge	14	(20,026)	(10,982)
Net interest income after credit impairment charge		**1,034,436**	**840,814**
Fee and commission income		179,944	137,108
Fee and commission expense		(15,479)	(12,398)
Net fee and commission income		164,465	124,710
Foreign exchange income		27,741	23,419
Other (expense) /income		(5,864)	13,300
Non funded income		**186,342**	**161,429**
Net operating income		**1,220,778**	**1,002,243**
Operating expenses	7	(553,537)	(410,858)
Profit from operations		**667,241**	**591,385**
Share of profit from associates	9	9,700	43,500
Profit from ordinary operations		**676,941**	**634,885**
Gain on sale of associate	9	242,161	-
Profit before income tax		**919,102**	**634,885**
Income tax expense	10	(205,302)	(170,540)
Profit for the year		**713,800**	**464,345**
Earnings per share (Shs per share)			
Basic and diluted	11	23.87	15.86

The notes on pages 16 to 61 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 Shs'000	2014 Shs'000
Profit for the year		713,800	464,345
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Fair value gain/loss on available for sale investments		(61,506)	17,484
Deferred tax on fair valuation of available for sale investments	18	18,452	(5,245)
Other comprehensive income for the year, net of tax		(43,054)	12,239
Total comprehensive income for the year		670,746	476,584

The notes on pages 16 to 61 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Notes	2015	2014
ASSETS		**Shs'000**	**Shs'000**
Cash and balances with Central Bank of Kenya	13	1,319,609	1,533,449
Investment securities:			
- available for sale	15	927,329	914,845
- held to maturity	15	2,420,562	1,788,927
Deposits and balances due from banking institutions	22	1,491,691	1,040,453
Loans and advances to customers	14	13,124,420	10,979,238
Investment in associates	9	253,111	596,594
Property and equipment	16(a)	195,466	185,373
Property and equipment held for sale	16(b)	40,000	-
Current income tax		-	1,879
Intangible assets	17	32,047	44,966
Deferred income tax	18	24,695	4,054
Other assets	19	191,142	154,314
Total assets		20,020,072	17,244,092
LIABILITIES			
Customer deposits	20	14,024,406	12,288,662
Deposits and balances due to banking institutions	21	1,076,937	636,552
Long term borrowings	23	1,305,428	1,387,418
Other liabilities	24	87,297	55,912
Current income tax		14,495	-
Total liabilities		16,508,563	14,368,544
EQUITY			
Share capital	25	607,501	588,721
Share premium	25	420,393	382,833
Fair value reserve		(65,771)	(22,717)
Revaluation reserve		137,000	189,900
Regulatory reserve	26	98,000	93,000
Retained earnings		2,314,386	1,643,811
Shareholders' equity		3,511,509	2,875,548
Total equity and liabilities		20,020,072	17,244,092

The financial statements on pages 11 to 61 were approved for issue by the Board of Directors on 4 March 2016 and signed on its behalf by

Chairman

Managing Director

KETAKI SHETH
Director/Company Secretary

Director

STATEMENT OF CHANGES IN EQUITY

	Notes	Share capital Shs'000	Share premium Shs'000	Fair value reserve Shs'000	Revaluation reserve Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Total Shs'000
Year ended 31 December 2014								
At 1 January 2014		582,721	370,833	(34,956)	189,900	73,000	1,346,646	2,528,144
Profit for the year		-	-	-		-	464,345	464,345
Other comprehensive income, net of tax		-	-	12,239	-	-	-	12,239
Total comprehensive income for the year		**-**	**-**	**12,239**	**-**	**-**	**464,345**	**476,584**
Transfer to regulatory reserve	26	-	-	-	-	20,000	(20,000)	-
Transactions with owners								
Issue of new shares	25	6,000	12,000	-	-	-	-	18 000
Interim dividend paid	12	-	-	-	-	-	(147,180)	(147,180)
At 31 December 2014		588,721	382,833	(22,717)	189,900	93,000	1,643,811	2,875,548
Year ended 31 December 2015								
At 1 January 2015		588,721	382,833	(22,717)	189,900	93,000	1,643,811	2,875,548
Profit for the year		-	-	-	-	-	713,800	713,800
Other comprehensive income, net of tax		-	-	(43,054)	-	-	-	(43,054)
Total comprehensive income for the year		**-**	**-**	(43,054)	**-**	**-**	713,800	670,746
Transfer to regulatory reserve	26	-	-	-	-	5,000	(5,000)	-
Release of revaluation reserve in disposal of associate		-	-	-	(52,900)	-	52,900	-
Transactions with owners								
Issue of new shares	25	18,780	37,560	-	-	-	-	56,340
Interim dividend paid	12	-	-	-	-	-	(91,125)	(91,125)
At 31 December 2015		607,501	420,393	(65,771)	137,000	98,000	2,314,386	3,511,509

The notes on pages 16 to 61 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

	Notes	2015 Shs'000	2014 Shs'000
Cash flows from operating activities			
Interest receipts		2,379,789	1,754,720
Interest payments		(1,234,600)	(865,081)
Net fee and commission receipts		168,654	142,607
Foreign exchange income receipts		27,741	23,419
Payments to employees and suppliers		(503,014)	(382,484)
Income tax paid		(191,117)	(178,004)
Cash flows from operating activities before changes in operating assets and liabilities		647,453	495,177
Changes in operating assets and liabilities:			
- loans and advances		(2,165,208)	(2,616,868)
- cash reserve requirement		(94,465)	(170,769)
- other assets		(36,977)	(27,436)
- customer deposits		1,644,950	3,207,199
- other liabilities		27,419	(99)
Net cash from operating activities		**23,172**	**887,204**
Cash flows from investing activities			
Purchase of property and equipment	16	(85,586)	(70,715)
Purchase of intangible assets	17	(8,895)	(7,253)
Purchase of investment securities		(605,771)	(678,648)
Proceeds from sale of property and equipment		910	9,138
Dividend received		-	-
Proceeds on sale of Investment in Associate		595,344	-
Net cash utilised in investing activities		**(103,998)**	**(747,478)**
Cash flows from financing activities			
Borrowings during the year		358,395	11,291
Interim dividend paid	12	(91,125)	(147,180)
Proceeds from issue of new shares	25	56,340	18,000
Net cash from financing activities		**323,610**	**(117,889)**
Net increase in cash and cash equivalents		**242,784**	**21,837**
Cash and cash equivalents at start of year		1,942,977	1,921,140
Cash and cash equivalents at end of year	28	**2,185,761**	**1,942,977**

The notes on pages 16 to 61 are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS

1 General information

Victoria Commercial Bank Limited (the "Bank") is a company domiciled in Kenya. The registered address of the Bank is:

Mezzanine Floor, Victoria Towers
Kilimanjaro Avenue, Upper Hill
PO Box 41114
00100 Nairobi

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

2 Summary of significant accounting policies

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

2.1 Basis of preparation

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

(a) Basis of measurement
The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

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

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

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

2.1 Basis of preparation (continued)

- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

(c) Changes in accounting policies and disclosures

(i) New and amended standards adopted by the Bank
The following standards and amendments have been applied by the Bank for the first time for the financial year beginning 1 January 2015:

- Annual Improvements to IFRSs 2010-2012 and 2011-2013 cycles. The following amendments are effective 1 July 2014:-
- IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.
- IFRS 3 – clarifies that IFRS 3 does not apply to the accounting for the formation of any joint arrangement
- IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.
- FRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9
- IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts
- IAS 24 – where an entity receives management personnel services from a third party (a management entity), the fees paid for those services must be disclosed by the reporting entity, but not the compensation paid by the management entity to its employees or directors.
- Amendments to IAS 19,'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so

clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (eg a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

ii) New standards and interpretations early adopted

The Bank has elected to adopt the following two amendments early

Annual Improvements to IFRSs 2012-2014 Cycle. The latest annual improvements, effective 1 January 2016, clarify:

- IFRS 5 – when an asset (or disposal group) is reclassified from 'held for sale' to 'held for distribution' or vice versa, this does not constitute a change to a plan of sale or distribution and does not have to be accounted for as such.
- IFRS 7 – specific guidance for transferred financial assets to help management determine whether the terms of a servicing arrangement constitute 'continuing involvement' and, therefore, whether the asset qualifies for de recognition.
- IFRS 7 – that the additional disclosures relating to the offsetting of financial assets and financial liabilities only need to be included in interim reports if required by IAS 34.

Amendments to IAS 1, ' Presentation of Financial Statements': The amendments are made in the context of the IASB's Disclosure Initiative, which explores how financial statement disclosures can be improved. The amendments, effective 1 January 2016, provide clarifications on a number of issues, including:

- Materiality – an entity should not aggregate or disaggregate information in a manner that obscures useful information. Where items are material, sufficient information must be provided to explain the impact on the financial position or performance.
- Disaggregation and subtotals – line items specified in IAS 1 may need to be disaggregated where this is relevant to an understanding of the entity's financial position or performance. There is also new guidance on the use of subtotals.
- Notes – confirmation that the notes do not need to be presented in a particular order.
- OCI arising from investments accounted for under the equity method – the share of OCI arising from equity-accounted investments is grouped based on whether the items will or will not subsequently be reclassified to profit or loss. Each group should then be presented as a single line item in the statement of other comprehensive income.

According to the transitional provisions, the disclosures in IAS 8 regarding the adoption of new standards/accounting policies are not required for these amendments.

(iii) New and revised standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to a significant effect on the financial statements of the Bank, except the following

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.

IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016.

Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.

- IAS 19, ‘Employee benefits’ regarding discount rates.
- IAS 34, ‘Interim financial reporting’ regarding disclosure of information

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.2 Foreign currency translation

(a) Functional and presentation currency

The accounting records are maintained in the currency of the primary economic environment in which the Bank operates (the “Functional Currency”). The financial statements are presented in Kenya Shillings, which is the Bank’s presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand.

(b) Transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

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

2.3 Sale and repurchase agreements

Securities sold subject to repurchase agreements (‘repos’) are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to Central Bank of Kenya, due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased from Central Bank of Kenya under agreements to resell (‘reverse repos’) are disclosed separately as they are purchased and are not negotiable/discounted during their tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets and liabilities

2.4.1 Financial assets

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

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

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

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

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

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

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

Financial assets at fair value through profit or loss are carried at fair value. Purchases and sales of financial assets at fair value through profit or loss are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in the statement of profit or loss in the year in which they arise.

The Bank did not have any financial assets in this class at 31 December 2015 (2014: Nil).

(b) Loans and receivables

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

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

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

(c) Held to maturity investments

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

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

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

(d) Available for sale financial assets

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

Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of profit or loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of profit or loss.

2.4.2 Financial liabilities

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

2.4.3 Determination of fair value

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

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

For all other financial instruments, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.
Notes (continued)

The Bank uses widely recognised valuation models for determining fair values of government securities. For these financial instruments, inputs into models are generally market-observable.

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the reporting date.

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

The fair values of contingent liabilities correspond to their carrying amounts.

2.4.4 Derecognition

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

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4.5 Classes of financial instruments

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

Category(as defined by IAS 39)		Class (as determined by the Bank)		Subclasses
Financial assets and liabilities	Loans and receivables	Deposits and balances due from banking institutions		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Term loans
				Mortgages
			Loans to corporate customers	Large corporate customers
				Others
		Items in the course of collection		
	Available for sale investments	Investment securities	Debt securities	Listed
			Other securities	Not listed
	Held to maturity investments	Investment securities	Government securities	Treasury bills
				Treasury bonds
			Other securities	Overseas investments
				Local investments
	Financial liabilities at amortised cost	Deposits and balances due to banking institutions		
		Deposits from customers	Individual (retail) customers	
			Corporate customers	
		Items in the course of collection		
Off- balance sheet financial Instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2.5 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between 1 and 6 months; in exceptional cases, longer periods are warranted.

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.
Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.
When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are included in credit impairment charges. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit or loss.

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

(b) Assets classified as available for sale

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

2.6 Offsetting of 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 offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank of Kenya, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya.

2.8 Property and equipment

Property and equipment are stated at historical cost less depreciation.

Depreciation is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

• Office premises	50 years
• Office improvements	8 years
• Furniture, fittings and equipment	8 years
• Motor vehicles	4 years
• Computer equipment	3-4 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

2.9 Intangible assets - software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2.10 Impairment of non – financial assets

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

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Employee benefits

(a) Retirement benefit obligations

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

The Bank's contribution to the defined contribution scheme is charged to the statement of profit or loss in the year in which it falls due. The Bank has no further obligations once the contribution is paid.

2.12 Income tax

(a) Current income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2.13 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

2.14 Share capital

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

2.15 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in the income statement account using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.16 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for advances are credited to income upon first utilisation of the facility and are charged on an annual basis.

2.17 Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

2.18 Acceptances and letters of credit

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

2.19 Investment in associates

The investment in the associates is accounted for using the equity method. It is initially recorded at cost and the carrying amount is increased or decreased to recognise the Bank's share of the profits or losses of the investee after the acquisition date. Distributions received from the investee reduce the carrying amount of the investment.

On disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

2.20 Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the statement of profit or loss.

3 Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the risk and Compliance unit under policies approved by the Board Risk Management Committee (BRMC). Assets and Liability Committee (ALCO) identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most important risk for the Bank's business: management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the Credit Risk Management Committee, which reports regularly to the Board Credit Committee (BCC).

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and are subject to annual or more frequent review. Limits on the level of credit risk by industry sector are approved regularly by the BCC.

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

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral equal or above the loan advanced.

Credit related commitments:

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held	**2015**	**2014**
	Shs'000	**Shs'000**
Balances with Central Bank of Kenya (Note 13)	1,237,465	1,485,540
Deposits and balances due from banking institutions (Note 22)	1,491,691	1,040,453
Loans and advances to customers (Note 14)	13,124,420	10,979,238
Government and other securities held to maturity (Note 15)	2,420,562	1,788,927
Available for sale investment securities (Note 15)	927,329	914,845
Other assets	148,674	119,199
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	1,869,073	932,962
- Guarantee and performance bonds	963,428	824,901
- Commitments to lend	1,734,613	1,310,852
	23,917,255	19,396,917

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2015 and 2014, without taking account of any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on carrying amounts as reported in the balance sheet.

As shown above, 61% of the total maximum exposure is derived from loans and advances to banks and customers (2014: 62%).14% represents investments in government and other investment securities (2014: 14%).

Loans and advances to customers and off-balance sheet items are secured by collateral in form of charges over land and buildings and/or plant and machinery or corporate guarantees and other collateral acceptable by the Kenyan law. However, there are loans and advances to corporate customers and individuals that are unsecured. Before disbursing any unsecured loan, the Bank undertakes stringent credit risk assessment.

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

- the Bank exercises stringent controls over the granting of new loans
- 99% of the loans and advances portfolio are neither past due nor impaired
- 89% of held to maturity investments securities are government securities.

Financial assets that are past due or impaired

The Bank aligns the classification of assets that are past due or impaired in line with the Central Bank of Kenya prudential guidelines. In determining the classification of an account, performance is the primary consideration. Classification of an account reflects judgement about the risk of default and loss associated with the credit facility.

Accounts are classified into five categories as follows:

- Normal
- Watch
- Sub-standard
- Doubtful
- Loss

Loans and advances less than 30 days past due date are not considered to be impaired unless other information is available to indicate otherwise.

Loans and advances are summarised as follows:

	2015 Shs'000	2014 Shs'000
Neither past due nor impaired	12,999,055	11,004,238
Past due but not impaired	170,365	-
Gross	13,169,420	11,004,238
Less: allowance for impairment (Note 14)	(45,000)	(25,000)
Net loans and advances	13,124,420	10,979,238

No other financial assets are either past due or impaired.

3.2 Concentrations of risk

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

At 31 December 2015	Loans and advances %	Credit Commitments %
Manufacturing	30%	28%
Wholesale and retail trade	23%	36%
Transport and communication	1%	2%
Business services	2%	0%
Agricultural	4%	2%
Building and Construction	4%	15%
Real Estate	23%	10%
Other	13%	7%
	100%	100%

At 31 December 2014	Loans and advances %	Credit commitments %
Manufacturing	30%	34%
Wholesale and retail trade	24%	37%
Transport and communication	1%	0%
Business services	7%	6%
Agricultural	4%	0%
Building and Construction	3%	14%
Real Estate	24%	8%
Other	7%	1%
	100%	100%

Customer deposits

	2015	2014
Insurance companies	1%	1%
Private enterprises	37%	37%
Commercial banks	0%	0%
Individuals and non- profit organisations	60%	61%
Non – residents	2%	1%
	100%	100%

3.3 Liquidity Risks

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank of Kenya requires that the Bank maintain a cash reserve ratio computed as 5.25% of customer deposits of the preceding month. In addition, the Board and Assets and liabilities Committee (ALCO) closely monitors the limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. The table below details the reported ratios of net liquidity assets to deposits from customer during the year :

	2015	2014
	%	%
At close of the year	27.10	32.60
Average for the period	29.52	29.81
Maximum for the period	33.50	35.20
Minimum for the period	23.70	24.30

The Bank at all times complies with the regulatory minimum liquidity ratio of 20%.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. All figures are in Thousands of Kenya Shillings.

At 31 December 2015	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total
Liabilities						
Customer deposits	7,386,712	5,933,665	787,990	119,838	1,641	14,229,846
Deposits and balances due to banking institutions	390,515	618,504	70,450	-	-	1,079,469
Long term borrowings	147,882	1,174,910	-	-	-	1,322,792
Other financial liabilities	101,792	-	-	-	-	101,792
Total financial liabilities (contractual maturity dates)	8,026,901	7,727,079	858,440	119,838	1,641	16,733,899

At 31 December 2014	Up to 1 Month	1-3 months	3-6 months	6-12 Months	Over 1 year	Total
Liabilities						
Customer deposits	5,576,285	5,617,764	945,778	343,145	365	12,483,337
Deposits and balances due to banking institutions	363,727	91,752	92,382	93,276	-	641,137
Long term borrowings	174,435	1,230,929	-	-	-	1,405,364
Other financial liabilities	55,912	-	-	-	-	55,912
Total financial liabilities (contractual maturity dates)	6,170,359	6,940,445	1,038,160	436,421	365	14,585,750

3.4 Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank 's financial instruments, categorised by currency (all amounts expressed in thousands of Kenya Shillings):

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At 31 December 2015	USD	GBP	Euro	Other	Total
Assets					
Cash and balances with Central Bank of Kenya	105,108	5,712	6,407	55	117,282
Deposits and balances due from banking institutions	786,847	20,817	23,601	983	832,248
Loans and advances to customers	1,732,371	556,713	631,359	-	2,920,443
Investment securities	330,767	-	22,357	-	353,124
Other assets	351	-	-	-	351
Total assets	2,955,444	583,242	683,724	1,038	4,223,448
Liabilities					
Customer deposits	1,576,075	167,278	39,493	-	1,782,846
Deposits and balances due to banking institutions	1,076,937	-	-	-	1,076,937
Long term borrowings	289,691	407,486	608,251	-	1,305,428
Other liabilities	2,693	2,531	323	6	5,553
Total liabilities	2,945,396	577,295	648,067	6	4,170,764
Net on-balance sheet position	10,048	5,947	35,657	1,032	52,684
Net off-balance sheet position	1,891,196	35,751	274,180	33,727	2,234,854
Overall open position	1,901,244	41,698	309,837	34,759	2,287,538
At 31 December 2014					
Total assets	2,056,907	671,742	738,177	7,243	3,474,069
Total liabilities	2,074,644	669,772	727,544	7	3,471,967
Net on-balance sheet position	(17,737)	1,970	10,633	7,236	2,102
Net off-balance sheet position	816,708	5,794	118,922	83,027	1,024,451
Overall open position	798,971	7,764	129,555	90,263	1,026,553

The off-balance sheet position represents the difference between the notional amounts of foreign currency derivative financial instruments and their fair values.

Currency risk sensitivity analysis

The table below shows the impact on post tax profit of 10% appreciation or depreciation of the shilling against other major currencies (all amounts expressed in thousands of Kenya Shillings):

At 31 December 2015	Currency carrying amount	Appreciation by 10%	Depreciation by 10%
Assets			
Cash and balances with Central Bank of Kenya	117,282	(11,728)	11,728
Deposits and balances due from banking institutions	832,248	(83,225)	83,225
Loans and advances to customers	2,920,443	(292,044)	292,044
Investment securities	353,124	(35,312)	35,312
Other assets	351	(35)	35
Total assets	4,223,448	(422,344)	422,344
Liabilities			
Customer deposits	1,782,846	178,285	(178,285)
Deposits and balances due to banking institutions	1,076,937	107,694	(107,694)
Long term borrowings	1,305,428	130,543	(130,543)
Other liabilities	5,553	555	(555)
Total liabilities	4,170,764	417,077	(417,077)
Total (decrease) / increase		(5,267)	5,267
Tax charge 30%		1,580	(1,580)
Impact on profits		**(3,687)**	**3,687**

At 31 December 2015, if the Shilling had weakened/strengthened by 10% against the foreign currencies in which the Bank had exposures, with all other variables held constant, post tax profit for the year would have been higher/lower by Shs 3,687,000 (2014:Shs147,000).

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Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya Shillings.

At 31 December2015	Up to 1 month	1-3 months	3-6 months	6-12 Months	Over 1 year	Non-interest Bearing	Total
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,319,609	1,319,609
Investment securities : available for sale	-	-	-	-	675,345	251,984	927,329
held to maturity	257,446	196,893	-	859,679	1,106,544	-	2,420,562
Deposits and balances due from banking institutions	447,201	207,626	-	-	-	836,864	1,491,691
Loans and advances to customers	1,946,891	1,169,658	1,651,810	1,894,075	6,461,986	-	13,124,420
Investments in associates	-	-	-	-	-	253,111	253,111
Property and equipment	-	-	-	-	-	195,466	195,466
Property and equipment held for sale	-	-	-	-	-	40,000	40,000
Tax recoverable	-	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	32,047	32,047
Deferred income tax asset						24,695	24,695
Other assets	-	-	-	-	-	191,142	191,142
Total assets	2,651,538	1,574,177	1,651,810	2,753,754	8,243,875	3,144,918	20,020,702
Liabilities & Shareholders' Funds							
Customer deposits	5,551,367	5,775,943	749,746	110,491	1,514	1,835,345	14,024,406
Deposits and balances due to banking institutions	390,515	615,979	70,443	-	-	-	1,076,937
Long term borrowings	147,882	1,157,546	-	-	-	-	1,305,428
Current income tax	-	-	-	-	-	14,495	14,495
Other liabilities	-	-	-	-	-	87,297	87,297
Shareholders' funds	-	-	-	-	-	3,511,509	3,511,509
Total liabilities & shareholders' funds	6,089,764	7,549,468	820,189	110,491	1,514	5,448,646	20,020,702
Interest sensitivity gap	(3,438,226)	(5,975,291)	831,621	2,643,263	8,242,361	(2,303,728)	-

At 31 December 2014	Up to 1 month	1-3 months	3-6 Months	6-12 Months	Over 1 year	Non-interest Bearing	Total
Total assets	2,930,454	1,826,367	1,723,915	2,322,224	5,833,640	2,607,492	17,244,092
Total liabilities	4,778,129	6,791,811	998,111	407,910	353	4,267,778	17,244,092
Interest sensitivity gap	(1,847,675)	(4,965,444)	725,804	1,914,314	5,833,287	(1,660,286)	-

Interest rates risk sensitivity analysis

The impact of 1% increase or decrease in interest rates on the Bank's financial assets and liabilities would be as follows: All figures are in thousands of Kenya Shillings

		At 31 December 2015	
	Carrying amounts	**1% increase**	**1% decrease**
ASSETS			
Cash and balances with Central Bank of Kenya	1,319,609	-	-
Investment securities :			
-available for sale	675,345	-	-
-available for sale	251,984	-	-
-held to maturity	2,420,562	-	-
Deposits and balances due from banking institutions	836,864	-	-
Deposits and balances due from banking institutions	654,827	6,548	(6,548)
Loans and advances to customers	13,124,420	131,244	(131,244)
Investment in associate	253,111	-	-
Property and equipment	195,466	-	-
Property and equipment held for sale	40,000		
Intangible assets	32,047	-	-
Deferred income tax	24,695	-	-
Other assets	191,142	-	-
LIABILITIES & EQUITY			
Customer deposits	12,189,061	(121,891)	121,891
Customer deposits zero rate	1,835,345	-	-
Deposits and balances due to other banks	1,076,937	-	-
Long term borrowings	1,305,428	-	-
Other liabilities	87,297	-	-
Current income tax	14,495	-	-
Shareholders' equity	3,511,509	-	-
Net interest income increase /(decrease)		15,901	(15,901)
Tax charge at 30 %		(4,771)	4,771
Impact on post tax profit		**11,130**	**(11,130)**

At 31 December 2015, assuming all other variables remain constant an increase/decrease of 100 basis point on interest rates would have resulted in an increase/decrease in post tax profit of Shs 11,130,000 (2014:Shs 11,622,000).

The effective interest rates by major currency for monetary financial instruments at 31 December 2015 and 2014 were in the following ranges:

	2015		2014	
	In Shs	In Other currencies	In Shs	In Other Currencies
Assets				
Government securities	12.69%	-	10.79%	-
Deposits and balances due from banking institutions	11.30%	-	8.00%	-
Loans and advances to customers	17.58%	7.78%	16.54%	7.38%
Other investment securities	-	5.00%	-	5.00%
Liabilities				
Customer deposits	12.67%	2.59%	8.82%	2.27%
Deposits and balances due to banking institutions	-	3.33%	7.25%	3.30%
Long term borrowings	-	6.00%	-	6.00%

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks assets and liabilities ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

3.5 Fair values of financial assets and liabilities

Effective 1 January 2009, the Bank adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- 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 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Bank's assets that are measured at fair value at 31 December 2015. There were no liabilities measured at fair value through profit and loss for the same period (2014: Nil)

As at 31 December 2015	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
Assets				
Available for sale financial assets				
– Debt investments	675,345	-	251,984	927,329
Total assets	675,345	-	251,984	927,329
As at 31 December 2014				
Assets				
Available for sale financial assets				
– Debt investments	724,589	-	190,256	914,845
Total assets	724,589	-	190,256	914,845

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily foreign corporate bonds and Nairobi Securities Exchange ("NSE") equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The movement in level 3 during the year are in respect of forex gains.

The fair value of held-to-maturity investment securities listed at NSE as at 31 December 2015 is estimated at Shs 1,381,153,000 (2014: Shs 612,721,000) compared to their carrying value of Shs, 1,453,700,000 (2014: Shs 630,000,000). The available for sale investment securities are carried at fair value in the Bank's books. The fair values of the Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

- to comply with the capital requirements set by the Central Bank of Kenya;
- to safeguard the Bank's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders;
- to maintain a strong capital base to support the development of its business.

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs1 billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.50%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank's total regulatory capital is divided into two tiers:

- Tier 1 capital (core capital): share capital, share premium, plus retained earnings.
- Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 capital is limited to 100% of Tier 1 capital.

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

New prudential guidelines

On 1 January 2013, the Central Bank of Kenya (CBK) issued revised prudential guidelines introducing some elements of Basel II principles in the measurement and assessment of capital adequacy requirements, primarily incorporating operational risk and market risk. The guidelines include transitional provisions with an effective date of 1 January 2015. The main features of the revised guideline relating to capital adequacy are as follows:

Introduction of Basel II principles in the measurement and assessment of Capital Adequacy Ratios (CARs)

Kenyan banks have been computing the CARs based on Basel I methodology i.e. restricted to credit risk measurement of assets only. In the revised guideline, some principles of Basel II measurement of capital adequacy have been introduced. This will require Kenyan banks to also take into account capital charges for:

a. Operational risk –using the Basic Indicator Approach
b. Market risk - both specific and general market risks to be calculated using the standardized management approach.

Higher minimum capital adequacy ratios :

The minimum capital adequacy ratios (CARs) have been raised in the year by creating a “capital conservation buffer” of 250 basis points over the previous minimum CAR:

- Core capital / Total risk weighted assets ratio from 8% to 10.5%
- Total capital/ Total risk weighted assets ratio from 12% to 14.5%

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December. The ratios for 2015 have been computed based on the new guidelines:

	2015 Shs’000	**2014 Shs’000**
Tier 1 capital	3,342,280	2,615,365
Tier 1 + Tier 2 capital	3,474,530	2,755,840
Risk-weighted assets		
Adjusted credit risk weighted assets	15,449,597	12,225,483
Total market risk weighted assets equivalent	358,308	382,029
Total risk weighted assets equivalent for operation risk	2,196,286	1,768,349
Total risk-weighted assets	18,004,191	14,375,861
Basel ratio		
Core capital to risk – weighted assets (CBK minimum –10.5%)	18.60%	18.20%
Total capital to risk– weighted assets (CBK minimum- 14.50%)	19.30%	19.20%
Core Capital to deposits (CBK minimum – 8 %)	23.80%	21.30%

4 Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. 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. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances

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

(b) Impairment of available for sale equity investments

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

(c) Held to maturity financial assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale and measure the assets at fair value.

5 Interest income

	2015 Shs'000	2014 Shs'000
Loans and advances to customers	1,885,454	1,427,341
Government securities	296,816	187,511
Cash and short term funds	115,535	63,792
Other investments	82,051	76,051
	2,379,856	1,754,695

6 Interest expense

	2015 Shs'000	2014 Shs'000
Fixed deposit accounts	1,009,898	656,822
Current and demand deposits	201,872	124,014
Deposits and balances due to banking institutions	6,151	2,598
Borrowings	107,473	119,465
	1,325,394	902,899

7 Expenses by nature

The following items are included within operating expenses

	2015 Shs'000	2014 Shs'000
Employee benefits (Note 8):		
Key management	115,405	82,350
Other employees	168,028	144,109
Depreciation of property and equipment (Note 16)	28,709	19,460
Amortisation of intangible assets (Note 17)	21,814	21,312
Auditor's remuneration (inclusive of value added tax)	3,877	3,693

8 Employee benefits

The following items are included within employee benefits expense:

	2015 Shs'000	2014 Shs'000
Retirement benefit costs:		
– National Social Security Fund	136	129

NOTES TO THE FINANCIAL STATEMENTS

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9 Investment in associates

	2015 Shs'000	2014 Shs'000
At start of year	596,594	557,594
Share of profit for the year, net of tax	9,700	43,500
Dividends received	-	(4,500)
Disposal of associate –Brookhouse Schools Ltd	(353,183)	-
At end of year	253,111	596,594

The Bank owns 24.52% share capital of Victoria Towers Limited. Victoria Towers Limited's profit after tax for 2015 was Shs 38,947,000 (2014: Shs 46,355,810). The Bank accounts for its share of associates profit equivalent to its shareholding.

The summarised financial information in respect of the associate is set out below;

	2015 Shs'000
Total Assets	1,415,685
Total Liabilities	(383,422)
Net Assets	1,032,263
Bank's share of net assets of Victoria Towers Limited	253,111
Total Revenue	86,060
Profit for the year	38,947
Bank's share of profit for the year	9,550
Under provision of prior year share of profit	150
Total Bank's share of profit	9,700

The second associate investment was in Brookhouse Schools Limited acquired in 2010 and disposed of in 2015. The Bank owned 20% share capital of the Schools. Some senior executives of the Bank had an option to purchase 5% of this investment at the original cost.

During the year, the Bank divested from Brookhouse Schools Limited and sold its share to Kenya Education Limited. This was after the Option holders had exercised their option to invest and fully paid for their 5% share of the investment.

9 Investment in associates (continued)

	Shs'000
Sale proceeds from Kenya Education Limited	540,000
Transaction Cost	(906)
Net sales proceeds	539,094
Proceeds from exercise of option	56,250
Carrying value of investment	(353,183)
Gain on sale of associate	242,161

The carrying value of the investment was made up of:	
Original cost	225,000
Transaction costs	2,249
Share of profits, net of dividend received over the years	73,034
Share of revaluation reserve	52,900
	353,183

10 Income tax expense

	2015 Shs'000	2014 Shs'000
Current income tax	189,086	172,242
Deferred income tax (Note 18)	(3,652)	(3,161)
Capital gains tax	18,405	-
Under provision of deferred income tax asset in prior year	1,463	1,459
	205,302	170,540

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2015 Shs'000	2014 Shs'000
Profit before income tax	919,102	634,885
Tax calculated at the statutory income tax rate of 30% (2014: 30%)	275,731	190,465
Tax effect of:		
Income not subject to tax	(101,687)	(33,362)
Expenses not deductible for tax purposes	11,390	11,978
Under provision of deferred income tax asset in prior years	1,463	1,459
Capital gains tax	18,405	-
Income tax expense	205,302	170,540

11 Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 713,800,000 (2014: Shs 464,345,000) and on the weighted average number of ordinary shares outstanding during the year.

	2015	2014
Net profit attributable to shareholders (Shs thousands)	713,800	464,345
Weighted average number of ordinary shares in issue (thousands)	29,906	29,286
Basic earnings per share (Shs)	23.87	15.86

There were no potentially dilutive shares outstanding at 31 December 2015 or 31 December 2014. Diluted earnings per share are therefore the same as basic earnings per share.

12 Dividends per share

During the year, the Bank paid an interim dividend of Shs 3.00 per share amounting to a total of Shs 91,125,000 (2014: Shs 147,180,000). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

13 Cash and balances with Central Bank of Kenya

	2015 Shs'000	2014 Shs'000
Cash in hand	82,144	47,909
Balances with Central Bank of Kenya	1,237,465	1,036,035
Central Bank of Kenya - REPO	-	449,505
	1,319,609	1,533,449

14 Loans and advances to customers

	2015 Shs'000	2014 Shs'000
Overdrafts	3,886,769	2,319,066
Loans	8,876,160	8,234,889
Advances under finance lease agreements	406,491	450,283
Gross loans and advances	13,169,420	11,004,238
Less: Provision for impairment of loans and advances		
- Individually assessed	-	-
- Collectively assessed	(45,000)	(25,000)
Net loans and advances	13,124,420	10,979,238

Movements in provisions for impairment of loans and advances are as follows:

	Identified Shs'000	Unidentified Shs'000	Total Shs'000
Year ended 31 December 2014			
At 1 January 2014	-	15,100	15,100
Increase in impairment provision	-	9,900	9,900
At 31 December 2014	-	25,000	25,000
Charge/(credit) to profit or loss			
Increase in impairment provision (as above)	-	9,900	9,900
Direct write-off of debts	1,082	-	1,082
Recovery of amounts previously written off	-	-	-
	1,082	9,900	10,982

14 Loans and advances to customers (continued)

Year ended 31 December 2015	Identified Shs'000	Unidentified Shs'000	Total Shs'000
At 1 January 2015	-	25,000	25,000
Increase in impairment provision	-	20,000	20,000
At 31 December 2015	-	45,000	45,000
Charge/(credit) to profit or loss			
Increase in impairment provision (as above)	-	20,000	20,000
Direct write-off of debts	26	-	26
Recovery of amounts previously written off	-	-	-
	26	20,000	20,026

All impaired loans are written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2015 was nil (2014: Nil).

The loans and advances to customers include finance lease receivables, which may be analysed as follows:

	2015 Shs'000	2014 Shs'000
Net investment in finance leases:		
Not later than 1 year	24,317	43,248
Later than 1 year and not later than 5 years	365,824	363,566
Later than 5 years	16,350	43,469
	406,491	450,283

There were no individually assessed provisions for finance lease receivable as at 31 December 2015 (2014: Nil).

15 Investment securities	2015 Shs'000	2014 Shs'000
Available for sale		
Government securities	675,345	717,360
Foreign securities	190,597	143,126
Other local investments	61,387	54,359
Total securities available for sale	927,329	914,845
Held to maturity		
Government securities		
- Maturing within 91 days of the date of acquisition	99,851	-
- Maturing after 91 days of the date of acquisition	2,048,594	1,682,520
Local corporate bond and investments	181,782	30,275
Foreign investments	90,335	76,132
Total securities held to maturity	2,420,562	1,788,927
Total investment securities	3,347,891	2,703,772

The Bank invests in government securities, corporate infrastructure bonds, placements with financial and other institutions Banks as well as various offshore funds. These investments have been classified as either held to maturity or available for sale.

The movement in investments is shown below:

	Value at 01/01/2015 Shs'000	Purchases at cost Shs'000	Disposals /maturities Shs'000	Premium/ discount Shs'000	Unearned interest Shs'000	Interest receivable Shs'000	Forex gains/losses Shs'000	Gain in fair value Shs'000	Value at 31/12/2015 Shs'000
Available for sale									
Government securities	717,360	100,000	(50,931)	-	-	-	-	(91,084)	675,345
Foreign securities	143,126	-	-	-	-	-	17,893	29,578	190,597
Other local investments	54,359	-	-	-	-	-	7,028		61,387
	914,845	**100,000**	**(50,931)**	**-**	**-**	**-**	**24,921**	**(61,506)**	**927,329**
Held to maturity									
Government securities:									
- Maturing within 91 days of the date of acquisition	-	100,000	-	-	(149)	-	-	-	99,851
- Maturing after 91 days of the date of acquisition	1,682,520	1,700,000	(1,350,000)	(1,120)	(2,037)	19,231	-	-	2,048,594
Local corporate bond and investments	30,275	1,801,200	(1,657,775)	-	-	8,082	-	-	181,782
Foreign investments	76,132	-	-	-	-	4,369	9,834	-	90,335
	1,788,927	**3,601,200**	**(3,007,775)**	**(1,120)**	**(2,186)**	**31,682**	**9,834**	**-**	**2,420,562**
Total investment securities	**2,703,772**	**3,701,200**	**(3,058,706)**	**(1,120)**	**(2,186)**	**31,682**	**34,755**	**(61,506)**	**3,347,891**

16 (a) Property and equipment

	Office premises Shs'000	Office improvements Shs'000	Furniture, fittings & equipment Shs'000	Motor vehicles Shs'000	Total Shs'000
At 1 January 2014					
Cost	118,313	40,367	67,456	37,865	264,001
Accumulated depreciation	(20,853)	(27,811)	(56,916)	(21,003)	(126,583)
Net book amount	97,460	12,556	10,540	16,862	137,418
Year ended 31 December 2014					
Opening net book amount	97,460	12,556	10,540	16,862	137,418
Additions	-	21,928	20,440	28,347	70,715
Net book value of assets disposed	-	-	-	(3,300)	(3,300)
Depreciation charge	(2,366)	(2,736)	(6,432)	(7,926)	(19,460)
Closing net book amount	95,094	31,748	24,548	33,983	185,373
At 31 December 2014					
Cost	118,313	62,295	87,896	51,732	320,236
Accumulated depreciation	(23,219)	(30,547)	(63,348)	(17,749)	(134,863)
Net book amount	95,094	31,748	24,548	33,983	185,373
Year ended 31 December 2015					
Opening net book amount	95,094	31,748	24,548	33,983	185,373
Additions	-	29,520	55,156	910	85,586
Net book value of assets held for sale (Note 16(b))	(36,139)	(7,638)	(2,097)	-	(45,874)
Net book value of assets disposed	-	-	-	(910)	(910)
Depreciation charge	(2,366)	(5,919)	(8,291)	(12,133)	(28,709)
Closing net book amount	56,589	47,711	69,316	21,850	195,466
At 31 December 2015					
Cost	77,246	72,172	137,419	51,732	338,569
Accumulated depreciation	(20,657)	(24,461)	(68,103)	(29,882)	(143,103)
Net book amount	56,589	47,711	69,316	21,850	195,466

Included in Office premises are costs related to the floor owned by the Bank at Victoria Towers and the parking bays at the premises. The remaining floors of Victoria Towers are owned by Victoria Towers Limited, an Associate of the Bank (Note 9).

16 (b) Property and equipment held for sale

	Shs'000
At 31 December 2015	
Cost	66,344
Accumulated Depreciation	(20,470)
Net book amount	45,874
Expected sale proceeds as per sale agreement (fair value)	(40,000)
Expected loss on disposal charged to profit or loss	5,874

The property and equipment held for sale relates to the premises of the former Riverside Branch, which was relocated to Fortis Tower in Westlands.

17 Intangible assets

	Shs'000
At 1 January 2014	
Cost	99,367
Accumulated amortisation	(40,342)
Net book amount	59,025
Year ended 31 December 2014	
Opening net book amount	59,025
Additions	7,253
Amortisation charge	(21,312)
Closing net book amount	44,966
At 31 December 2014	
Cost	106,620
Accumulated amortisation	(61,654)
Closing net book amount	44,966

	Shs'000
Year ended 31 December 2015	
Opening net book amount	44,966
Additions	8,895
Amortisation charge	(21,814)
Closing net book amount	32,047
At 31 December 2015	
Cost	115,515
Accumulated depreciation	(83,468)
Closing net book value	32,047

18 Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2013: 30%).
The movement on the deferred income tax account is as follows:

	2015 Shs'000	2014 Shs'000
At start of year	4,054	7,597
Credit to profit or loss (Note 10)	3,652	3,161
Under provision of deferred income tax asset in prior years	(1,463)	(1,459)
	2,189	1,702
Credit /(charge) to other comprehensive income	18,452	(5,245)
At end of year	24,695	4,054

The deferred income tax asset, deferred income tax charge/(credit) in the income statement is attributable to the following items:

Year ended 31 December 2015	**1.1.2015 Shs'000**	**(Charged)/ credited to P&L Shs'000**	**Charge to OCI Shs'000**	**31.12.2015 Shs'000**
Provisions for impairment	7,500	6,000	-	13,500
Excess of accounting depreciation over tax allowance	1,799	(3,811)	-	(2,012)
Fair value gains on available for sale investments	(5,245)	-	18,452	13,207
Deferred income tax asset	4,054	2,189	18,452	24,695

Year ended 31 December 2014	**1.1.2014 Shs'000**	**(Charged)/ credited to P&L Shs'000**	**Charge to OCI Shs'000**	**31.12.2014 Shs'000**
Provisions for impairment	4,530	2,970	-	7,500
Excess of accounting depreciation over tax allowance	3,067	(1,268)	-	1,799
Fair value gains on available for sale investments	-	-	(5,245)	(5,245)
Deferred income tax asset	7,597	1,702	(5,245)	4,054

19 Other assets

	2015 Shs'000	2014 Shs'000
Local and upcountry cheques for clearing or collection	135,607	102,928
Other debtors	13,067	16,271
Prepayments	42,468	35,115
	191,142	154,314

20 Customer deposits

Current and demand deposits	1,633,938	1,336,318
Savings accounts	2,132,110	1,886,061
Fixed deposit accounts	10,258,358	9,066,283
	14,024,406	12,288,662

21 Deposits and balances due to banking institutions

Balances due to local banks	666,195	100,020
Balances due to foreign banks	410,742	536,532
	1,076,937	636,552

22 Deposits and balances due from banking institutions

Placements maturing within 90 days	454,791	-
Overnight lending	200,037	701,570
Current account balances with other banks	836,863	338,883
	1,491,691	1,040,453

23 Long term borrowings

At start of year	1,387,418	1,482,686
Additions	70,528	77,914
Payments during the year	(160,367)	(181,404)
Accrued interest	7,849	8,222
At end of year	1,305,428	1,387,418

The long term borrowings were received from Symnex Limited and Cistenique Investment Fund B.V. (CIF) to increase the Bank's capability for lending in foreign currencies. Symnex Limited availed a credit line of USD 15Million for a tenor of 6 years whereas C I F availed a USD 18million credit line for a period of 10years. Both facilities attract interest at a rate of 6 %p.a.

24	Other liabilities	2015 Shs'000	2014 Shs'000
	Bankers cheques	13,435	18,704
	Unclaimed balances	3,928	3,621
	Accrued expenses	45,736	14,200
	Other	24,198	19,387
		87,297	55,912

25	Share capital	Number of Shares '000	Share Capital Shs'000	Share Premium Shs'000
	Balance at 1 January 2014	29,136	582,721	370,833
	Issue of new shares	300	6,000	12,000
	At 31 December 2014	29,436	588,721	382,833
	At 1 January 2015	29,436	588,721	382,833
	Issue of new shares	939	18,780	37,560
	At 31 December 2015	30,375	607,501	420,393

26	Regulatory reserve	2015 Shs'000	2014 Shs'000
	At start of year	93,000	73,000
	Transfer from retained earnings	5,000	20,000
	At end of year	98,000	93,000

The regulatory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Bank's accounting policy. The reserve is not distributable.

27 Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

	2015 Shs'000	2014 Shs'000
Contingent liabilities		
Acceptances and letters of credit	1,869,073	932,962
Guarantees and performance bonds	963,428	824,901
	2,832,501	1,757,863

Nature of contingent liabilities

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The Bank expects most acceptances to be presented, and reimbursement by the customer is normally immediate. Letters of credit commit the Bank to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

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

In addition, the Bank is a defendant in various legal actions. In the opinion of the Directors after taking appropriate legal advice, the outcome of such actions will not give rise to any significant liabilities.

Other commitments	2015 Shs'000	2014 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,734,613	1,310,852
Foreign exchange forward contracts	36,233	6,024
	1,770,846	1,316,876

Nature of commitments

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

28 Analysis of cash and cash equivalents as shown in the cash flow statement

	2015 Shs'000	2014 Shs'000
Cash and balances with Central Bank of Kenya (Note 13)	1,319,609	1,533,449
Less: Cash reserve requirement	(725,390)	(630,925)
Deposits and balances due from banking institutions (Note 22)	1,491,691	1,040,453
Government securities :		
- Maturing within 91 days of the date of acquisition (Note 15)	99,851	-
	2,185,761	1,942,977

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

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 5.25% (2014: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

29 Related party transactions

The Bank is owned by a diverse group of shareholders and none of them holds a controlling interest.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

(i) Loans and advances to related parties

Advances to customers at 31 December 2015 include loans to companies controlled by directors or their families, and/ or shareholders of the Bank amounting to Shs 101,120,000 (2014: Shs 161,865,000).

Advances to customers at 31 December 2015 also include loans to employees amounting to Shs 50,368,000 (2014: Shs 60,197,000).

Loans to related parties are advanced at commercial rates. However, employee loans are advanced at rates lower than commercial rates but higher than the ruling fringe benefit tax rates. Interest charged on loans to related parties including employees amounted to Shs 23,874,000 (2014: Shs18,784,000)

Loans and advances to related parties are 100 % performing and fully secured. No impairment provision has been recognised on loans and advances to related parties during the year (2014: Nil).

(ii) Related party deposits

At 31 December 2015, customer deposits include deposits due to staff, directors and shareholders or their associates amounting to Shs 628,801,000 (2014: Shs 352,600,000). Such deposits attract rates of interest similar to all other deposits.

(iii) Purchase of goods and services	**2015 Shs'000**	**2014 Shs'000**
Victoria Towers Limited - rent and service charge	6,574	4,683
Victoria Towers Limited – parking	292	292
	6,866	4,975
(iv) Key management compensation		
Salaries and other short-term employee benefits	115,405	82,350
(v) Directors' remuneration		
Fees for services as a director	33,000	18,000
Salaries (included in key management compensation above)	61,585	39,520
	94,585	57,520


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