0045/04

National Bank

National Bank of Kenya Limited
Head Office, National Bank Building
Harambee Avenue,
P.O. Box 72866 - 00200 Nairobi, Kenya
Tel: +254 (0) 20 2828000
Cell: +254 (0) 711 038000
Email: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

5th April 2016

Our Ref: CS/LD/9900/22

The Chief Executive Officer
Capital Markets Authority
Embankment Plaza, 3rd Floor
Longonot Road, off Kilimanjaro Avenue
Upperhill
NAIROBI

Attention: Mr. Paul Muthaura

Dear Sir,

RE: AUDITED FINANCIAL STATEMENTS OF THE BANK FOR THE PERIOD ENDED 31ST DECEMBER 2015

Enclosed herewith please find the Bank's audited Financial Statements and Auditor's report for the period ended 31st December 2015, duly approved by the Bank's Board of Directors.

Kindly acknowledge receipt.

We thank you for your continued support

Yours faithfully,

HABIL A. WASWANI
COMPANY SECRETARY

Encls...

MANAGEMENT
Chief Executive
Director - MO
Director - C S & C
Director - R P & S
Director - C S

NATIONAL BANK OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2015

NATIONAL BANK OF KENYA LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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NATIONAL BANK OF KENYA LIMITED

CORPORATE INFORMATION

DIRECTORS

Non-Executive

1. Mr. M A Hassan	- Chairman
2. Cabinet Secretary, National Treasury	- (CS - National Treasury)
3. Managing Trustee - National Social Security Fund	- (MT- NSSF)
4. Eng. E K Mwongera	
5. Mr. F L Atwoli	
6. Ms. L Mirehane	
7. Mr. J K Kering'	

Executive

8. Mr. M S Ahmed	- Managing Director
9. Mr. B Biko	- Executive Director – Corporate, Institutional & Business Banking Division

BOARD COMMITTEES

Nomination & Remuneration Committee

1. Mr. F L Atwoli*
2. Eng. E K Mwongera
3. Mr. J K Kering'
4. CS National Treasury
5. MT- NSSF

Credit Legal & Remedial Committee

1. Mr. J K Kering'*
2. Eng. E K Mwongera
3. Ms. L Mirehane
4. MT- NSSF
5. CS National Treasury

Audit Committee

1. Ms. L Mirehane*
2. Eng. E K Mwongera
3. Mr. J K Kering'
4. Mr. F L Atwoli

Risk Committee

Eng. E K Mwongera*
Ms. L Mirehane
CS, National Treasury
MT - NSSF

* - Chairperson of the Board Committee

COMPANY SECRETARY	H A Waswani (CPS No B/1650) Certified Public Secretary (Kenya) Harambee Avenue P O Box 72866 City Square 00200 Nairobi
REGISTERED OFFICE	National Bank Building 18 Harambee Avenue P O Box 72866 City Square 00200 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 40092 GPO 00100 Nairobi

NATIONAL BANK OF KENYA LIMITED

REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2015 which show the state of financial affairs of National Bank of Kenya Limited (the "bank") and its subsidiaries (together the "group").

ACTIVITIES

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

RESULTS FOR THE YEAR

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
(Loss)/profit before taxation	(1,637,985)	1,303,131	(1,684,397)	1,203,326
Taxation credit/(charge)	484,508	(432,429)	501,104	(402,628)
(Loss)/profit for the year	(1,153,477)	870,702	(1,183,293)	800,698

DIVIDEND

i) The directors do not recommend the payment of a dividend to the holders of the preference shares over and above any further dividend that may be paid to them and the ordinary shareholders in respect of the financial year ended 31 December 2015 (2014 – Sh nil).

ii) The directors do not recommend the payment of a dividend to the holders of the ordinary shares in respect of the financial year ended 31 December 2015 (2014 – Sh nil).

DIRECTORS

The present members of the board are as shown on page 2. Ms. Wangui Mwaniki and Ms. Sylvia Kitonga retired as a non-executive directors with effect from 27 March 2015. Mr. Robert Kibaara resigned as an executive director with effect from 5 July 2015. Mr. Joseph Kering' and Ms. Linnet Mirehane were appointed as a non-executive directors with effect from 27 March 2015. Mr. Boniface Biko was appointed as an executive director with effect from 17 July 2015.

BONUS SHARES

As at 31 December 2015, the issued and fully paid share capital comprised of 307,995,200 (2014 - 280,000,000) ordinary shares with a par value of Sh. 5. The additional 27,995,200 ordinary shares was on account of a bonus issue that was applied in paying up in full the unissued ordinary shares. The bonus shares which were approved by the shareholders at its annual general meeting held on 27th March 2015, were allocated to shareholders in the proportion of one for every ten of existing issued and paid up 280,000,000 shares then held by shareholders respectively.

AUDITORS

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

ON BEHALF OF THE BOARD

H A Waswani
Company Secretary
Nairobi

29th March 2016

NATIONAL BANK OF KENYA LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

Director

Director

29th March 2016

Deloitte.

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place
Waiyaki Way, Muthangari
P.O. Box 40092 - GPO 00100
Nairobi
Kenya

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Dropping Zone No 92
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www.deloitte.com

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

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Kenya Limited and its subsidiaries, set out on pages 7 to 73, which comprise the consolidated and bank statements of financial position as at 31 December 2015, and the consolidated and bank statements of profit or loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated and bank statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the state of financial affairs of the bank and its subsidiaries as at 31 December 2015 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act and the Banking Act.

Partners: S. O. Onyango, F. O. Aloo, H. Gachokaf, N. K. Irina, B. W. Irungu, I. Karim, O. M. Mbogho, A. N. Muraya, P. Mwaura, J. Nyangi'ara, P. Otieno, J. W. Wanga
* British

Report on Other Legal Requirements

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

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

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

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya

31 **March 2016**

NATIONAL BANK OF KENYA LIMITED
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
INTEREST INCOME	5	12,248,203	10,697,180	12,248,203	10,697,180
INTEREST EXPENSE	6	(5,850,664)	(3,899,729)	(5,866,846)	(3,907,301)
NET INTEREST INCOME		6,397,539	6,797,451	6,381,357	6,789,879
Fee and commission income		2,126,699	2,136,425	2,052,177	2,003,628
Fee and commission expense		-	(5,178)	-	(5,178)
NET FEE AND COMMISSION INCOME	7	2,126,699	2,131,247	2,052,177	1,998,450
Gains on foreign exchange dealings	8	564,754	434,229	564,754	434,229
Other operating income	9	466,101	571,267	466,101	571,267
Operating expenses	10(a)	(7,473,950)	(6,977,202)	(7,429,658)	(6,936,638)
Impairment losses on loans and advances	17(c)	(3,719,128)	(525,307)	(3,719,128)	(525,307)
Restructuring costs	10(b)	-	(1,128,554)	-	(1,128,554)
(LOSS)/PROFIT BEFORE TAXATION		(1,637,985)	1,303,131	(1,684,397)	1,203,326
TAXATION CREDIT/(CHARGE)	12	484,508	(432,429)	501,104	(402,628)
(LOSS)/PROFIT FOR THE YEAR		(1,153,477)	870,702	(1,183,293)	800,698
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Fair value gain on available for sale financial assets	16(c)	-	16,997	-	16,997
Cumulative fair value gain reclassified from equity on disposal of available for sale assets		(16,997)	-	(16,997)	-
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME		(16,997)	16,997	(16,997)	16,997
TOTAL COMPREHENSIVE (LOSS)/INCOME		(1,170,474)	887,699	(1,200,290)	817,695
(LOSS)/EARNINGS PER SHARE - basic & diluted	13	Sh (3.86)	Sh 2.91	Sh (3.96)	Sh 2.67

NATIONAL BANK OF KENYA LIMITED
STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	14	16,438,119	17,195,213	16,119,714	16,965,482
Deposits and balances due from financial institutions	15	4,257,046	2,033,662	4,257,046	2,033,662
Government securities	16	27,083,464	30,091,040	27,083,464	30,091,040
Loans and advances to customers (net)	17	67,803,990	65,641,491	67,803,990	65,641,491
Other assets	18	2,589,828	2,000,651	2,589,689	1,898,187
Other investments	19	231,647	168,305	231,647	168,305
Due from a subsidiary company	20(a)	-	-	169,991	98,845
Corporate tax recoverable	12(c)	505,652	423,518	510,846	431,696
Deferred tax asset	21	483,299	-	482,668	-
Investment in subsidiary companies	22	19,963	19,963	19,963	19,963
Property and equipment	23(a)	4,188,468	4,551,542	4,187,457	4,550,257
Operating lease prepayments	24	-	419	-	419
Intangible assets	25	1,399,365	966,192	1,399,085	965,539
		125,000,841	123,091,996	124,855,560	122,864,886
Non-current assets held for sale	23(b)	439,475	-	439,475	-
TOTAL ASSETS		125,440,316	123,091,996	125,295,035	122,864,886
LIABILITIES					
Customer deposits	26	110,622,469	104,733,709	110,622,469	104,733,709
Deposits and balances due to financial institutions	27	2,343,245	5,077,625	2,343,245	5,077,625
Other liabilities	28	1,369,251	971,351	1,363,897	854,119
Due to a subsidiary company	20(b)	21,976	21,976	21,976	21,976
Unclaimed dividends	29(a)	29,826	38,085	29,826	38,085
Deferred tax liability	21	-	25,227	-	25,460
TOTAL LIABILITIES		114,386,767	110,867,973	114,381,413	110,750,974
CAPITAL AND RESERVES					
Share capital	30	7,214,976	7,075,000	7,214,976	7,075,000
Property revaluation surplus		509,752	1,188,147	509,752	1,188,147
Retained earnings		2,709,414	3,378,423	2,569,487	3,268,312
Statutory reserve		619,407	565,456	619,407	565,456
Fair value reserve		-	16,997	-	16,997
SHAREHOLDERS' FUNDS		11,053,549	12,224,023	10,913,622	12,113,912
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		125,440,316	123,091,996	125,295,035	122,864,886

The financial statements on pages 7 to 73 were approved and authorised for issue by the board of directors on 29th March 2016 and were signed on its behalf by:

Director

Director

Managing Director

Secretary

NATIONAL BANK OF KENYA LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital Sh' 000	Property revaluation surplus Sh' 000	Retained earnings Sh' 000	Statutory reserve Sh' 000	Fair value reserve Sh' 000	Total Sh' 000
At 1 January 2014		7,075,000	1,201,022	3,277,535	334,842	-	11,888,399
Total comprehensive income for the year		-	-	870,702	-	16,997	887,699
Transfer of excess depreciation		-	(18,393)	18,393	-	-	-
Deferred tax on excess depreciation		-	5,518	(5,518)	-	-	-
Transfer to statutory reserve		-	-	(230,614)	230,614	-	-
Dividends declared – year 2013	29(a)	-	-	(552,075)	-	-	(552,075)
At 31 December 2014		7,075,000	1,188,147	3,378,423	565,456	16,997	12,224,023
At 1 January 2015		7,075,000	1,188,147	3,378,423	565,456	16,997	12,224,023
Total comprehensive income for the year		-	-	(1,153,477)	-	(16,997)	(1,170,474)
Realized revaluation reserve on sale of property		-	(668,546)	668,546	-	-	-
Bonus shares issued	30	139,976	-	(139,976)	-	-	-
Transfer of excess depreciation		-	(14,070)	14,070	-	-	-
Deferred tax on excess depreciation		-	4,221	(4,221)	-	-	-
Transfer to statutory reserve		-	-	(53,951)	53,951	-	-
At 31 December 2015		7,214,976	509,752	2,709,414	619,407	-	11,053,549

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

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

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

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

NATIONAL BANK OF KENYA LIMITED

BANK STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share capital Sh' 000	Property revaluation surplus Sh' 000	Retained earnings Sh' 000	Statutory earning Sh' 000	Fair value reserve Sh' 000	Total Sh' 000
At 1 January 2014		7,075,000	1,201,022	3,237,428	334,842	-	11,848,292
Total comprehensive income for the year		-	-	800,698	-	16,997	817,695
Transfer of excess depreciation		-	(18,393)	18,393	-	-	-
Deferred tax on excess depreciation		-	5,518	(5,518)	-	-	-
Transfer to statutory reserve		-	-	(230,614)	230,614	-	-
Dividends declared – year 2013	29(a)	-	-	(552,075)	-	-	(552,075)
At 31 December 2014		7,075,000	1,188,147	3,268,312	565,456	16,997	12,113,912
At 1 January 2015		7,075,000	1,188,147	3,268,312	565,456	16,997	12,113,912
Total comprehensive income for the year		-	-	(1,183,293)	-	(16,997)	(1,200,290)
Realized revaluation reserve on sale of Property		-	(668,546)	668,546	-	-	-
Bonus shares issued	30	139,976	-	(139,976)	-	-	-
Transfer of excess depreciation		-	(14,070)	14,070	-	-	-
Deferred tax on excess depreciation		-	4,221	(4,221)	-	-	-
Transfer to statutory reserve		-	-	(53,951)	53,951	-	-
At 31 December 2015		7,214,976	509,752	2,569,487	619,407	-	10,913,622

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

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

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

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

NATIONAL BANK OF KENYA LIMITED

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from/(used in) operations	31(a)	4,526,550	(1,025,184)	4,417,887	(1,171,263)
Taxation paid	12(c)	(106,152)	(1,188,394)	(86,174)	(1,165,391)
Net cash generated from/(used in) operating activities		4,420,398	(2,213,578)	4,331,713	(2,336,654)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	23(a)	(999,826)	(1,057,100)	(999,815)	(1,056,024)
Purchase of intangible assets	25	(758,494)	(267,328)	(758,494)	(267,328)
Proceeds from disposal of property and equipment		695,505	26,804	695,505	26,804
Purchase of other investments	19	(14,447)	(1,280)	(14,447)	(1,280)
Net cash used in investing activities		(1,077,262)	(1,298,904)	(1,077,251)	(1,297,828)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	29(a)	(8,259)	(545,060)	(8,259)	(545,060)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,334,877	(4,057,542)	3,246,203	(4,179,542)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		8,701,584	12,759,126	8,471,853	12,651,395
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31(b)	12,036,461	8,701,584	11,718,056	8,471,853

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1 REPORTING ENTITY

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

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

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

2 ACCOUNTING POLICIES

Statement of compliance

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

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

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2015

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

IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan.
According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).

- If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contributions to the employees' periods of service in accordance with IAS 19 paragraph 70 The amendment requires retrospective application

The directors anticipate that the application of the standard will not have an impact on the group's financial statements since the company doesn't have a defined benefit plan.

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)

Annual Improvements 2010-2012 Cycle

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

The amendment to IFRS 2 is to clarify the definition of vesting condition and market condition to ensure the consistent classification of conditions attached to a share-based payment. It also adds definitions for 'performance condition' and 'service condition' which were previously included as part of the definition of 'vesting condition'. The amendment requires prospective application.

The amendment to IFRS 3 clarifies that contingent consideration should be measured at fair value at each reporting date, irrespective of whether or not the contingent consideration falls within the scope of IFRS 9 or IAS 39. Changes in fair value (other than measurement period adjustments as defined in IFRS 3) should be recognised in profit and loss. The amendment to IFRS 3 requires prospective application

The amendment to IFRS 8(i) requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a brief description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments share similar economic characteristics; and (ii) clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if information about the amount of segment assets are regularly provided to the chief operating decision-maker.

The amendment to IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.

The amendment to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses

The amendment to IAS 24 clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)

Annual Improvements 2011-2013 Cycle

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

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

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

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

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

(ii) New standards and amendments to published standards effective for the year ended 31 December 2015

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 July 2015

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods

IFRS 9 Financial Instruments

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

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (Continued)

IFRS 9 Financial Instruments (Continued)

Key requirements of IFRS 9:

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

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

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

IFRS 15 Revenue from Contracts with Customers

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

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

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

2 ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

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

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

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

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

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

Annual Improvements 2012-2014 Cycle

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

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

(iv) Early adoption of standards

The group did not early adopt any new or amended standards in 2015.

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary National Bank Insurance Agency Limited for the year ended 31 December 2015. Subsidiaries are those companies in which the bank has power to exercise control over the operations of the entities. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group. Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

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

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

(b) Disposal of subsidiaries

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

Interest income and expense

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

Fees and commissions

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

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

2 ACCOUNTING POLICIES (Continued)

Foreign currency trading income

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

Investments in subsidiary companies

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

Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and accumulated impairment losses. Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss. Each year , the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves. The group's policy is to professionally revalue property at least once every five years. The last valuation was carried out as at 31 December 2013.

Depreciation

Freehold land is not depreciated. Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual instalments over their estimated useful lives. The annual rates in use are:

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

Short leasehold land refers to leases whose lease period does not exceed 50 years. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Non-current assets held for sale

Non-current assets, comprising assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Leasehold land

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

Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset. Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software.

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

2 ACCOUNTING POLICIES (Continued)

Work in progress

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

Taxation

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

(i) Current taxation

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

(ii) Deferred taxation

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

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

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

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

(iii) Current and deferred tax for the year

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

2 ACCOUNTING POLICIES (Continued)

Foreign currencies

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

Offsetting financial instruments

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

Statutory reserve

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

Property revaluation surplus

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

Investments revaluation reserve

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

Retirement benefit costs

i) The group's defined contribution pension scheme

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

ii) Statutory defined contribution pension scheme

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

iii) Other employee entitlements

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

2 ACCOUNTING POLICIES (Continued)

Other investments

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

Financial instruments

i) Recognition

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

ii) Classification and Measurement

Financial assets

The group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

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

Loans, advances and receivables

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

Held to maturity

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

Available-for-sale financial assets

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

2 ACCOUNTING POLICIES (Continued)

i) Classification and Measurement (Continued)

Financial assets (Continued)

Available-for-sale financial assets (Continued)

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

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

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

Impairment and uncollectability of financial assets

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

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

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

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

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

2 ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Impairment and uncollectability of financial assets (Continued)

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

a) Assets carried at amortised cost

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

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

b) Assets carried at fair value

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

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

Derecognition of financial assets

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

Financial liabilities

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

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

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

Derecognition of financial liability

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Repurchase agreement transactions

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

Leasing

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

The group as lessor

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

The group as lessee

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

Contingent liabilities

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

Fiduciary activities

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

Cash and cash equivalents

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

Dividends

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

Segmental reporting

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

Comparatives

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

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

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

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

Impairment losses on loans and advances

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

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

Held -to-maturity investments

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

Classification of leases of land as finance or operating leases

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

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

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

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

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

ii) Key sources of estimation uncertainty

Property and equipment

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

Fair value measurement and valuation

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

4 CAPITAL MANAGEMENT

Regulatory capital

The group's objectives when managing capital are:

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

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

Banking business

The Central Bank of Kenya requires each bank to:

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

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

The bank met all the above minimum requirements by the Central Bank of Kenya as at 31 December 2014. However, as at 31 December 2015, the bank met all the minimum requirements with the exception of the total capital to risk weighted assets requirements which stood at 14.0% against the minimum requirement of 14.5%.

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

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

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

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

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

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

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

	2015 Sh'000	2014 Sh'000
Tier 1 capital		
Ordinary share capital	7,214,976	7,075,000
Retained earnings	2,569,487	3,268,312
	9,784,463	10,343,312
Tier 2 capital		
Revaluation surplus (25%)	127,438	297,037
Statutory reserve	619,407	565,456
	746,845	862,493
Total regulatory capital	10,531,308	11,205,805
Risk weighted assets		
On- balance sheet	73,909,225	77,381,999
Off- balance sheet	1,356,851	3,051,022
Total risk weighted assets	75,266,076	80,433,021

	2015	2014
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 2015-14.5%; 2014- 12%)	14.0%	13.9%
Tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum 2015-10.5%; 2014- 8%)	13.0%	12.9%

4 CAPITAL MANAGEMENT (Continued)

Capital allocation

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

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

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

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

5 INTEREST INCOME

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
Loans and receivables	8,934,150	7,562,961
Deposits and balances due from banking institutions	112,150	149,749
Repurchase agreements with Central Bank of Kenya	-	5,467
Treasury bills – Held to maturity	134,864	259,057
Treasury bonds – Held to maturity	2,672,936	2,433,703
Treasury bonds – Available for sale	394,103	286,243
	12,248,203	10,697,180

6 INTEREST EXPENSE

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(a) On deposits:				
Fixed and short term deposits	3,043,921	2,767,534	3,050,103	2,775,106
Savings accounts	113,792	62,850	113,792	62,850
Demand deposits	1,965,058	782,709	1,965,058	782,709
	5,122,771	3,613,093	5,128,953	3,620,665
(b) On borrowed funds:				
Repurchase agreement with Central Bank of Kenya	-	8,455	-	8,455
Placements from banks and financial institutions	737,893	278,181	737,893	278,181
	737,893	286,636	737,893	286,636
	5,850,664	3,899,729	5,866,846	3,907,301

7 FEES AND COMMISSION

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(a) INCOME				
Letters of credit	124,292	113,556	124,292	113,556
Foreign currency transactions fees and commissions	308	332	308	332
Local currency transactions fees and commissions	1,732,074	1,743,428	1,657,552	1,610,631
Ledger fees	270,025	279,109	270,025	279,109
	2,126,699	2,136,425	2,052,177	2,003,628
(b) EXPENSE				
Letters of credit	-	(5,178)	-	(5,178)
	2,126,699	2,131,247	2,052,177	1,998,450

Included in group local currency transactions fees and commissions is Sh 74,522,778 (2014 - Sh 132,797,135) relating to commissions collected by National Bank Insurance agency, a subsidiary company.

8 GAINS ON FOREIGN EXCHANGE DEALINGS

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

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000

9 OTHER OPERATING INCOME

Bad debts recovered	238,941	402,707
Securities trading held for trading	28,585	28,098
Rental income	23,411	42,870
Gain on disposal of property and equipment	111,335	18,987
Fair value gain on quoted investments (note 19)	48,895	30,358
Miscellaneous income	14,934	48,247
	466,101	571,267

		GROUP		BANK	
		2015	2014	2015	2014
		Sh'000	Sh'000	Sh'000	Sh'000
10(a)	**OPERATING EXPENSES**				
	Staff costs (note 11)	3,561,473	3,673,389	3,528,710	3,643,040
	Directors' emoluments- fees	24,875	21,124	24,875	21,124
	Directors' emoluments- other (executive remuneration)	59,285	55,985	59,285	55,985
	Depreciation (note 23)	337,363	349,603	337,078	349,353
	Amortisation of operating lease prepayments (note 24)	2	6	2	6
	Amortisation of intangible assets (note 25)	320,069	301,231	319,696	300,859
	Repairs and maintenance	160,795	163,601	160,731	162,677
	Security	280,552	238,232	280,552	238,232
	Telephone and postage	173,734	169,608	173,679	169,571
	Operating lease rentals	317,289	252,968	317,289	252,968
	Rates and insurance	115,454	111,976	114,322	110,832
	Contribution to deposit protection fund	128,893	103,712	128,893	103,712
	Software fees	408,786	233,033	408,002	231,791
	Training and research	36,807	36,880	36,800	36,830
	Legal and other professional fees	134,772	230,479	134,772	230,479
	Auditors' remuneration	10,788	9,817	9,610	9,117
	Banking license and fee	13,746	10,396	13,746	10,396
	Other operating expenses	1,389,267	1,015,162	1,381,616	1,009,666
		7,473,950	6,977,202	7,429,658	6,936,638
10(b)	**RESTRUCTURING COSTS**				
	Voluntary early retirement costs	-	1,128,554	-	1,128,554

The above costs related to the amounts incurred in the voluntary early retirement exercise conducted in 2014.

		GROUP		BANK	
		2015	2014	2015	2014
		Sh'000	Sh'000	Sh'000	Sh'000
11	**STAFF COSTS**				
	Salaries and wages	2,967,139	3,045,075	2,937,220	3,018,953
	Pension costs – defined contribution scheme	366,017	347,975	364,388	344,057
	National Social Security Fund Contributions	4,117	4,392	4,081	4,364
	Other staff costs	224,200	275,947	223,021	275,666
		3,561,473	3,673,389	3,528,710	3,643,040

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
12 TAXATION				
(a) Taxation (credit)/charge				
Current taxation:				
Current taxation based on the chargeable profit for the year	24,018	500,732	7,024	470,791
Prior year current tax over provision	-	(9,729)	-	(9,729)
	24,018	491,003	7,024	461,062
Deferred taxation (note 21):				
Current year credit	(508,526)	(33,470)	(508,128)	(33,330)
Prior year over provision	-	(25,104)	-	(25,104)
	(508,526)	(58,574)	(508,128)	(58,434)
	(484,508)	432,429	(501,104)	402,628
(b) Reconciliation of taxation (credit)/charge to the expected taxation based on accounting profit				
Accounting (loss)/profit before taxation	(1,637,985)	1,303,131	(1,684,397)	1,203,326
Tax at the applicable rate of 30%	(491,396)	390,939	(505,319)	360,998
Tax effect of expenses not deductiblefor tax	(211,943)	170,655	209,270	170,655
Tax effect of income not taxable	(205,055)	(94,332)	(205,055)	(94,192)
Prior year current tax over provision	-	(9,729)	-	(9,729)
Prior year deferred taxation (over)/under provision	-	(25,104)	-	(25,104)
Taxation (credit)/charge	(484,508)	432,429	(501,104)	402,628
(c) Corporate tax recoverable				
At 1 January	(423,518)	273,873	(431,696)	272,633
Charge for the year (note 12(a))	24,018	491,003	7,024	461,062
Paid in the year	(106,152)	(1,188,394)	(86,174)	(1,165,391)
At 31 December	(505,652)	(423,518)	(510,846)	(431,696)

13 EARNINGS PER SHARE

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

	GROUP		BANK	
	2015 '000	2014 '000	2015 '000	2014 '000
Earnings				
(Loss)/profit after taxation (Sh '000)	(1,153,477)	870,702	(1,183,293)	800,698
Preference dividend (Sh'000)				
- 1.5% negotiated preferential dividend	-	-	-	-
- Participation pari passu with ordinary shareholders	-	-	-	-
Total preference dividend	-	-	-	-
(Loss)/earnings attributable to ordinary shareholders (Sh'000)	(1,153,477)	870,702	(1,183,293)	800,698
Weighted average number of ordinary shares ('000)				
At 31 December	299,098	299,098	299,098	299,098
(Loss)/Earnings per share				
Basic and diluted (Sh)	(3.86)	2.91	(3.96)	2.67

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

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

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
14 CASH AND BALANCES WITH CENTRAL BANK OF KENYA				
Cash on hand	3,668,583	2,980,344	3,350,178	2,750,613
Balances with Central Bank of Kenya				
- Cash ratio requirement	5,726,388	5,449,666	5,726,388	5,449,666
- Other	7,043,148	8,765,203	7,043,148	8,765,203
	16,438,119	17,195,213	16,119,714	16,965,482

As at 31 December 2015, the cash ratio requirement was 5.25% (2014 – 5.25%) of eligible deposits. The cash ratio requirement funds are not available for the day to day operations of the bank and are non interest bearing.

		GROUP AND BANK	
		2015	2014
		Sh'000	Sh'000
15	**DEPOSITS AND BALANCES DUE FROM FINANCIAL INSTITUTIONS**		
	Deposits due from banking institutions:		
	Foreign currency deposits	598,211	695,756
	Balances due from banking institutions:		
	Local currency	3,658,835	1,337,906
	Foreign currency	-	-
		3,658,835	1,337,906
		4,257,046	2,033,662
	Maturity analysis of deposits and balances due from banking institutions:		
	Maturity within 91 days after placement	3,667,975	2,033,662
	Maturity 91 days after placement	589,071	-
		4,257,046	2,033,662

The effective interest rate on deposits due from banking institutions at 31 December 2015 was 10.3% (2014 – 8%). Included in deposits due from banking institutions is an amount of Sh 96,366,600 (2014- 91,779,073) held under lien as collateral for letters of credit and guarantees issued to the group's customers.

		GROUP AND BANK	
		2015	2014
		Sh'000	Sh'000
16	**GOVERNMENT SECURITIES**		
	(a) Government securities are categorised as follows;		
	Treasury bills held to maturity - At amortised cost	-	2,439,311
	Treasury bonds held to maturity – At amortised cost	15,908,078	11,866,906
	Treasury bonds held to maturity (long term non – negotiable) – At amortised cost*	11,175,386	11,171,207
	Treasury bonds – Available for sale (at fair value)	-	4,613,616
		27,083,464	30,091,040

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

	GROUP AND BANK 2015 Sh'000	2014 Sh'000
16 GOVERNMENT SECURITIES (Continued)		
(b) Maturity analysis of Government securities:		
(i) Treasury bills held to maturity		
Maturing less than 1 year	-	2,439,311
(ii) Treasury Bonds - Held to maturity		
Maturing less than 1 year		-
Maturing between 3 and 5 years	7,147,999	4,465,994
Maturity between 5 and 10 years	6,207,159	7,400,912
Maturity Over 10 years	2,552,920	-
	15,908,078	11,866,906
(iii) Treasury bonds- (long term non- negotiable bonds) Held to maturity		
Interest bearing:		
Maturing less than 1 year	-	-
Maturing between 3 and 5 years	5,079,721	5,155,202
Maturing between 5 and 10 years	6,095,665	6,016,005
	11,175,386	11,171,207
(iv) Treasury Bonds – Available for sale		
Maturing between 3 and 10 years	-	4,613,616
Total Government securities	27,083,464	30,091,040
(c) Treasury bonds – Available for sale		
At fair value		
At 1 January	4,613,616	535,726
Purchased during the year	-	4,060,893
Disposed during the year	(4,613,616)	-
Fair value gain through other comprehensive income	-	16,997
At 31 December	-	4,613,616

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

	2015 %	2014 %
Treasury bills – At amortised cost	-	8.50
Treasury bonds – At amortised cost	11.97	11.84
Treasury bonds – At available for sale	-	10.90

		GROUP AND BANK	
		2015	2014
		Sh'000	Sh'000
17	(a) LOANS AND ADVANCES TO CUSTOMERS		
	Gross loans and advances:		
	Overdrafts	4,536,061	4,223,799
	Mortgages	17,642,723	16,049,000
	Loans	49,244,352	47,765,445
		71,423,136	68,038,244
	Provision for impaired loans and advances:		
	- Individually assessed	(3,238,707)	(2,263,409)
	- Collectively assessed	(380,439)	(133,344)
		(3,619,146)	(2,396,753)
	NET LOANS AND ADVANCES TO CUSTOMERS	67,803,990	65,641,491

Included in net advances are loans and advances amounting to Sh 6,724,977,000 (2014–Sh 4,784,720,000), net of specific provisions, which have been classified as non-performing (impaired).

Included in loans and advances to customers are staff loans amounting to Sh 4,918,991,810 (2014 – Sh 4,851,152,000). The effective interest rate on loans and advances was 16.3% as at 31 December 2015 (2014-14.90%).

		2015	2014
		Sh'000	Sh'000
	(b) ANALYSIS OF GROSS ADVANCES BY MATURITY		
	Maturing:		
	Within one year	7,187,525	16,230,099
	One year to three years	17,352,399	10,797,191
	Three to five years	19,413,526	36,149,114
	Over five years	27,469,686	4,861,840
		71,423,136	68,038,244
	(c) PROVISION FOR LOANS AND ADVANCES		
	At 1 January	2,396,753	1,871,446
	Additional provisions during the year	3,719,128	525,307
	Recoveries during the year	(34,532)	-
	Bad debts written off during the year	(2,462,203)	-
	At 31 December	3,619,146	2,396,753

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
18 OTHER ASSETS				
Interbank clearing items	719,619	560,075	719,619	560,075
Rent and service charge receivable	248,024	44,192	248,024	44,192
Pesapoint deposit and Mpesa deposits	527,409	348,692	527,409	348,692
Receivable on disposal of property	551,945	-	551,945	-
Other receivables	542,831	1,047,692	542,692	945,228
	2,589,828	2,000,651	2,589,689	1,898,187

19 OTHER INVESTMENTS

	GROUP AND BANK	
	2015	2014
Unquoted	Sh'000	Sh'000
Available for sale investments		
At cost:		
IDB Capital Limited	1,501	1,501
African Export Import Bank (US$ 10,000)	19,620	8,895
SWIFT	5,883	2,161
	27,004	12,557
Quoted		
At fair value through profit or loss		
At market value:		
VISA International	183,313	137,362
Safaricom Limited	21,330	18,386
	204,643	155,748
	231,647	168,305
Movement in investments:		
At I January	168,305	136,667
Additions – African Export Import Bank	10,725	1,280
Additions – SWIFT	3,722	-
Fair value gain (note 9)	48,895	30,358
At 31 December	231,647	168,305

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

Safaricom shares are quoted on the Nairobi Securities Exchange.

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

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

		GROUP		BANK	
		2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
20	**RELATED PARTY BALANCES**				
	a) Due from a subsidiary				
	NBK Insurance Agency Limited	-	-	169,991	98,845
	b) Due to a subsidiary				
	Natbank Trustee and Investment Services Limited	21,976	21,976	21,976	21,976
21	**DEFERRED TAXATION**				
	The net deferred income tax (asset)/liability is attributable to the following items:				
	Liabilities:				
	Revaluation surplus on property	482,577	486,798	482,577	486,798
	Assets:				
	Excess of depreciation over capital allowances	(171,018)	(195,568)	(170,387)	(195,335)
	Unrealised fair value loss on Government securities	(285,479)	(225,175)	(285,479)	(225,175)
	Gratuity provision	(825)	(825)	(825)	(825)
	General provisions	(286,035)	(40,003)	(286,035)	(40,003)
	Tax losses	(222,519)	-	(222,519)	-
		(965,876)	(461,571)	(965,245)	(461,338)
	Net deferred tax (asset)/liability	(483,299)	25,227	(482,668)	25,460
	Movement on the deferred tax account is as follows:				
	At 1 January	25,227	83,801	25,460	83,894
	Prior year over provision –note 12(a)	-	(25,104)	-	(25,104)
	Profit or loss credit – note 12(a)	(508,526)	(33,470)	(508,128)	(33,330)
	At 31 December	(483,299)	25,227	(482,668)	25,460

22 INVESTMENT IN SUBSIDIARY COMPANIES

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
At cost:		
Natbank Trustee and Investment Services Limited, 100% owned	19,963	19,963
Kenya National Capital Corporation Limited, 100% owned	-	-
NBK Insurance Agency Limited 100% owned	-	-
	19,963	19,963

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

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

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

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

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

NBK Insurance Agency Limited

	2015 Sh'000	2014 Sh'000
Summarised statement of financial position		
Total assets	329,289	235,288
Total liabilities	(190,304)	(125,177)
Net assets	138,985	110,111
Summarised statement of profit and loss and other comprehensive income		
Revenue	90,705	132,797
Profit before income tax	46,262	99,805
Income tax expense	(16,596)	(29,801)
Total comprehensive income for the year	29,666	70,004

22 INVESTMENT IN SUBSIDIARY COMPANIES (Continued)

NBK Insurance Agency Limited (Continued)

	2015 Sh'000	2014 Sh'000
Summarised statement of cash flows		
Net cash generated from operating activities	72,847	123,076
Net cash generated from /(used in) from investing activities	15,826	(1,076)
Net increase in cash and cash equivalents	88,673	122,000
Cash and cash equivalents at beginning of year	229,731	107,731
Cash and cash equivalents at end of year	318,404	229,731

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

(a) *Natbank Trustee and Investment Services Limited*

	2015 Sh'000	2014 Sh'000
Summarised statement of financial position		
Total assets	21,976	21,976
Total liabilities	(19,963)	(19,963)
Net assets	2,013	2,013
Summarised statement of profit and loss and other comprehensive income	-	-
Summarised statement of cash flows	-	-

(b) *Kenya National Capital Corporation Limited*

Summarised statement of financial position		
Total assets	-	-
Total liabilities	-	-
Net assets	-	-
Summarised statement of profit and loss and other comprehensive income	-	-
Summarised statement of cash flows	-	-

23 (a) PROPERTY AND EQUIPMENT - GROUP

	Land and buildings Sh'000	Long leasehold land and buildings on long and short leasehold land Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh '000	Capital work in progress Sh'000	Leasehold Improvements Sh'000	Total Sh'000
COST OR VALUATION							
At 1 January 2014	205,000	2,216,973	1,359,382	881,830	302,211	1,009,086	5,974,482
Additions	-	-	264,193	88,457	697,072	7,378	1,057,100
Disposals	-	-	(77,902)	-	-	-	(77,902)
Write-off	-	-	-	(8,232)	(51,103)	(36,710)	(96,045)
Transfers from capital work in progress	-	-	-	-	(247)	247	-
At 31 December 2014	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
Comprising:							
Cost	-	-	1,545,673	962,055	947,933	980,001	4,435,662
Valuation – 2013	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2014	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
At 1 January 2015	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
Transfer to non-current asset held for sale (note 23(b))	-	(445,000)	-	-	-	-	(445,000)
Additions	-	812	163,954	102,833	665,055	67,172	999,826
Disposals	(205,000)	(391,775)	(6,377)	(17,963)	-	-	(621,115)
Write-off	-	-	-	-	(1,893)	-	(1,893)
Transfers from capital work in progress	-	-	22,056	-	(72,612)	50,556	-
At 31 December 2015	-	1,381,010	1,725,306	1,046,925	1,538,483	1,097,729	6,789,453
Comprising:							
Cost	-	-	1,725,307	1,046,925	1,538,483	1,097,729	5,408,444
Valuation – 2015	-	1,381,010	-	-	-	-	1,381,010
At 31 December 2015	-	1,381,010	1,725,307	1,046,925	1,538,483	1,097,729	6,789,454

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

	Land and buildings Sh'000	Long leasehold land and buildings on long and short leasehold land Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh '000	Capital work in progress Sh'000	Leasehold Improvements Sh'000	Total Sh'000
DEPRECIATION							
At 1 January 2014	-	-	769,123	782,101	-	508,911	2,060,135
Charge for the year	-	32,708	115,341	48,734	-	152,820	349,603
Disposal	-	-	(70,085)	-	-	-	(70,085)
Write-off	-	-	-	(4,947)	-	(28,613)	(33,560)
At 31 December 2014	-	32,708	814,379	825,888	-	633,118	2,306,093
At 1 January 2015	-	32,708	814,379	825,888	-	633,118	2,306,093
Charge for the year	-	24,812	132,242	50,619	-	129,690	337,363
Transfer to non-current asset held for sale (note 23(b))	-	(5,525)	-	-	-	-	(5,525)
Disposal	-	(13,681)	(5,301)	(17,963)	-	-	(36,945)
At 31 December 2015	-	38,314	941,320	858,544	-	762,808	2,600,986
NET BOOK VALUE (Valuation)							
At 31 December 2015	-	1,342,696	783,987	188,381	1,538,483	334,921	4,188,468
At 31 December 2014	205,000	2,184,265	731,294	136,167	947,933	346,883	4,551,542
NET BOOK VALUE (Cost basis)							
At 31 December 2015	-	350,367	783,987	188,381	1,538,483	334,921	3,196,139
At 31 December 2014	60,917	509,320	731,294	136,167	947,933	346,883	2,732,514

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

	Land and buildings Sh'000	Long leasehold land and buildings on long and short leasehold land Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh '000	Capital work in progress Sh'000	Leasehold Improvements Sh'000	Total Sh'000
COST OR VALUATION							
At 1 January 2014	205,000	2,216,973	1,357,942	881,781	302,211	1,009,086	5,972,993
Additions	-	-	263,343	88,231	697,072	7,378	1,056,024
Disposals	-	-	(77,902)	-	-	-	(77,902)
Write-off	-	-	-	(8,232)	(51,103)	(36,710)	(96,045)
Transfers from work in progress	-	-	-		(247)	247	-
At 31 December 2014	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
Comprising:							
Cost	-	-	1,543,383	961,780	947,933	980,001	4,433,097
Valuation – 2009	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2014	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
At 1 January 2015	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
Transfer to non-current asset held for sale	-	(445,000)	-	-	-	-	(445,000)
Additions	-	812	163,943	102,833	665,055	67,172	999,815
Disposals	(205,000)	(391,775)	(6,377)	(17,963)	-	-	(621,115)
Write-off	-	-	-	-	(1,893)	-	(1,893)
Transfers from work in progress	-	-	22,056	-	(72,612)	50,556	-
At 31 December 2015 7	-	1,381,010	1,723,005	1,046,650	1,538,483	1,097,729	6,786,877
Comprising:							
Cost	-	-	1,723,005	1,046,650	1,538,483	1,097,729	5,405,867
Valuation – 2015	-	1,381,010	-	-	-	-	1,380,010
At 31 December 2015	-	1,381,010	1,723,005	1,046,650	1,538,483	1,097,729	6,786,877

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

	Land and buildings Sh'000	Long leasehold land and buildings on long and short leasehold land Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh '000	Capital work in progress Sh'000	Leasehold Improvements Sh'000	Total Sh'000
DEPRECIATION							
At 1 January 2014	-	-	768,095	782,099	-	508,911	2,059,105
Charge for the year	-	32,708	115,122	48,703	-	152,820	349,353
Disposal	-	-	(70,085)	-	-	-	(70,085)
Write-off	-	-	-	(4,947)	-	(28,613)	(33,560)
At 31 December 2014	-	32,708	813,132	825,855	-	633,118	2,304,813
At 1 January 2015	-	32,708	813,132	825,855	-	633,118	2,304,813
Charge for the year	-	24,812	132,013	50,563	-	129,690	337,078
Transfer to non-current asset held for sale	-	(5,525)	-	-	-	-	(5,525)
Disposal	-	(13,681)	(5,301)	(17,963)	-	-	(36,945)
At 31 December 2015	-	38,314	939,844	858,455	-	762,808	2,599,421
NET BOOK VALUE							
At 31 December 2015	-	1,342,696	783,162	188,195	1,538,483	334,921	4,187,457
At 31 December 2014	205,000	2,184,265	730,251	135,925	947,933	346,883	4,550,257
NET BOOK VALUE (Cost basis)							
At 31 December 2015	-	350,367	783,162	188,195	1,538,483	334,921	3,195,128
At 31 December 2014	60,917	509,320	730,251	135,925	947,933	346,883	2,731,229

23 (a) PROPERTY AND EQUIPMENT (Continued)

Included in computers, motor vehicles, equipment and furniture & fittings are assets with a cost of Sh 1,137,568,823 (2014 – Sh 1,022,207,636) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 191,654,003 (2014 Sh 174,174,163).

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

The group's properties were last revalued as at 31 December 2013 by independent valuers, Legend Valuers Limited, registered valuers and estate agents. Valuations were made on the basis of open market value for existing use. The book values of the properties were adjusted to the revalued amounts. Any increase arising on the revaluation was recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset were recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss.

Land and building with a total carrying value of Sh 1,342,696,000 (2014 - Sh 2,389,266,000) are categorized under level 3 fair value hierachy as their value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices. There were no transfers between the various levels during the year.

23 (b) NON-CURRENT ASSET HELD FOR SALE

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
COST		
At 1 January	-	-
Transfer from property and equipment (Note 21(a))	445,000	-
At 31 December	445,000	-
DEPRECIATION		
At 1 January	-	-
Charge for the year (Note 21(a))	(5,525)	-
At 31 December	(5,525)	-
NET BOOK VALUE		
At 31 December	439,475	-

The non-current asset held for sale relates to a property for which the bank has initiated the sale process. The property has been placed on the market with the sale expected within the 2016 financial year

24 OPERATING LEASE PREPAYMENTS

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
COST		
At 1 January	525	525
Disposal*	(525)	-
At 31 December	-	525
AMORTISATION		
At 1 January	106	100
Charge for the year	2	6
Disposal*	(108)	-
At 31 December	-	106
NET BOOK VALUE		
At 31 December	-	419

* The disposal, relates to the sale of Kitui property during the year.

25 INTANGIBLE ASSETS

	GROUP			BANK		
	Computer software Sh'000	Capital work in progress Sh'000	Total Sh'000	Computer software Sh'000	Capital work in progress Sh'000	Total Sh'000
COST						
At 1 January 2014	1,814,561	1,052	1,815,613	1,812,698	1,052	1,813,750
Additions	71,672	195,656	267,328	71,672	195,656	267,328
Transfers from capital work in progress	(15,808)	15,808	-	(15,808)	15,808	-
At 31 December 2014	1,870,425	212,516	2,082,941	1,868,562	212,516	2,081,078
At 1 January 2015	1,870,425	212,516	2,082,941	1,868,562	212,516	2,081,078
Additions	236,479	522,015	754,494	236,479	522,015	758,494
Transfers from capital work in progress	118,725	(118,725)	-	118,725	(118,725)	-
Write-off	-	(5,252)	(5,252)	-	(5,252)	(5,252)
At 31 December 2015	2,225,629	610,554	2,836,183	2,223,766	610,554	2,834,320
AMORTISATION						
At 1 January 2014	815,518	-	815,518	814,680	-	814,680
Charge for the year	301,231	-	301,231	300,859	-	300,859
At 31 December 2014	1,116,749	-	1,116,749	1,115,539	-	1,115,539
At 1 January 2015	1,116,749	-	1,116,749	1,115,539	-	1,115,539
Charge for the year	320,069	-	320,069	319,696		319,696
At 31 December 2015	1,436,818	-	1,436,818	1,435,235	-	1,435,235
NET BOOK VALUE						
At 31 December 2015	788,811	610,554	1,399,365	788,531	610,554	1,399,085
At 31 December 2014	753,676	212,516	966,192	753,023	212,516	965,539

Capital work in progress relates to ongoing work in respect of upgrade of the core banking system, automation of Finance, Human Resources and Procurement processes and acquisition of softwares for automation of other Bank processes.

Included in intangible assets are assets with a cost of Sh 397,410,354 (2014: Sh 352,209,936) which were fully amortised. The normal annual amortisation charge on these assets would have been Sh 79,482,070 (2014: Sh 70,441,987).

26 CUSTOMER DEPOSITS

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Fixed deposit accounts	32,507,357	30,941,468	32,507,357	30,941,468
Savings accounts	16,788,578	15,702,825	16,788,578	15,702,825
Current and demand accounts	48,104,716	50,749,167	48,104,716	50,749,167
Foreign currency deposits	13,221,818	7,340,249	13,221,818	7,340,249
	110,622,469	104,733,709	110,622,469	104,733,709
MATURITY ANALYSIS OF CUSTOMER DEPOSITS				
(a) From Government and parastatals:				
Payable within 90 days	56,109,552	55,154,173	56,109,552	55,154,173
Payable after 90 days and within one year	1,386,255	2,152,055	1,386,255	2,152,055
	57,495,807	57,306,228	57,495,807	57,306,228
(b) From Private Sector and individuals				
Payable within 90 days	45,487,396	41,364,567	45,487,396	41,364,567
Payable after 90 days and within one year	7,639,266	6,062,914	7,639,266	6,062,914
	53,126,662	47,427,481	53,126,662	47,427,481
At 31 December	110,622,469	104,733,709	110,622,469	104,733,709

The effective interest rate on interest bearing customer deposits at 31 December 2015 was 4.7 % (2014 – 4.1%).

27 DEPOSITS AND BALANCES DUE TO FINANCIAL INSTITUTIONS

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Deposits at end of year	2,343,245	5,077,625	2,343,245	5,077,625

The effective interest rate on deposits due to banking institutions at 31 December 2015 was 4.1 % (2014 – 6.3%). The deposits are payable within 90 days after the end of the reporting period.

		GROUP		BANK	
		2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
28	**OTHER LIABILITIES**				
	Bills payable	162,932	183,949	162,932	183,949
	Other accruals and payables	1,206,319	787,402	1,200,965	670,170
		1,369,251	971,351	1,363,897	854,119

		GROUP AND BANK	
		2015 Sh'000	2014 Sh'000
29	**DIVIDENDS**		
	a) Unclaimed dividends		
	At 1 January	38,085	31,070
	Dividends declared – for year 2013	-	552,075
	Dividends paid	(8,259)	(545,060)
	At 31 December	29,826	38,085

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

b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividend is to be proposed at the next annual general meeting in respect of the year 2015. Payment of dividends is subject to withholding tax at a rate of 10% for non-resident shareholders and 5% for resident shareholders.

		GROUP AND BANK	
		2015 Sh'000	2014 Sh'000
30	**SHARE CAPITAL**		
	Authorised:		
	1,400,000,000 Ordinary shares of Sh 5 each	7,000,000	7,000,000
	1,200,000,000 Preference shares of Sh 5 each	6,000,000	6,000,000
		13,000,000	13,000,000
	Issued and fully paid:		
	307,995,200 (2014: 280,000,000) Ordinary shares of Sh 5 each	1,539,976	1,400,000
	1,135,000,000 Preference shares of Sh 5 each	5,675,000	5,675,000
		7,214,976	7,075,000

30 SHARE CAPITAL (Continued)

The movement in the ordinary shares is analysed as follows:

	GROUP AND BANK		GROUP AND BANK	
	2015 Sh'000	2014 Sh'000	2015 No. of shares	2014 No. of shares
Number of shares issued and fully paid:				
At 1 January -280,000,000 Ordinary Shares	1,400,000	1,400,000	280,000,000	280,000,000
Bonus issue - 27,995,200 Ordinary shares	139,976	-	27,995,200	-
At 31 December - 307,995,200 Ordinary shares	1,539,976	1,400,000	307,995,200	280,000,000

As at 31 December 2015, the issued and fully paid share capital comprised of 307,995,200 (2014: 280,000,000) ordinary shares with a par value of Sh. 5. The additional 27,995,200 ordinary shares was on account of a bonus issue that was applied in paying up in full the unissued ordinary shares. The bonus shares which were approved by the shareholders at the Annual General meeting held on 27 March 2015 were allocated to shareholders in the proportion of one for every ten of existing issued and paid up 280,000,000 shares then held by shareholders respectively.

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

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

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

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

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

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

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
31 NOTES TO THE STATEMENT OF CASH FLOWS				
(a) Reconciliation of profit before taxation to cash generated from/(used in) operations				
(Loss)/profit before taxation	(1,637,985)	1,303,131	(1,684,397)	1,203,326
Adjustments for:				
Depreciation	337,363	349,603	337,078	349,353
Amortisation of intangible assets	320,069	301,231	319,696	300,859
Amortisation of operating lease prepayments	2	6	2	6
Write-off - fixed assets	1,893	62,485	1,893	62,485
Write-off - intangible assets	5,252	-	5,252	-
Gain on disposal of equipment	(111,335)	(18,987)	(111,335)	(18,987)
Fair value gain on quoted investments	(48,895)	(30,358)	(48,895)	(30,358)
Profit before working capital changes	(1,133,636)	1,967,111	(1,180,706)	1,866,684
Increase in cash ratio requirement	(276,722)	(1,341,556)	(276,722)	(1,341,556)
Decrease/(increase) in Government securities	3,007,576	(2,673,694)	3,007,576	(2,673,694)
(Increase)/decrease in deposits and balances due from financial institutions	(605,652)	91,779	(605,652)	91,779
Increase in loans and advances to customers	(2,162,499)	(26,074,813)	(2,162,499)	(26,074,813)
(Increase)/decrease in other assets	(589,177)	732,669	(691,502)	835,133
Increase in amount due from subsidiary	-	-	(71,146)	(52,312)
Increase in customer deposits	5,888,760	26,740,889	5,888,760	26,740,889
Increase/(decrease) in other liabilities	397,900	(467,569)	509,778	(563,373)
Cash generated from/(used in) operations	4,526,550	(1,025,184)	4,417,887	(1,171,263)
(b) Analysis of the balances of cash and cash equivalents				
Cash on hand (note 14)	3,668,583	2,980,344	3,350,178	2,750,613
Balances with Central Bank of Kenya (note 14)	7,043,148	8,765,203	7,043,148	8,765,203
Deposits and balances due from banking institutions (note 15)	3,667,975	2,033,662	3,667,975	2,033,662
Deposits and balances due to banking institutions (note 27)	(2,343,245)	(5,077,625)	(2,343,245)	(5,077,625)
	12,036,461	8,701,584	11,718,056	8,471,853
(c) Analysis of the increase in Government securities				
Movement in Government securities (note 16)	3,007,576	(2,690,691)	3,007,576	(2,690,691)
Non- cashflow items- revaluation of available for sale bonds (note 16(c))	-	16,997	-	16,997
Included in the cashflow statement	3,007,576	(2,673,694)	3,007,576	(2,673,694)

31 NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

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

32 FINANCIAL RISK MANAGEMENT

Introduction and overview

The group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the group's business, and the operational risks are an inevitable consequence of being in business.

The group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.

The most important types of risk include:

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework.

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

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

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

The group's Audit and Risk Committee is responsible for monitoring compliance with the group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the group.

The Audit and Risk Committee is assisted in these functions by internal audit and the risk departments. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The risk department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

32 FINANCIAL RISK MANAGEMENT (Continued)

Introduction and overview (Continued)

i) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's loans and advances to customers and other banks and investment securities.

For risk management reporting purposes, the group considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit, Finance, Information & Technology Committee. A separate credit department, reporting to the Credit, Finance, Information & Technology Committee, is responsible for oversight of the group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Finance, Information & Technology Committee or the Board of Directors as appropriate.

- *Reviewing and assessing credit risk*. The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

- *Developing and maintaining the group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Credit, Finance, Information & Technology Committee.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.

- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the group in the management of credit risk.

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

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

The table below represents the maximum credit risk exposure to the group at 31 December 2015 and 2014, without taking into account any collateral held or other credit enhancements attached.

		GROUP 2015 Sh '000	GROUP 2014 Sh '000
a)	Government securities held for trading	-	-
	Government securities available for sale	-	4,613,616
	Government securities held to maturity	27,083,464	25,477,424
		27,083,464	30,091,040
b)	Deposits and balances due from banking institutions		
	- Local Currency	3,658,835	1,337,906
	- Foreign Currency	598,211	695,756
		4,257,046	2,033,662
c)	Loans and advances to customers:		
	Loans to individuals:		
	- Overdrafts	401,910	381,155
	- Credit cards	238,195	104,744
	- Term loans	13,096,335	15,787,547
	- Mortgages	2,737,404	5,066,290
		16,473,844	21,339,736
	Loans to corporate entities:		
	- Overdrafts	4,134,151	4,169,554
	- Credit cards	-	-
	- Term loans	35,909,824	31,088,692
	- Mortgages	14,905,317	11,440,262
		54,949,292	46,698,508
	Total loans and advances	71,423,136	68,038,244
d)	Other assets		
	Interbank clearing items	719,619	560,075
	Total on balance sheet items	103,483,265	100,723,021

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

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

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

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

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

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

Classification of loans and advances

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

2015 Loans and advances to customers	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
Neither past due nor impaired	45,596,451	-	45,596,451	67
Past due but not impaired	15,863,001	(380,439)	15,482,562	23
Impaired	9,963,684	(3,238,707)	6,724,977	10
	71,423,136	(3,619,146)	67,803,990	100
2014				
Neither past due nor impaired	56,545,319	-	56,545,319	86
Past due but not impaired	4,444,796	(133,344)	4,311,452	7
Impaired	7,048,129	(2,263,409)	4,784,720	7
	68,038,244	(2,396,753)	65,641,491	100

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

Regular audits of business units and group credit processes are undertaken by the Internal Audit department.

Impaired loans

Impaired loans and advances are those for which the group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the group's internal credit risk grading system as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non performing.

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

Classification of loans and advances (Continued)

Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the group believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the group. Loans under this category are no more than 90 days overdue.

Loans and advances that are neither past due nor impaired

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

Allowances for impairment

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

Write-off policy

The group writes off a loan / security balance (and any related allowances for impairment losses) when the Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral held

The group holds collateral against loans and advances to customers in the form of cash, mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 or 2014.

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

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

Loans and advances to customers

	2015 Shs'000	2014 Shs'000
Against individually impaired		
Property	6,499,965	3,993,881
Against collectively impaired		
Property	1,069,053	3,815,743
Against past due but not impaired		
Property	1,441,589	8,116,480
Against neither past due nor impaired		
Property	63,652,278	31,469,853
Total	72,662,885	47,395,957

Concentrations of risk

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

(a) Advances to customers- gross

	2015 Sh'000	%	2014 Sh'000	%
Agriculture	2,057,372	3	2,923,843	4
Manufacturing	1,841,024	3	3,556,008	5
Wholesale and retail trade	15,184,368	21	6,885,316	10
Transport and communications	5,678,934	8	2,899,333	4
Mining and quarrying	21,977	-	481,955	1
Building and construction	7,690,181	11	7,789,566	12
Foreign trade	4,251,478	6	1,377,063	2
Business services	111,513	-	624,253	1
Real estate	13,997,782	20	16,506,521	24
Social community and personal services	19,998,583	27	23,912,163	35
Others	589,924	1	1,082,223	2
	71,423,136	100	68,038,244	100

32 FINANCIAL RISK MANAGEMENT (Continued)

i) Credit risk (Continued)

Concentrations of risk (Continued)

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

	2015 Sh'000	%	2014 Sh'000	%
Social community and personal services	270,839	3	163,891	3
Business services	664,695	8	402,222	8
Wholesale and retail	1,810,879	20	1,095,804	20
Transport and communication	1,528,078	17	924,675	17
Manufacturing	2,038,644	23	1,233,630	23
Other	2,529,296	29	1,530,535	29
	8,842,431	100	5,350,757	100

Settlement risk

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

For certain types of transactions the group mitigates this risk by conducting settlements through a settlement /clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the group's risk function.

ii) Liquidity risk

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

Management of liquidity risk

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

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

32 FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk (Continued)

Exposure to liquidity risk (Continued)

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

Details of the reported bank ratio of net liquid assets to deposits and balances due to banking institutions and customer deposits at the reporting date and during the reporting period were as follows:

	2015	2014
At 31 December	31%	32%
Average for the period	24%	28%
Maximum for the period	31%	39%
Minimum for the period	20%	21%
Statutory minimum requirement	20%	20%

32 FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk (continued)

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

	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Customer deposits	110,622,469	101,401,800	7,971,592	1,249,077	-	-	110,622,469
Deposits and balances due to financial institutions	2,343,245	2,343,245	-	-	-	-	2,343,245
Due to a subsidiary company	21,976	-	-	-	-	21,976	21,976
	112,987,690	**103,745,045**	**7,971,592**	**1,249,077**	-	**21,976**	**112,987,690**
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	16,438,119	16,438,119	-	-	-	-	16,438,119
Deposits and balances due from financial institutions	4,257,046	3,658,835	598,211	-	-	-	4,257,046
Government securities	27,083,464				12,106,891	14,976,573	27,083,464
Loans and advances to customers (net)	67,803,990	3,865,106	5,366,225	11,594,660	25,798,113	21,179,886	67,803,990
Other assets-Interbank clearing items	719,619	719,619	-	-	-	-	719,619
Total financial assets	**116,302,238**	**24,681,679**	**5,964,436**	**11,594,660**	**37,905,004**	**36,156,459**	**116,302,238**
NET LIQUIDITY GAP	**3,314,548**	**(79,063,366)**	**(2,007,156)**	**10,345,583**	**37,905,004**	**36,134,483**	**3,314,548**
31 December 2014							
Total financial liabilities	109,833,310	93,807,267	12,212,083	3,791,984	-	21,976	109,833,310
Total financial assets	115,521,481	34,393,194	2,680,331	7,380,612	31,780,607	39,286,737	115,521,481
NET LIQUIDITY GAP	**5,688,171**	**(59,414,073)**	**(9,531,752)**	**3,588,628**	**31,780,607**	**39,264,761**	**5,688,171**

32 FINANCIAL RISK MANAGEMENT (Continued)

ii) Liquidity risk (continued)

The previous table shows the undiscounted cash flows on the group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity.

The group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

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

iii) Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

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

a) Interest rate risk

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

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

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

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

a) Interest rate risk (Continued)

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

(All figures in thousand shillings)

	Less than 1 month	1 month less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years	Over 5 years	Non-interest bearing	Total
31 December 2015									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	16,438,119	16,438,119
Deposits and balances due from banking institutions	3,658,835	598,211	-	-	-	-	-	-	4,257,046
Government securities held to maturity	-	-	-	-	-	12,106,991	14,977,473	-	27,084,464
Loans and advances to customers (net)	4,083,714	5,373,205	9,481,773	2,119,243	11,903,173	13,889,360	20,953,522	-	67,803,990
Total financial assets	**7,742,549**	**5,971,416**	**9,481,773**	**2,119,243**	**11,903,173**	**25,996,351**	**35,930,995**	**16,438,119**	**115,583,619**
FINANCIAL LIABILITIES									
Customer deposits	19,084,490	58,070,053	3,218,951	2,828,966	-	-	-	27,420,009	110,622,469
Deposits and balances due to banking institutions	2,343,245	-	-	-	-	-	-	-	2,343,245
Due to a subsidiary company	-	-	-	-	-	-	-	21,976	21,976
Total financial liabilities	**21,427,735**	**58,070,053**	**3,218,951**	**2,828,966**	-	-	-	**27,441,985**	**112,987,690**
INTEREST RATE SENSITIVITY GAP	**(13,685,186)**	**(52,098,637)**	**6,262,822**	**(709,723)**	**11,903,173**	**25,996,351**	**35,930,995**	**(11,003,866)**	**2,595,929**
31 December 2014									
Total financial assets	**13,423,588**	**4,022,170**	**1,422,916**	**4,443,516**	**10,743,261**	**22,497,328**	**39,289,044**	**19,119,583**	**114,961,406**
Total financial liabilities	**20,046,132**	**16,487,885**	**2,563,900**	**1,228,084**	-	-	-	**69,507,309**	**109,833,310**
INTEREST RATE SENSITIVITY GAP	**(6,622,544)**	**(12,465,715)**	**(1,140,984)**	**3,215,432**	**10,743,261**	**22,497,328**	**39,289,044**	**(50,387,726)**	**5,128,096**

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

(a) Interest rate risk (Continued)

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

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

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

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

The table below sets out the impact on future net interest income of an incremental 5% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2015.

	Amount at 31-Dec Sh'000	Scenario 1 5% increase in net interest margin Sh'000	Scenario 2 5% decrease in net interest margin Sh'000
2015			
Profit Before Taxation	(1,684,398)	(1,256,724)	(2,112,072)
Adjusted Core Capital	9,784,463	10,212,137	9,356,789
Adjusted Total Capital	10,531,308	10,958,982	10,103,634
Risk Weighted Assets (RWA)	75,266,075	75,266,075	75,266,075
Adjusted Core Capital to RWA	13.00%	13.57%	12.43%
Adjusted total Capital to RWA	13.99%	14.56%	13.42%
2014			
Profit Before Taxation	1,203,326	1,025,930	1,380,722
Adjusted Core Capital	10,343,312	10,219,135	10,467,489
Adjusted Total Capital	11,205,805	11,081,627	11,329,982
Risk Weighted Assets (RWA)	80,433,021	80,433,021	80,433,021
Adjusted Core Capital to RWA	12.86%	12.71%	13.01%
Adjusted total Capital to RWA	13.93%	13.78%	14.09%

Assuming no management actions, a series of such rises would increase/decrease net interest income for 2015 by Sh 427,624,000 (2014- Sh 339,493,950). In addition, a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.54% and 0.54% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.54% and 0.54% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

(b) Foreign exchange risk

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

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

The group's currency position and exposure are managed within the exposure guideline of 10% (2015 - 10%) of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

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

	2015 Sh	2014 Sh
US Dollar	102.30	90.70
GB Pound	151.72	141.45
EURO	111.44	110.18

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk (Continued)

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

ASSETS	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	Other Sh'000	Total Sh'000
Cash and balances with Central Bank of Kenya	15,421,841	584,075	117,172	247,975	67,056	16,438,119
Deposits and balances due from banking institutions	3,658,835	598,211	-	-	-	4,257,046
Government securities held to maturity	27,083,464	-	-	-	-	27,083,464
Loans and advances to customers (net)	52,531,210	15,216,828	10	55,942	-	67,803,990
Other investments	22,831	202,933			5,883	231,647
Other assets-Inter bank clearing items	11,659	692,942	1,026	10,721	3,271	719,619
Total financial assets	**98,729,840**	**17,294,989**	**118,208**	**314,638**	**76,210**	**116,533,885**
FINANCIAL LIABILITIES						
Customer deposits	96,473,354	13,799,668	109,019	237,860	2,568	110,622,469
Deposits and balances due to banking institutions	450,695	1,892,550	-	-	-	2,343,245
Due to a subsidiary company	21,976	-	-	-	-	21,976
Total financial liabilities	**96,946,025**	**15,692,218**	**109,019**	**237,860**	**2,568**	**112,987,690**
NET BALANCE SHEET POSITION	**1,783,815**	**1,602,771**	**9,189**	**76,778**	**73,642**	**3,546,195**
NET OFF BALANCE SHEET POSITION	**2,417,353**	**6,276,807**	**-**	**134,524**	**13,748**	**8,842,432**
As at 31 December 2014						
Total financial assets	102,198,456	13,165,389	176,706	104,715	44,520	115,689,786
Total financial Liabilities	98,115,943	11,525,775	116,339	66,022	9,231	109,833,310
NET BALANCE SHEET POSITION	**4,082,513**	**1,639,614**	**60,367**	**38,693**	**35,289**	**5,856,476**
NET OFF BALANCE SHEET POSITION	**4,908,532**	**291,136**	**84,982**	**66,107**	**-**	**5,350,757**

32 FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk

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

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

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

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2015.

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

	Amount at 31-Dec Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% depreciation Sh'000
2015			
Profit Before Tax	(1,684,398)	(1,839,822)	(1,528,974)
Adjusted Core Capital	9,784,463	9,675,666	9,893,260
Adjusted Total Capital	10,531,308	10,422,511	10,640,105
Risk Weighted Assets (RWA)	75,266,075	75,266,075	75,266,075
Adjusted Core Capital to RWA	13.00%	12.86%	13.14%
Adjusted total Capital to RWA	13.99%	13.85%	14.14%
2014			
Profit Before Tax	1,203,326	1,025,930	1,380,722
Adjusted Core Capital	10,343,312	10,219,135	10,467,489
Adjusted Total Capital	11,205,805	11,081,627	11,329,982
Risk Weighted Assets (RWA)	80,433,021	80,433,021	80,433,021
Adjusted Core Capital to RWA	12.86%	12.71%	13.01%
Adjusted total Capital to RWA	13.93%	13.78%	14.09%

Assuming no management actions, a series of such appreciation /depreciation would decrease/ increase operating income for 2015 by Sh 155,424,000 (2014- Sh 175,198,700). In addition, a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.1% respectively, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.01% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

32 FINANCIAL RISK MANAGEMENT (Continued)

iv) Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

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

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

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

At 31 December 2015	GROUP AND BANK			
	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Financial Assets				
Equity investments	204,643	-	-	204,643
Non- financial Assets	-	-	-	-
Land and buildings	-	-	1,380,198	1,380,198
	204,643		1,380,198	1,584,841

At 31 December 2014				
Financial Assets				
Government securities held for trading	4,613,616	-	-	4,613,616
Equity investments	155,748	-	-	155,748
Non- financial Assets				
Land and buildings	-	-	2,389,266	2,389,266
	4,769,364	-	2,389,266	7,158,630

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

b) Financial instruments not measured at fair value

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

33 CONTINGENCIES AND COMMITTMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

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

	2015 Sh'000	2014 Sh'000
Letters of credit	5,281,742	1,514,381
Letters of guarantee	3,560,689	3,828,833
Other	2,633,846	2,677,896
Demand from KRA	15,440	-
	11,491,717	8,021,110

The bank has a number of pending court cases but directors, having undertaken legal consultation, believe no material financial liabilities will arise from these cases.

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

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

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

	2015 Sh'000	2014 Sh'000
b) Capital commitments		
Authorised and contracted for	465,188	212,622
Authorised but not contracted for	-	-

The authorized and contracted capital commitments largely relate to upgrade of the core banking system and refurbishment of branches.

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

c) Operating lease arrangements

The group as a lessor

Rental income earned during the year was Sh 23,411,366 (2015 – Sh 42,870,000). At the end of the reporting period, the group had contracted with tenants for the following future lease receivables:

	2015 Sh'000	2014 Sh'000
Within one year	31,890	22,569
In the second to fifth year inclusive	80,569	40,069
After five years	1,604	-
	114,063	62,638

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

The group as a lessee

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

	2015 Sh'000	2014 Sh'000
Within one year	330,251	158,067
In second to fifth year inclusive	907,178	505,986
After five years	123,468	55,924
	1,360,897	719,977

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

34 RETIREMENT BENEFIT OBLIGATIONS

The group makes contributions to a defined contribution pension scheme and a defined contribution provident fund in respect of eligible non unionisable and unionisable employees respectively. It also contributes to the statutory defined pension scheme, the National Social Security Fund. Contributions to the company plans are determined by the rules of the plan and amounted to Sh 366,017,000 (2014 – Sh 347,975,000) in the year. Contributions to the statutory scheme are determined by local statute and are currently set at Sh. 200 per employee per month. For the year ended 31 December 2015, the group contributed Sh 4,117,000 (2014 – Sh. 4,392,000) to the statutory scheme.

34 RETIREMENT BENEFIT OBLIGATIONS (Continued)

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

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

35 RELATED PARTY TRANSACTIONS

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

Placings are made in the bank by directors and companies associated to directors. Advances to customers at 31 December 2015 include advances and loans to companies associated to directors.

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

	2015 Sh'000	2014 Sh'000
Details of related party balances are as follows:		
(a) Advances to customers		
Directors (note 35(d))	100,955	95,626
Employees	4,893,563	4,851,152
	4,994,518	4,946,778
(b) Customer deposits		
Directors (note 35(d))	49,170	46,667
Natbank Trustee & Investment Services Limited	125,116	21,976
National Social Security Fund	2,274,155	3,983,418
	2,448,441	4,052,061
(c) Contributions to the statutory defined contribution pension scheme, the National Social Security Fund	4,091	4,125

35 RELATED PARTY TRANSACTIONS (Continued)

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

Directors

	2015 Sh'000	2014 Sh'000
Loans and advances:		
At 1 January	95,626	88,024
Advanced during the year	34,841	22,182
Interest charged	2,803	2,701
Repayments during the year	(32,315)	(17,281)
At 31 December	100,955	95,626
Deposits:		
At 1 January	46,667	40,267
Received during the year	121,781	90,973
Withdrawn during the year	(119,278)	(84,573)
At 31 December	49,170	46,667

Key management compensation

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

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Salaries and other short-term employment benefits	191,927	183,144	191,927	183,144
Pension and gratuity	21,686	14,973	21,686	14,973
	213,613	198,117	213,613	198,117
Directors' remuneration				
Fees for services as a director	24,875	21,124	24,875	21,124
Other emoluments (included in key management compensation above)	61,392	55,985	61,392	55,985
	86,267	77,109	86,267	77,109

36 FIDUCIARY ACTIVITIES

The group holds asset security documents on behalf of customers with a value of Sh 5,936,294,100 (2014 – Sh 6,252,306,147). Most of these securities are held by the custody services department. The assets held comprise deposits with financial institutions, government securities, and quoted and unquoted securities.

37 SEGMENTAL REPORTING

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

38 ASSETS PLEDGED AS SECURITY

Deposits due from foreign banks amounting to Sh 96,366,600 (Sh 2014 - Sh 91,779,073) were under lien as collateral for the letters of credit and guarantees issued to the group's customers.

39 NON FINANCIAL DISCLOSURES

STRATEGIC RISK

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

Who manages strategic risk?

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

How we manage strategic risk

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

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

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

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

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

39 NON FINANCIAL DISCLOSURES (Continued)

OPERATIONAL RISK

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

Who manages operational risk?

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

How does the bank manage operational risk?

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

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

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

REPUTATIONAL RISK

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

Who manages reputational risk?

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

How we manage reputational risk?

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

39 NON FINANCIAL DISCLOSURES (Continued)

COMPLIANCE RISK

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

Who manages compliance risk

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

How we manage compliance risk?

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

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

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

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

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

40 INCORPORATION

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

41 CURRENCY

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