ANNUAL REPORT

& FINANCIAL STATEMENTS AS AT 31 DEC 2015

Consolidated Bank
Growing with you

ABOUT US

OUR VISION

To be the Bank of choice offering pleasant and convenient services.

OUR MISSION

To provide flexible financial solutions that support our customers achieve success.

OUR CORE VALUES

We are guided by the following core values in our day to day activities:

Customer focus - The customer is at the centre of our service delivery.

Integrity - We undertake to operate with the highest degree of honesty and integrity

Professionalism - We adhere to high professional and personal standards in the conduct of our business.

Team work - We work as a team and nurture a performance driven culture.

Innovation - We continuously make product improvements to serve the evolving needs of our customers.

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BUSINESS CLUB TRIP: CHINA

The much talked about China Canton Fair was a reality for our customers who had the opportunity to interact with hundreds of suppliers ranging from machinery to textile and even beauty products. The nine days April trip saw our business customers gain valuable insight and make useful business contacts.

END OF YEAR PARTY

We are indeed Better Together. The End of Year 2015 staff party saw members from the different departments and all branches coming together to reflect in the year that was and to celebrate team ego.

CUSTOMER APPRECIATION WEEK 2015

A week set aside during the month of October to extend our appreciation to our customers and their continued loyalty to us. The week ended on a high note at the Inter-Continental hotel where a customer appreciation cocktail was held in their honor.

CONNECT FORUM

Inaugurated in 2015, the connect forum presents an opportunity for management and staff to interact in a social setting to connect and re enforce Better Together. It is also an opportunity to hear from the CEO and to reward performance.

BETTER TOGETHER

Two hands are better than one; we shall only win by working together. These were the words that reverberated in the room during the launch of the “BETTER TOGETHER” corporate campaign launched on 08 October 2015

FISTULA MEDICAL CAMP

In the month of June, the bank participated in a fistula medical camp at the Kenyatta National Hospital where more than 200 women received free corrective surgeries through the Banks' support among other sponsors. The camp was launched by Her Excellency First Lady Margaret Kenyatta.

CORPORATE CAMPAIGN WORKSHOP

A staff strategy session held in July at the Nairobi Club. The Better Together corporate campaign was realized as a result.

INTERBANKS SOCCER TOURNAMENT

We did it! The Bank emerged the Inter banks soccer champions year 2015 after beating Equity Bank 3-1. One more win and the Bank will retain the trophy for good in the coming year.

WE LISTEN TO OUR CUSTOMERS FORUM

The CEO and customers interact during a customer forum. This event, held in all the counties where we are represented provided the CEO and other members of management the platform to engage with customers and get their feedback.

STAIRCASE RELAY

In August 2015 at the KICC in Nairobi, our members of staff took part in the Ahadi staircase relay; an annual event organized to raise funds to be used in the eradication of jiggers in the country. The Bank emerged the overall winner in the corporate category.

BOARD OF DIRECTORS

Dr. Benson Ateng',
Chairman

Thomas Kipkemei Kiyai,
Chief Executive Officer

Ambassador Charles
Mbagaya Amira,
Director

Miriam Cherogony,
Director

George Omino,
Alternate director to the cabinet secretary, National Treasury

Papius Kirongothi
Muhindi,
Director

Evans Gavala Vitisia,
Director

Dr. Raymond Omollo,
Director

Wakonyo Igeria,
Company Secretary & Head of Legal Services

Dr. Anthony
Omerikwa,
Managing Trustee, NSSF

Joseph Kipketer
Koskey, *Director*

BOARD OF DIRECTORS PROFILE

DR. BENSON ATENG – CHAIRMAN

Dr. Ateng' was appointed Chairman of Consolidated Bank with effect from 4th January 2014. In his academic accolades, he holds both a PhD and an M.A. in Economics from the University of Nairobi. In addition, he has a First Class Honors in a Bachelor of Education double Program in Economics and Education from the University of Nairobi.

Dr. Ateng' worked in the World Bank for 30 years. During his career at the World Bank, he rose through the ranks to the position of Country Manager Papua New Guinea and then Country Manager Yemen, a position he held until December 2011 when he retired from the World Bank. Currently, he is a senior lecturer as well as the Chairman of the Department of Economics and Public Policy at the Technical University of Kenya, where he is also the Ag. Director of the School of Social and Development Studies. In addition, he is also a private Consultant. Dr. Ateng' has written numerous publications that include World Bank Reports. He has won honors and awards from the University of Nairobi and World Bank. At the World Bank he won numerous Spot Awards and nominations to the Diversity and Inclusion Leadership Award and Good Manager Award.

THOMAS KIPKEMEI KIYAI – CHIEF EXECUTIVE OFFICER

Thomas Kipkemei Kiyai joined Consolidated Bank in April 2015. He has over 20 years of banking and finance experience having joined Consolidated Bank of Kenya from Kenya Commercial Bank, where he served as Director, Financial planning and Control.

He holds a Bachelors of Commerce Degree in Accounting and a Masters of Business Administration Degree in Corporate Finance from the University of Nairobi. In addition to this, he is also an alumni of the Oxford University Management & Leadership Development Programme. Thomas Kiyai is a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

MIRIAM CHEROGONY – DIRECTOR

Ms. Miriam Cherogony was appointed director on 3rd February 2014. She has over 20 years local, regional and international development finance experience in Rural, Micro and Agricultural Finance. This experience spans her work with Ministry of Agriculture, Kenya; University of Manitoba, Canada; K-Rep Development Agency, Kenya; Africa Rural Agricultural and Credit Association (AFRACA); the International Fund for Agricultural Development (IFAD) and a multi-donor Initiative for smallholder finance.

She has developed knowledge products on community based financial organizations, credit guarantee schemes, lines of credit, key performance indicators and performance based contracts, and rural youth finance for IFAD. Ms. Cherogony holds a Master's of Science degree (Agricultural Economics), and Bachelor of Science degree (Agricultural Economics) from the University of Manitoba, Canada.

PAPIUS KIRONGOTHI MUHINDI – DIRECTOR

Papius Muhindi was appointed Director of Consolidated Bank on 3rd February, 2014. He holds a Bachelor of Commerce (Accounting option) from the University of Nairobi and Association of Certified Accountants Professional 1. In addition, he is a trained systems engineer.

Muhindi worked for 10 years with a multinational oil company as an International Auditor overseeing the operations in the East African region. Further, he worked for fifteen and a half years in the Central Bank of Kenya - Banking Supervision Department. He also worked at Equity Bank as the Head of Risk Management and Compliance till his retirement. Currently, he works at Monetary Dynamics Company Ltd as a Consultant in Banking and Finance.

EVANS GAVALA VITISIA – DIRECTOR

Evans Vitisia was appointed Director of Consolidated Bank with effect from 3rd January, 2014. He holds a Bachelor of Arts Degree in Economics and Government from the University of Nairobi and a Diploma in Business Administration (Henley) through the Standard Chartered Bank distance learning program - Nairobi. He has banking experience of over 25 years.

He previously worked at ABC Bank as the Head of Retail and SME banking. Prior to that, he was the Deputy Head of Personal Banking and Head of Business Banking at CFC Stanbic Bank. In addition, he held the capacity of Head of Credit and SME Banking at Standard Chartered Bank. He is the founder and current manager of Torch Credit Consultants Ltd, a Micro Finance Institution.

AMBASSADOR CHARLES MBAGAYA AMIRA – DIRECTOR

Ambassador Amira was appointed Director of Consolidated Bank with effect from 3rd January, 2014. He has an MBA with citation for the best academic performance on MBA program 7, from the University of Brunel - United Kingdom. He holds Advanced Management Certificates from the University of Nairobi and the Kenya Institute of Management; Post Graduate certificates in Communications from the University of Ohio - USA, Certificate in Arbitration and Dispute Resolution and Certificate in Directors' Corporate Governance amongst others.

He has been a board member of the CCK, ICL, and Public Procurement Administrative Review Board. He was a Senior Consultant for the UN Economic Commission for Africa (UNECA), the Organization of African Unity (OAU) on Governance, United Nations Transport and Communications Decade Programmes for Regional Integration and a Commissioner of the Communication Commission of Kenya (CCK). He is currently a Senior Consultant at United Nations/International Institutions and is a member of both the Institute of Directors and the Kenya Institute of Management.

JOSEPH KOSKEY - DIRECTOR

Mr. Joseph Koskey was appointed director of Consolidated Bank on 2nd October, 2015. He is the Group Chief Executive Officer of Sovereign Group Limited. Prior to his current position, he served as the Group Chief Operating Officer in the same institution. He has wealth of experience in the design and management of business operations, business development, procurement strategies and execution plan to ensure operational excellence, growth and profitability of companies.

He holds an MBA (Strategic Management) and a Bachelor of Commerce (Accounting) from the University of Nairobi and is currently pursuing his PHD at the University of Nairobi

Director Koskey is a Certified Public Accountant (CPA-K), Certified Public Secretary (CPS-K) and Certified Trainer on Corporate Governance and is a member of the Institute of Certified Public Accountants (ICPAK), Institute of Certified Public Secretaries (ICPSK) and Institute of Directors of Kenya (IODK).

DR. RAYMOND OMOLLO – DIRECTOR

Dr. Raymond Omollo was appointed Director of Consolidated Bank on 2nd October 2015. He is the Head of Data Centre and Statistician at DNDi Africa. Raymond is an external examiner at the University of Witwatersrand, South Africa and a part time lecturer in Applied Statistics at the University of Nairobi. He has worked as a consultant statistician for the WHO and a number of institutions like FAO, AMREF, Hoffman La Roche and I-TECH.

Raymond has a PhD in Applied Statistics from Maseno University and an MSc in Applied Statistics and BSc in Statistics from the University of Nairobi. He also obtained a Certificate in Epidemiology and Biostatistics from the University of Washington. Raymond is a member of the International Society for Clinical Biostatistics (ISCB) and Young African Statisticians Association (YASA).

WAKONYO IGERIA – COMPANY SECRETARY

Wakonyo Igeria was appointed as the Head of Legal Services and Company Secretary in June 2004. She holds a Bachelor of Laws Degree and a Diploma in Law from the Kenya School of Law.

She is an Advocate of the High Court of Kenya of 23 years experience, a Commissioner for Oaths and Notary Public and a Certified Public Secretary (Kenya). Wakonyo Igeria is a member of the Law Society of Kenya and the Institute of Certified Public Secretaries of Kenya.

GEORGE OMINO – ALTERNATE DIRECTOR TO THE PERMANENT SECRETARY, NATIONAL TREASURY

George Omino is the Alternate Director to the Cabinet Secretary to the National Treasury. He is Deputy Director and Head of Financial Services Sector in Economic Affairs Department. Omino is originally from the Central Bank of Kenya, where he has worked since 1978, rising to the position of Assistant Director and Head of Microfinance Division in Bank Supervision Department.

George Omino has a wealth of experience in regulation and supervision of banks and other financial institutions, having been a bank examiner for over 20 years. He has also been a statutory manager of a bank. He was instrumental in the development of the Microfinance Act, 2008 and the regulations made thereunder. 2006 and the original draft Unclaimed Financial Assets legislation in 2008. He was a member of the taskforce that has developed the Sacco Societies Act, 2008 and the regulations made thereunder.

DR. ANTHONY OMERIKWA, MANAGING TRUSTEE, NSSF

Dr. Anthony Omerikwa is the Acting CEO/Managing Trustee of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement functions.

He holds a Doctoral degree from the University of Georgia, a specialist advanced degree in labour, workforce development and education and a Master of Science degree in Human Resource Development both from Pittsburg State University, a Bachelor of Arts degree in Economics from Kenyatta University and a Diploma in data processing and management from Strathmore College. .

Dr. Omerikwa is an associate member of the Institute of Human Resource Management and Institute of Directors and a member of the Kenya Institute of Management.

He has written a number of research papers, publications and presentations and undertaken various consultancy jobs with international and regional developments institutions.

SENIOR MANAGEMENT

1. Harrison Muthoka – Manager Risk and Compliance
2. Samson Muli – Ag. Head of ICT
3. Christabel A. Onyango – Head of Credit
4. Josephine Kioko – Head of Retail & SME
5. Japheth Kisilu – General Manager, Business development
6. Edward Nthuli – Head of operations

7. Erastus Gachoya – Head of Corporate Banking
8. Joseph Njuguna – Head of Finance
9. Wakonyo Igeria – Company secretary & Head of Legal Services
10. George Rutto – Head of Internal Audit
11. Jacinta Lwanga – Head of Human Resource
12. Joshua Kagia – Head of Treasury

DIRECTORS:
Dr. B. Ateng - Chairman
T. Kiyai - Chief Executive Officer
Cabinet Secretary, National Treasury
Managing Trustee - NSSF
M. Cherogony
E.Vitisia
C. Amira
P. Muhindi
Dr. R. Omollo - Appointed 2nd October 2015 by Gazette Notice No.7380
J. Koskey - Appointed 2nd October 2015 by Gazette Notice No.7380
B . J. Dena - Revoked 2nd October 2015 by Gazette Notice No.7380

AUDIT COMMITTEE:
J. Koskey-Chaiman
E. Vitisia
C. Amira
R. Omollo

STAFF COMMITTEE:
C. Amira-Chairman
T. Kiyai
Cabinet Secretary, National Treasury
Managing Trustee - NSSF

COMPANY SECRETARY:
Wakonyo Igeria
Certified Public Secretary (Kenya)
P. O. Box 51133 – 00200, Nairobi

AUDITORS:
Principal auditors:
The Auditor General
Anniversary Towers
P. O. Box 30084 – 00100, Nairobi

Delegated auditors:
Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P. O. Box 40092 – 00100, Nairobi

LEGAL ADVISORS:
Hamilton Harrison &Mathews
ICEA Building
P.O. BOX 30333 - 00100 Nairobi, Kenya

Ndungu, Njoroge & Kwach Advocates
12th Floor, International House
Mama Ngina Street
P. O. Box 41546 - 00100, Nairobi, Kenya

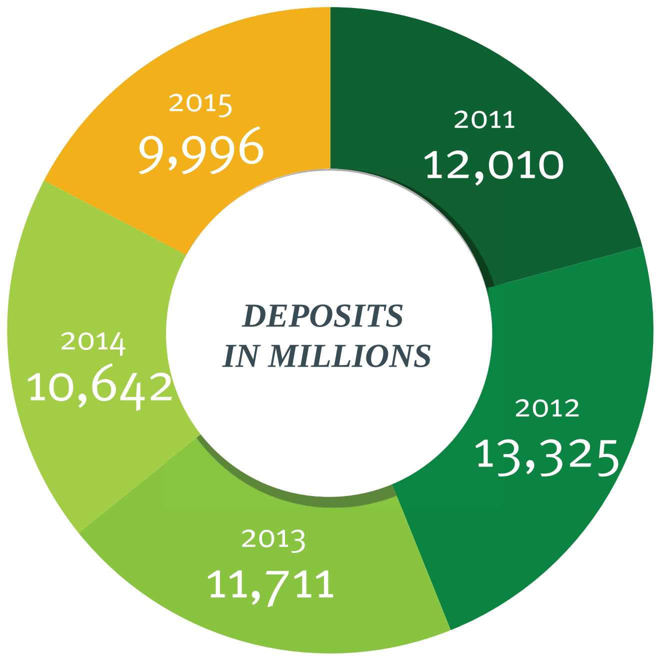
RISK COMMITTEE:
P. Muhindi-Chairman
E. Vitisia
M. Cherogony

CREDIT AND FINANCE COMMITTEE:
M. Cherogony-Chairman
E. Vitisia
P. Muhindi
T. Kiyai
Managing Trustee - NSSF
Cabinet Secretary - Treasury

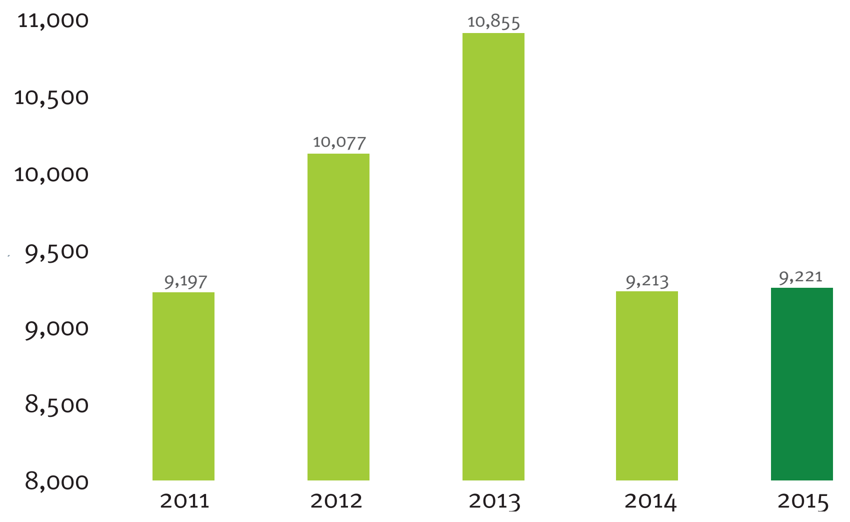
REGISTERED OFFICE:
Consolidated Bank House
23 Koinange Street
P. O. Box 51133 - 00200, Nairobi

CORRESPONDENT BANKS:
ABSA Bank Limited
Vostro Department
P.O. Box 585 Johannesburg 2000

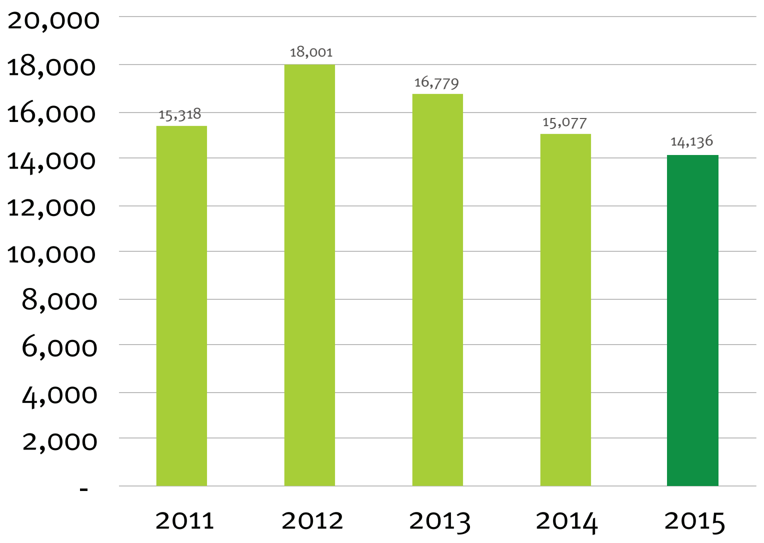
Deutsche Bank AG London
Winchester House
1 Great Winchester Street
London EC2N 2DB



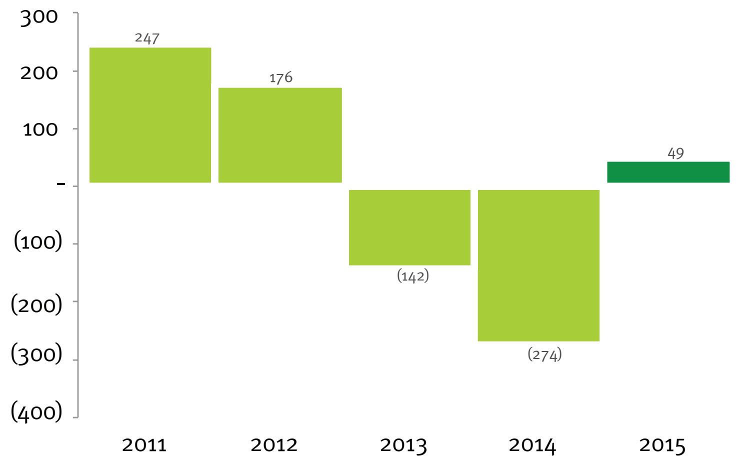
LOANS & ADVANCES IN MILLIONS



TOTAL ASSETS IN MILLIONS



PROFIT BEFORE TAX IN MILLIONS



BENSON ATENG'

Chairman

> I do appreciate the effort that has been expended to bring the Bank this far. We anticipate even better results in the coming year as we double our efforts to secure capital and put the Bank on a growth path

I am pleased to present to you the Annual Report and Financial Statements for the year ended December 31, 2015. The Bank weathered through a three year loss making period to register its first profit since 2012. This is a clear indicator that the Bank is well on course on the execution of its 2015 – 2019 strategic plan, whose theme is 'stabilization, turnaround and growth'.

I would like to draw your attention to the business environment within which our bank operated during the period under review.

Market environment

According to a Word Bank report of 2015 on Kenya's economic progress, the economy grew by an estimated 4.9% in the first quarter of 2015, compared to 4.7% in the same period in 2014. Agriculture, infrastructure, financial services and ICT contributed to the growth, but manufacturing and tourism declined. The government made efforts to maintain fiscal and monetary discipline, despite increasing pressure from the devolution process and rising public sector wage bill. Total public debt has increased but remains sustainable, according to Central Bank figures, while inflation and interest rates remain stable. The stock exchange weakened due to net foreign investor sales, while the Kenya shilling weakened against the US dollar and other major currencies.

The report further stated that with the increased competitiveness in the Small and Medium Enterprises (SMEs) sector, specifically the manufacturing sector which was a key driver of growth, exports and job creation, Kenya was emerging as one of Africa's key growth centres and was poised to become one of the fastest growing economies in East Africa.

The challenge for this sector is that the cost of credit for SMEs remains high due to a number of factors, including:

- The limited use and sharing of positive information about borrowers,
- Inefficiencies in the collateral registration process and
- The cost of the judicial process and high overhead costs.

The move towards positive information sharing by banks has gone some way towards addressing these problems, but positive information sharing from all credit providers including payment service providers and utility companies among others, would add great value to the information already present in the credit bureaus and should be prioritised going forward, provided that data quality can be ensured.

According to the Central Bank of Kenya's (CBK) Credit Officers Survey of 2015, the ratio of total loans to total assets of the banking sector for the year ended 31st December 2015 was 62.3%, a slight increase from 59.8% reported in December 2014. Additionally commercial banks perceived that the demand for credit generally remained constant in the four quarters of 2015. The report states that the sectors perceived with the highest growth in demand for credit was Trade, Personal/ Household and Building & Construction.

Given the recent developments in the banking sector, I would like to take this opportunity to re-assure our customers, shareholders and other stakeholders that your bank is strong and stable. The Board and Management are committed to conducting the affairs and business of the bank in an ethical and professional manner as espoused in our core values. In addition to supporting Central Bank's enhanced supervision, the Bank commits to work together with the Kenya Bankers Association and the regulator to enhance the industry's comprehensive risk management practices and governance standards to restore confidence in the industry.

Financial overview

With the appointment of the board early in the year 2014 and the coming in of the Chief Executive Officer in April 2015, the Bank's governance structure was fully in place and this has helped to stabilize operations and give impetus to the implementation of the strategic plan. The bank recorded a pre-tax profit of Kshs 48.8 million during the year compared to a loss of Kshs 274.2 million in 2014. This performance was achieved on the back of capital constraints that the bank has been experiencing in the recent past and which has constrained the bank's ability to grow.

During the year the Bank's focus was on debt collection as it sought to address its large non-performing loan book. As a result the ratio of non-performing loans declined from 26% in 2014 to 19% in 2015.

The highlights of the bank's financial performance are as follows:

- Loans and advances remained flat at Kshs.9.22 billion;
- Customer deposits declined by 6% percent to Kshs.9.996 billion;
- Total assets declined by 6% percent to Kshs.14.14 billion; and
- Pre-tax profit stood at Ksh.48.8 million.

Capital requirements
In the last three years, the bank has not met the minimum Capital Ratios prescribed in the Prudential Guidelines. That these minimum capital adequacy ratios were adjusted upwards in 2015 compounded the shortfall. The Bank requires about Kshs.800 million to comply with the ratios. This is over and above the capital needed to support the implementation of its Business Plans.

In order to meet the highlighted needs, the Bank secured the approval of the National Treasury and the other shareholders through an Extra-ordinary General Meeting (EGM) to raise additional capital through a Rights Issue; a process that was concluded in April 2016. Although the Rights Issue was not a success, I wish to take this opportunity to thank shareholders for approving the processes and allowing the Board and Management to stage the first serious capital raising exercise for the Bank in its 27 years of existence.

Board changes
The following board changes were effected during the year:

- Mr. Joseph Kipketer Koskey and Dr. Raymond Omollo were appointed to the board effective 2 October 2015
- The appointment of Ms.Bertha Joseph Dena was revoked effective 2 October 2015

I take this opportunity on behalf of the Board to welcome the new board members to the Board and to the Consolidated Bank family at large. I have confidence that their appointment will strengthen the Board and make a significant contribution to its effectiveness. Additionally, I take this opportunity to thank Ms Bertha Joseph Dena for her service to the Bank and especially as the chair of the Board Audit Committee. I wish her all the success in her future endeavors.

Corporate Social Responsibility
Corporate Social Responsibility (CSR) is aimed at having organiations voluntarily taking steps to improve the quality of life for employees and their families as well as for the local community and society at large. Consolidated Bank recognizes its corporate responsibility commitments and is determined to sustain high standards of corporate citizenship by preserving and promoting human values as well as the social and cultural value systems of the society in which it operates.

The year 2015 saw the Bank make deliberate efforts in its CSR initiatives. Most noteworthy is the fight to eradicate Fistula in Kenya; building on our Fistula initiative that began in 2011. Consolidated Bank through a partnership with FDSA participated in a Fistula Medical Camp that was held at Kenyatta National Hospital in June 2015. The camp targeted to treat 170 women through sponsored surgeries and to provide consultation services to many more. Through an organised walk to raise awareness, we were able to surpass our target by treating 208 patients. The camp also created awareness on this medical condition confronting many women, and subsequently more of them have taken steps to visit the hospital for Fistula-related treatment.

During the camp, we launched a campaign dubbed 'Gone helping'. This campaign was aimed at raising awareness about Fistula within the Bank and to our customers and to provide a platform for them to actively participate in the camp through donations and visitation of patients.

Conclusion
While the Bank is not where we envisioned it to be by the end of the year, I do appreciate the effort that has been expended to bring it this far. We anticipate even better results in the coming year as we double our efforts to secure capital and put the Bank on a growth path.

I take this opportunity to express my sincere appreciation to our customers, shareholders, the Government, management, staff, suppliers and fellow board members for their dedicated contribution and support towards the growth of the Bank.

Dr. Benson Ateng'
Chairman

29 March 2016

> "If everyone is moving forward together, then success takes care of itself"
>
> Henry Ford

Gross non-performing loans declined by 30% from KShs 2.8 billion to Kshs 1.9 billion. The bank recovered in excess of KShs 1.4 billion with a write back of KShs 562 million

The bank continued to be resilient with net advances remaining constant at the same level of KShs 9.2 billion as the previous year

THOMAS KIPKEMEI KIYAI

Chief Executive Officer

> "On behalf of the management, I extend my deepest gratitude to our Customers, for believing in us and continuing to retain us as their preferred banking partner. To our shareholders, we thank you for your support. To our regulator, as well as the communities we exist in, thank you for creating an enabling environment for our operations."

The year 2015 was difficult for businesses across all sectors of the economy and particularly for the banking industry. The year witnessed over 18 listed companies in the Nairobi Securities Exchange issuing profit warnings highlighting the tough operating environment for businesses in 2015. The economy however remained resilient on the backdrop strong expansions in agriculture, construction, financial activities, internal trade and transportation sectors while tourism remained subdued.

During the second half of the year the Kenya Shilling experienced significant volatility against the major currencies especially the US Dollar and the Sterling Pound. This lead to Central Bank intervention through monetary policy and hence a sharp rise in interest rates in the month of September so as to reduce the market liquidity and support the shilling. The situation however improved slightly towards the end of the year as the shilling stabilized and the interest rates came down.

Overview of Financial Performance

During the year 2015, the bank recorded improved performance with a profit before tax of KShs 48.8 million up from a loss of KShs 274.2 million for the previous year. The bank rolled out a five year strategic plan with key focus areas of debt recovery, recapitalization and growth anchored on customer service excellence and robust risk management practices. Despite the business challenges experienced in the industry during the second half of the year, the bank continued to be resilient with net advances remaining constant at the same level of KShs 9.2 billion as the previous year while the customer deposits declined slightly to KShs 10.0 billion from KShs 10.6 billion the previous year.

Recovery of Non-performing Loans

Gross non performing loans declined by 30% from KShs 2.8 billion to Kshs 1.9 billion on the backdrop of the recovery measures put in place by management to reduce the bad book. The bank managed to recover in excess of KShs 1.4 billion with a write back of KShs 562 million. These measures included the segregation of the bad and the good bank together with the strengthening of the capacity of the debt recovery function and the establishment of an early collection unit to deal with early arrears and forestall them from becoming non-performing. The bank has also streamlined the credit underwriting procedures to ensure growth of quality lending.

Recapitalization

Capitalization is one of the key pillars underpinning the implementation of the bank's five year strategic plan for the period 2015 to 2019. Following approval by the National Treasury, the majority shareholder, the bank embarked on a Rights Issue to raise additional KShs 1.8 billion in ordinary share capital to ensure compliance with the Central Bank of Kenya Prudential Guidelines as regards minimum capital ratios and also support the implementation of the 2016/17 business plans. An Extra-ordinary General Meeting of shareholders held on 15th December 2015 approved the issuance of 89,840,000 ordinary shares at a price of KShs 20.0 each to shareholders on the basis of two (2) new ordinary shares for every one (1) existing ordinary share held. The offer for the rights opened on 1st February and was expected to close on 4th April 2016.

Although the capital raising exercise was not successful because of the restrictive core mandates of most state corporations (shareholders) among other reasons, I wish to sincerely appreciate the support shareholders have extended to the bank over the years.

Current Strategic Focus

The bank has broken down the strategic plan into annual business plans. The key agenda currently is to continue with the debt recovery initiatives. The bank will also roll out a virtual banking platform and ride on the alternatives delivery channels to grow the customer numbers, the deposit base, net advances and non-funded income.

Corporate Social Responsibility

As part of its commitment to support with the communities where it operates, the Bank partnered with Kenyatta National Hospital and AMREF Flying Doctors to offer corrective surgery for 208 mothers suffering from fistula condition. The Bank continues to sustain high standards of corporate citizenship by preserving and promoting human values as well as the social and cultural value systems of the society in which it operates.

Appreciation

On behalf of the management, I extend my deepest gratitude to our customers, for believing in us and continuing to retain us as their preferred banking partner. To our shareholders, we thank you for your support. To our regulator, as well as the communities we exist in, thank you for creating an enabling environment for our operations.

Lastly, I remain indebted to all employees and the Board of Directors for their commitment and dedication to the Bank throughout the year. We remain resolute to continue serving our customers and providing value to our stakeholders going into the future.

Thomas Kipkemei Kiyai
Chief Executive Officer

29 March 2016

Corporate governance defines the process and structure used to direct and manage the business affairs of the bank with the aim of enhancing corporate accounting and shareholders' long term value while taking into account the interests of other stakeholders.

The Board of Directors is responsible for the governance of the bank and is committed to ensuring that its business operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics. To this end the bank has put in place processes, systems, practices and procedures which are frequently reviewed and updated embracing the changing corporate environment and world trends.

Business ethics

The Bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its clients, intermediaries, insiders, employees and other stakeholders are conducted at arm's length, with integrity and transparency. The business is conducted with high levels of transparency and accountability.

Board of Directors

The names of the Directors who held office in the year and to the date of this report are set out on page 14.

The Board fulfils its fiduciary responsibility to the shareholders by maintaining control over the strategic, financial, operational and compliance issues of the bank. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, it has delegated authority to the Managing Director to conduct the day-to-day business of the bank.

The board consists of ten non-executive directors (including the Chairman) and the Chief Executive Officer. The Board members possess extensive experience in a variety of disciplines in banking, business and financial management, all of which are applied in the overall management of the bank. The Board meets at least once every two months, and has a formal schedule of matters reserved for it. The directors are given appropriate and timely information so that they can perform their fiduciary responsibilities effectively.

a) Directors' Emoluments and Loans

The remuneration of all directors is subject to the guidelines issued by the Office of the President on terms and conditions of service for State Corporations. They are not eligible for membership of the pension scheme and do not participate in any of the bank's bonus schemes. Information on the compensation received and the dealings of the directors with the bank are included in the notes 11 and 37 to the financial statements.

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the bank and its Directors or Management except those disclosed in Note 37 to the financial statements for the year ended 31 December 2015.

The Board has set up working committees to assist in discharging its duties and responsibilities as follows:

Audit Committee

The board is mandated to raise the standards of corporate governance by reviewing the quality and effectiveness of the internal control systems, the internal and external audit functions and the quality of financial reporting. In addition to advising the Board on best practice, the committee also monitors management's compliance with relevant legislation, regulations and guidelines as well as the bank's laid down policies and procedures. The committee has direct access to the Internal Audit function and the Company Secretary. During the year the committee received and reviewed the findings of the internal and external audit reports and management's action to address them.

Risk Committee

The committee is responsible for overseeing the implementation of the bank's risk management framework to ensure that all existing and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risks to keep abreast with new developments and their potential impact to the business. The committee receives periodic reports from the risk and compliance function relating to the bank's strategic risk, credit risk, market risk (interest rate risk, price risk, and foreign exchange risk), operational risk, regulatory risk, reputational risk, and liquidity risk.

Credit and Finance Committee

The committee is mandated to review and make recommendations on the bank's credit, financial and accounting policies, and review and make recommendations on the bank's Annual Budget, oversight of the overall lending policy of the bank and deliberate and consider loan applications beyond the credit discretion limits set for management. The committee also reviews and considers all issues that may materially impact the present and future quality of the bank's credit risk management function as well as the quality of the loan portfolio and ensure adequate bad debt provisions are maintained in line with the Central Bank of Kenya prudential guidelines. The committee also reviews, approves and monitors the management's compliance with applicable statutory provisions, bank policies and guidelines relating to the monitoring of price, liquidity, exchange rate and interest rate risks.

Staff Committee

The committee is mandated to formulate staff policies and procedures and ensure an adequately staffed and professionally managed human resource. The committee assists the Board in discharging its corporate governance role by reviewing staffing needs of the bank, appoints senior management staff, reviews training needs and undertake disciplinary measures as per the staff policies.

Board meeting attendance

During the year under review, the Board held main board meetings and working committee meetings. The Board members attendance for 2015 is as follows:

Name	Board Meeting			Audit Committee			Risk & Compliance Committee			Credit & Finance Committee			Staff Committee		
	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%	Meetings required to attend	Meetings attended	%
T. Kiyai - (Chief Executive Officer)	10	10	**100%**	-	-	-	3	3	**100%**	4	3	**75%**	1	1	**100%**
George Omino - Treasury	17	15	**88%**		-	-		-		8	7	**88%**	3	3	**100%**
Dr. A .Omerikwa - Managing Trustee - NSSF	17	4	**24%**	-	-	-	-	-		8	3	**38%**	3	1	**33%**
Dr. Raymond Omollo*	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Joseph Koskey**	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Dr. B. Ateng - (Chairman)	17	16	**94%**	-	-	-	-	-	-	-	-		-	-	-
Amb. C. Amira	17	17	**100%**	5	5	**100%**	-	-			-		3	3	**100%**
M. Cherogony	17	13	**77%**	5	5	**100%**	4	4	**100%**	8	6	**75%**	-	-	-
P. Muhindi	17	17	**100%**	-	-	-	4	4	**100%**	8	8	**100%**	-	-	-
E. Vitisia	17	17	**100%**	5	5	**100%**	4	4	**100%**	8	8	**100%**	-	-	-

* Dr.Raymond Omollo was appointed on 23 December 2015 hence he did not attend any board meeting.

** Joseph Koskey was appointed on 26 February 2016 hence he did not attend any board meeting.

Board performance evaluation
The chairman conducts evaluations of the performance of the Board, individual Directors and Board Committee's annually. In addition the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board.

Shareholders
The list of the shareholders and their individual holdings at the year ended 31 December 2015was as follows:

	No. of Ordinary Shares	%	No. of Preference Shares	%
Cabinet Secretary/The National Treasury	35,000,000	77.9%	-	-
National Social Security Fund	2,225,000	5.0%	8,050,000	22.3%
Kenya National Assurance (2001)	1,094,487	2.4%	3,958,300	11.0%
Kenya National Assurance Company Limited	835,513	1.9%	3,021,700	8.4%
Kenya Pipeline Company Limited	720,000	1.6%	2,631,500	7.3%
Kenya National Examination Council	695,000	1.5%	2,520,000	7.0%
Public Trustees	660,000	1.5%	2,420,000	6.7%
Telkom Kenya Limited	620,000	1.4%	2,250,000	6.2%
National Hospital Insurance Fund	590,000	1.3%	2,120,000	5.9%
LAPTRUST Retirement Services Limited	486,000	1.1%	1,756,000	4.9%
Total of 10 above	**42,926,000**	**95.6%**	**28,727,500**	**79.7%**
Other Shareholders	**1,994,000**	**4.4%**	**7,329,000**	**20.3%**
TOTAL SHAREHOLDING	**44,920,000**	**100%**	**36,056,500**	**100%**

Compliance
The Bank is governed by the Banking Act, among other legal requirements, and adopts certain universally accepted principles in the areas of human rights, labour standards in its commitment to best practice. Additionally, the Bank prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

Director

Nairobi
29 March 2016

The directors have pleasure in presenting their report together with the audited financial statements of Consolidated Bank of Kenya limited ("the bank") for the year ended 31 December2015, which show the state of affairs of the bank.

ACTIVITIES
The principal activities of the bank, which is governed by the Banking Act, are the provision of banking, financial and related services.

RESULTS	Sh'000
Profit before taxation	48,789
Taxation charge	(4,367)
Profit for the year transferred to accumulated deficit	44,442

DIVIDEND
The directors do not recommend the payment of a dividend for the year (2014: nil).

DIRECTORS
The present members of the board of directors are shown on page 10. The following changes took place in the directorship during the year.

- Thomas Kiyai was appointed as Chief Executive Officer on 10 April 2015.
- Dr. Raymond Omollo was appointed as director on 2 October 2015.
- Director Joseph Koskey was appointed as director on 2 October 2015.
- Director Bertha Dena resigned from the board with effect from 2 October 2015.
- Methuselah Rono's term as director ended on 11 March 2015

AUDITORS
The Auditor General is responsible for the statutory audit of the bank's books of account in accordance with section 14 and section 39(i) of the Public Audit Act, 2004 which empowers the Auditor-General to nominate other auditors to carry out the audit on his behalf and subject to the approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act.

Deloitte & Touche, who were nominated by the Auditor General, carried out the audit of the financial statements for the year ended 31 December 2015.

BY ORDER OF THE BOARD

Secretary
Nairobi

29 March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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 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. 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 bank and of its 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.

The directors have considered the bank's non-compliance with the minimum capital requirements of the Central Bank of Kenya Prudential Guidelines as discussed in note 3 to the financial statements which indicates that, at 31 December 2015, the bank's total regulatory capital to risk weighted assets ratio was 9.4% which is below the CBK minimum prudential ratio of 14.5%.The directors are taking the necessary measures to ensure compliance. As a result, the National Treasury as one of the principal shareholders have so far injected Shs 500 million in additional capital to help reverse the situation. The bank is in the process of raising additional capital of Shs 1.8 billion through a rights issue which was approved by the shareholders during the Extra ordinary General Meeting held on 15 December 2015. The rights issue process is expected to be concluded on 4 April 2016.

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

Director

Director

29 March 2016

REPORT OF THE AUDITOR GENERAL ON THE FINANCIAL STATEMENTS OF CONSOLIDATED BANK OF KENYA LIMITED

Report on the Financial Statements

The accompanying financial statements of Consolidated Bank of Kenya Limited set out on pages 30 to 74 which comprise the statement of financial position as at 31 December 2015 and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by Deloitte & Touch, auditors appointed under Section 39 of the Public Audit Act, 2003. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's 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 the requirements of the Kenyan Companies 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 are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 13 of the Public Audit Act, 2003.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 15(2) and (3) of the Public Audit Act, 2003 and submit the audit report in compliance with Article 229(7) of the Constitution o. 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 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 bank'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 effectiveness of the bank'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.

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

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Consolidated Bank Of Kenya as at 31 December 2015 and of its profit and cash flows of the year then ended in accordance with International Financial Reporting Standards and comply with the Kenyan Companies Act, Cap 486 of the Laws of Kenya, and the Banking Act.

Emphasis of matter

I draw your attention to note 3 to these financial statements which indicates that the bank had not been issued with a banking license for the year 2016 as a result of not having met the capital adequacy ratios as at 31 December 2015. The issuance of the license depends on conclusion of measures taken by directors to ensure compliance with the capital adequacy ratios. My opinion is not qualified in respect of this matter.

Report on Other Legal Requirements

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

i) I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of the audit:

ii) in my 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 or loss and other comprehensive income are in agreement with the books of account.

FCPA Edward R.O. Ouko, CBS
AUDITOR-GENERAL

Nairobi
07 June 2016

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015.

	Note	2015 Sh'ooo	2014 Sh'ooo
INTEREST INCOME	6	1,957,414	2,054,537
INTEREST EXPENSE	7	(938,585)	(1,141,396)
NET INTEREST INCOME		1,018,829	913,141
Fee and commission income	8	316,865	321,886
Foreign exchange trading income	9	36,628	43,796
Other operating income	10	642, 713	102,298
OPERATING INCOME		2,015,035	1,381,121
Operating expenses	11	(1,377,562)	(1,207,539)
Impairment charge on loans and advances	19	(588,684)	(447,772)
PROFIT/(LOSS) BEFORE TAXATION		48,789	(274,190)
TAXATION CHARGE	13(a)	(4,367)	(7,442)
PROFIT/(LOSS) FOR THE YEAR		44,422	(281,632)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Net fair value gains on available-for-sale financial assets	21	2,973	1,845
Items that will not be reclassified subsequently to profit or loss:			
Surplus on revaluation of property and equipment	22	-	151,293
Deferred tax on revaluation	27	-	(45,388)
		-	105,905
Total other comprehensive income		2,973	107,750
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		47,395	(173,882)
EARNINGS/(LOSS) PER SHARE		Sh	Sh
Basic and diluted	14	0.87	(14.14)

STATEMENT OF FINANCIAL POSITION

	Note	31 December 2015 Sh'ooo	31 December 2014 Sh'ooo
ASSETS			
Cash and balances with Central Bank of Kenya	15	759,717	1,406,318
Balances due from banking institutions	16(a)	104,709	162,098
Government securities	17	2,688,034	2,823,524
Loans and receivables	18	9,221,256	9,212,581
Other assets	20	250,486	235,315
Quoted equity shares	21	6,879	3,906
Taxation recoverable	13(c)	12,165	6,300
Property and equipment	22	844,438	937,706
Intangible assets	23	240,695	281,984
Prepaid operating lease rentals	24	7,149	7,319
TOTAL ASSETS		14,135,528	15,077,051
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Deposits and balances due to banking institutions	16(b)	275,463	533,502
Customer deposits	25	9,996,058	10,641,959
Other liabilities	26	240,821	238,875
Deferred tax liability	27	38,677	40,752
Borrowings	28	1,969,294	2,054,143
TOTAL LIABILITIES		12,520,313	13,509,231
SHAREHOLDERS' FUNDS			
Share capital	29(b)	1,619,530	1,119,530
Capital awaiting allotment	29(c)	-	500,000
Revaluation surplus	30	396,372	405,999
Accumulated deficit	31	(533,841)	(531,528)
Statutory reserve	32	127,143	70,781
Fair value reserve	33	6,011	3,038
TOTAL SHAREHOLDERS' FUNDS		1,615,215	1,567,820
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		14,135,528	15,077,051

The financial statements on pages 30 to 74 were approved and authorised for issue by the Board of Directors on 29 March 2016 and were signed on its behalf by:

Director

Director

Chief Executive Officer

Company Secretary

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

	Note	Capital awaiting allotment Sh'000	Share capital Sh'000	Revaluation surplus Sh'000	Accumulated deficit Sh'000	Statutory reserve Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2014		-	1,119,530	308,135	(276,143)	88,987	1,193	1,241,702
Loss for the year		-	-	-	(281,632)	-	-	(281,632)
Other comprehensive income		-	-	105,905	-	-	1,845	107,750
Total comprehensive loss		-	-	105,905	(281,632)	-	1,845	(173,882)
Transfer of excess depreciation	30	-	-	(11,487)	11,487	-	-	-
Deferred tax on excess depreciation	30	-	-	3,446	(3,446)	-	-	-
Transfer from statutory reserve	32	-	-	-	18,206	(18,206)	-	-
Capital awaiting allocation	29(c)	500,000	-	-	-	-	-	500,000
At 31 December 2014		500,000	1,119,530	405,999	(531,528)	70,781	3,038	1,567,820
At 1 January 2015		500,000	1,119,530	405,999	(531,528)	70,781	3,038	1,567,820
Profit for the year		-	-	-	44,422	-	-	44,422
Other comprehensive income		-	-	-	-	-	2,973	2,973
Total comprehensive profit		-	-	-	44,422	-	2,973	47,395
Capital alloted in the year	29(c)	(500,000)	500,000	-	-	-	-	-
Transfer of excess depreciation	30	-	-	(13,753)	13,753	-	-	-
Deferred tax on excess depreciation	30	-	-	4,126	(4,126)	-	-	-
Transfer to statutory reserve	32	-	-	-	(56,362)	56,362	-	-
At 31 December 2015		-	1,619,530	396,372	(533,841)	127,143	6,011	1,615,215

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Sh'000	2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	34(a)	153,478	1,051,792
Tax paid	13(c)	(12,307)	-
Net cash generated from operating activities		141,171	1,051,792
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property and equipment	22	(11,331)	(9,665)
Acquisition of intangible assets	23	(19,482)	(27,976)
Net cash used in investing activities		(30,813)	(37,641)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from capital injection	29	-	500,000
Repayment of borrowings	28	(330,878)	(297,428)
Net cash (used in)/generated from financing activities		(330,878)	202,572
NET (DECREASE)/INCREASEIN CASH AND CASH EQUIVALENTS DURING THE YEAR		(220,520)	1,216,723
CASH AND CASH EQUIVALENTS AT 1 JANUARY		466,632	(750,091)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34(b)	246,112	466,632

1. REPORTING ENTITY

Consolidated Bank of Kenya Limited (The"bank") provides commercial banking services. The bank is incorporated in Kenya under the Companies Act and is domiciled in Kenya.

The address of its registered office is as follows:

Consolidated Bank House, Koinange Street
P O Box 51133
Nairobi- 00200

2. (a) ACCOUNTING POLICIES

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS's)

i) 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 of the Company do not anticipate that the application of the standard will have a significant impact on the group's financial statements since the group doesn't have a defined benefit plan.

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.

2. (a) ACCOUNTING POLICIES (Continued)

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS's) (Continued)

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

Annual Improvements 2010-2012 Cycle (Continued)

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

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

ii) Relevant new and amended standards and interpretations in issue but not yet effective in 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 2018
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016

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

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

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

2. (a) ACCOUNTING POLICIES (Continued)

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS's) (Continued)

iii) Impact of 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)

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. The standard is not likely to have any material impact to the group's financial statements.

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

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

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

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

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the group and the Bank uses the reducing balance method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. The amendments are not likely to have any material impact on the group's and the Bank's financial statements.

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 de-recognition

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 Company 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 (e.g. the Company will classify financial assets as subsequently measured at either amortised cost or fair value). However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 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

2. (a) ACCOUNTING POLICIES (Continued)

ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS's) (Continued)

iii) Impact of 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)

Annual Improvements 2012-2014 Cycle (Continued)

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

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations

The amendments to IFRS 11 provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 Business Combinations Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards (e.g. IAS 12 Income Taxes regarding recognition of deferred taxes at the time of acquisition and IAS 36 Impairment of Assets regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation. A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

Entities should apply the amendments prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in IFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016

The directors of the Company do not anticipate that the application of the standard will have a significant impact on the Company's financial statements

iv) Early adoption of standards

The bank did not early adopt new or amended standards in 2015

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. Additional information required by regulatory bodies is included where appropriate.

For the Kenyan Companies Act reporting purposes, in these financial statements the balance sheet is represented by/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.

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting except for certain properties that are measured at revalued amounts and certain financial instruments, measured at fair value:

Consolidation

The financial statements of the dormant subsidiaries listed in note 35 have not been consolidated as the amounts involved are not material and would, therefore, be of no real value.

Investments in subsidiary companies

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

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the profit or loss on accrual basis using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or when appropriate, a shorter period) to the net carrying amount of the financial asset or liability.

2. (a) ACCOUNTING POLICIES (Continued)

Interest income and expense (Continued)

The calculation of the effective interest rate includes all fees and commissions paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

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

Fees and commission income

In the normal course of business, the bank 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.

Other fees and commission income, including account servicing fees, investment management fees, placement fees 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.

Other fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment are stated at cost or as professionally re-valued from time to time less accumulated depreciation and any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The bank's policy is to professionally revalue property at least once every three years

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 profit or loss.

Depreciation

Depreciation is calculated on a straight-line basis at annual rates estimated to write off the cost of each asset or the revalued amounts, to its residual values over its estimated useful life as follows:

Fixtures, fittings, equipment & ATMs	5 years
Leasehold improvements	8 years or lease period if shorter
Computers	3 years
Motor vehicles	4 years
Buildings	40 years or land lease period if shorter

Freehold land is not depreciated as it is deemed to have an indefinite life.

The depreciation rates on fixtures,fittings,equipment & ATMs was changed during the year from the previous useful life of 8 years to 5 years.

The depreciation charge to profit and loss is based on the carrying amounts of the property and equipment. The excess of this charge over that based on the historical cost of the property and equipment is released each year from the revaluation surplus to retained earnings.

Intangible assets - computer software costs

Costs incurred on computer software are initially accounted for at cost and subsequently at cost less any accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

The amortisation of intangible assets was changed during the year from the previous useful life of 10 years to 5 years.

Leases

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

When a lease includes land and buildings elements, the bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 2(b) to these financial statements.

2. (a) ACCOUNTING POLICIES (Continued)

Leases (Continued)

The bank as lessor

Assets held under finance leases are recognised as assets of the bank at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the statement of comprehensive income over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

The bank as lessee

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

Impairment of non-financial assets

At the reporting date, the bank reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss.

If objective evidence on impairment losses exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. In cases where the asset is carried at revalued amount, the impairment loss is treated as a revaluation decrease.

In determining the recoverable amount, the bank considers the higher of the fair value of the asset less costs to sell, and value in use. In estimating value in use, the bank is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Intangible assets with indefinite useful life are tested for impairment annually, and when there is indication that the asset may be impaired.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, unless such asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation income.

Foreign currencies

i) Functional and presentation currency

The financial statements of the bank are measured using the currency of the primary economic environment in which the bank operates ('the functional currency'). The financial statements are presented in Kenya Shillings, which is the bank's functional and presentation currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand (Sh'000).

ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or that requires settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised through profit or loss.

Taxation

Income tax expense represents the sum of the current tax payable and the deferred taxation.

Current taxation is provided on the basis of the results for the year, as shown in the financial statements, adjusted in accordance with tax legislation. Deferred taxation is provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred taxation.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilised.

2. (a) ACCOUNTING POLICIES (Continued)

Financial instruments

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

Financial assets

a) Classification and measurement

The bank classifies its financial assets into the following IAS 39 categories: Financial assets at fair value through profit or loss; loans and receivables; held- to- maturity investments; and available-for-sale financial assets. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

i) 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.

ii) Due from banks and loans and receivables

Due from banks and loans and receivables include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are recognised when cash is advanced to borrowers.

After initial recognition, amounts 'Due from banks' and 'Loans and advances to customers' are subsequently measured at amortised cost using the effective interest rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'Interest and similar income' in the profit and loss. The losses arising from impairment are recognised in profit or loss.

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank has the positive intention and ability to hold to maturity.

Held to maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss.

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. Furthermore, the bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

iv) Available-for-sale financial assets

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

Available-for-sale investments are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments 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 recognised in profit or loss.

Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Dividends on available for sale equity instruments are recognised in profit and loss when the bank's right to receive the dividends is established.

b) Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

2. (a) ACCOUNTING POLICIES (Continued)
Financial instruments (Continued)
Financial assets (Continued)

(b) Derecognition of financial assets (Continued)

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

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass–through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

c) Impairment and uncollectability of financial assets

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

If it is probable that the bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans and receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

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

i) Assets carried at amortised cost

If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instruments effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

ii) Loans and receivables

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and advances is established when

2. (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

c) Impairment and uncollectability of financial assets

ii) Loans and receivables (Continued)

there is objective evidence that the bank will not be able to collect all amounts due according to the original terms of the loans. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the profit or loss as 'impairment loss on loans and receivables'. When a loan or advance is uncollectible, it is written off against the related allowance account. Subsequent recoveries of amounts previously written off are credited through profit or loss.

Objective evidence that loans and receivables are impaired can include significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue), 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 are considered indicators that the loans or receivable is impaired.

In assessing impairment losses, the bank considers the following factors, in each category:

a) Individually assessed loans

- The aggregate exposure to the bank.
- The viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flows to meet its debt obligations.
- The realisable value of the security (or other mitigants) and likelihood of successful repossession net of any costs involved in recovery of amounts.
- The amount and timing of expected receipts and, in cases of liquidation or bankruptcy, dividend available.
- The extent and complexity of other creditor's commitment ranking paripassu with the bank and the likelihood of other creditors continuing to support the customer.

b) Collectively assessed

- For loans not subject to individual assessment, to cover losses which have been incurred but have not yet been identified.
- For homogeneous groups of loans that are not considered individually significant, where there is objective evidence of impairment.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, or in other cases, when the portfolio size is small or when information is insufficient or not reliable enough, the bank adopts a formulaic approach which allocates progressively higher percentage loss rates in line with the period of time for which a customer's loan is overdue. Loss rates are calculated from the discounted expected future cash flows from a portfolio. These rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Loan write – offs

An uncollectible loan is written off against the relevant provision for impairment, either partially or in full, when there is no realistic prospect of recovery and the proceeds from realising the security have been substantially or fully recovered.

Restructured loans

Restructured loans, whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum required number of payments under the new arrangement have been received.

2. (a) ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

iii) Available-for-sale financial assets

In the case of investment classified as available for sale, significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. 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.

Financial liabilities and equity instruments issued by the bank

a) Classification and measurement

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

i) Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the bank are recorded at the proceeds received, net of direct issue costs.

ii) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss.The bank derecognises financial liabilities when, and only when, the bank's obligations are discharged, cancelled or they expire.

Offsetting

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

Provisions

A provision is recognised if, as a result of a past event, the bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Statutory reserve

IAS 39 requires the bank to recognise an impairment loss when there is objective evidence that loans and receivables are impaired. However, Central bank of Kenya prudential guidelines require the bank to set aside 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.

2. (a) ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

Cash and cash equivalents include cash in hand, unrestricted balances held with the Central Bank of Kenya and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the bank to support performance by a customer to third parties. The bank will only be required to meet these obligations in the event of the customer's default. 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 bank acts in a fiduciary capacity such as nominee, trustee or agent.

Sale and repurchase agreements

Securities sold to Central bank of Kenya subject to repurchase agreements ('repos') are retained in the financial statements under government securities and the counterparty liability is included in advances from Central bank of Kenya. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Employee benefit costs

The bank operates a defined contribution retirement benefit scheme for all its employees. The scheme is administered by an independent investment management company and is funded by contributions from both the bank and employees.

The bank also contributes to the statutory National Social Security Fund. This is a defined contribution scheme registered under the National Social Security Fund Act. The obligations under the scheme are limited to specific contributions legislated from time to time.

The bank's contributions in respect of retirement benefit costs are charged to the profit and loss in the year to which they relate.

Employee entitlement to leave not taken is charged to profit or loss as it accrues.

Comparatives

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

2. (b) CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the bank's accounting policies, which are described in note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

i) Critical judgements in applying the banks accounting policies

The following are the critical judgements, apart from those involving estimations (see (ii) overleaf), that management have made in the process of applying the bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements.

Impairment losses on loans and advances

The bank reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit and loss, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before 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 group, or national or

2. (b) CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

***i)* Critical judgements in applying the banks accounting policies (Continued)**

Impairment losses on loans and advances (Continued)

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.

Classification of leases of land as finance or operating leases

At the inception of each lease of land, the bank 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 bank 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 equalling 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.

Impairment of available-for-sale investments

The bank reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

The bank also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgment. In making this judgment, the bank evaluates, among other factors, historical share price movements and duration and extent to which the fair value of an investment is less than its cost.

Held -to-maturity investments

The bank 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 bank evaluates its intention and ability to hold such investments to maturity. If the bank 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.

ii) Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Property, equipment and intangible assets

Critical estimates are made by management in determining depreciation rates for property, equipment and intangible assets.

Fair value of trade receivables and payables

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the bank for similar financial instruments.

2. (b) CRITICAL JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

ii) **Key sources of estimation uncertainty (Continued)**

Taxation

The bank is subjected to numerous taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the bank recognises liabilities for the anticipated tax /levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes /levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

3. GOING CONCERN

As at 31 December 2015, the bank had a total regulatory capital/ risk weighted assets ratio of 9.4% (2014: 10.97%) against a minimum required ratio of 14.5%. The bank therefore had not met the capital adequacy ratios and a result, it was not issued with a banking licence. The issuance of the licence depends on conclusion of measures taken by directors to ensure compliance with the core capital requirements. The directors are taking the necessary measures to ensure compliance. As a result of the measures being taken by the directors, the National Treasury as one of the principal shareholders have so far injected Shs 500 million in additional capital to help reverse the situation. The bank is in the process of raising additional capital of Shs 1.8 billion through a rights issue which was approved by the shareholders during the Extra ordinary General Meeting held on 15 December 2015. The rights issue process is expected to be concluded on 4 April 2016.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) FINANCIAL RISK

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

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 risk management committee comprising of three non-Executives Directors to assist in the discharge of this responsibility. The board has also established the bank Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. These committees comprise of executive members and report regularly to the board of directors on their activities.

The board provides written principles for overall risk management as well as written policies covering specific risk areas. The bank's risk management policies are established to identify and analyse the risks faced by the bank, 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 best market practices. The bank, 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 Audit and Risk Management Committee is responsible for monitoring compliance with the bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the bank. This committee is assisted in these functions by the Internal Audit Function. The Internal Audit Function undertakes reviews of risk management controls and procedures, the results of which are reported to the committee.

The most important type of risks to which the bank is exposed to are financial risks which include:

a) Credit risk
b) Liquidity risk
c) Market risks

a) Credit risk

Credit risk is the risk of financial loss to the bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk arises principally from the bank's loans and advances to customers and other banks and investment securities but can also arise from credit enhancement provided such as financial guarantees, letters of credit and acceptances. The bank is also exposed to other credit risks arising from its trading activities including derivatives.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

a) Credit risk (Continued)

Credit risk is the single largest risk for the bank's business and management carefully manages its exposure to credit risk. For risk management reporting purposes, the bank considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading securities is managed independently, but reported as a component of market risk exposure.

Management of credit risk

The board of directors has delegated responsibility for the oversight of credit risk to its Finance and Credit Committee comprising of four non-executive directors. The implementation of the credit risk policies and monitoring of the credit portfolio to ensure that risks are managed within acceptable standards is the responsibility of the credit committee comprising of executive management. The committee assisted by the credit department is responsible for the management of the bank'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 delegated to the head of credit and the credit committee while larger facilities require approval by the board of directors.
- Limiting concentrations of exposure to counterparties, geographies and industries for loans and advances.
- Developing and maintaining the bank's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. Risk grades are subject to regular reviews by credit department.
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to bank credit committee on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to branches to promote best practice throughout the bank in the management of credit risk.

Credit risk measurement

In measuring credit risk of loans and advances to customers, the bank takes into account the following factors:

- The probability of default: this is the possibility of the customer failure to pay over the stipulated period in the contract.
- Current exposure on the borrower and the likely future development from which the bank derives the exposure at default
- Estimated recovery ratio should default occur; this is the amount that can be recovered through sale of collateral

The bank assesses the probability of default of individual borrowers using internal rating methods tailored to the various categories of the borrower. In assessing the credit quality of the customer the bank takes into account the customers financial position, past experience and other industry specific factors. The credit risk measurements are embedded in the bank's daily operational management and closely aligned to the Central Bank of Kenya loan classifications. The impairment allowances on loans and advances computed through the bank's internal measures and the Central Bank of Kenya prudential guidelines are contrasted with the measurement of impairment under the IAS 39.

Risk limit control and mitigation policies

The bank structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
(a) FINANCIAL RISK (Continued)
a) Credit risk (Continued)
Risk limit control and mitigation policies (Continued)

interest and capital repayment obligations and by changing limits where appropriate.

The bank takes security for funds advances and implements guidelines on the acceptability of specific classes of collateral. To minimise credit loss the bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances. Collateral held for other financial assets other than loans and advances depends on the nature of the instrument.

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

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

The bank has no significant concentration of credit risk, with exposure spread over a diversity of personal and commercial customers.

Maximum exposure to credit risk before collateral held

	2015 Sh'000	%	2014 Sh'000	%
Credit Exposures				
On – balance sheet items				
Cash and balances with the CBK	759,717	5	1,406,318	9
Government securities	2,688,034	18	2,823,524	18
Balances due from banking institutions	104,709	1	162,098	1
Loans and advances to customers	9,221,256	62	9,212,581	60
	12,773,716	**86**	**13,604,521**	**88**
Off-balance sheet items				
Acceptances and letters of credit	39,620	1	99,302	1
Guarantees	761,208	5	707,884	5
Undrawn formal stand-by facilities, credit lines and other commitments to lend	1,252,551	8	916,946	6
	2,053,379	**14**	**1,724,132**	**12**
At 31 December	**14,827,095**	**100**	**15,328,653**	**100**

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
(a) FINANCIAL RISK (Continued)
a) Credit risk (Continued)
Maximum exposure to credit risk before collateral held (Continued)

The above represents the worst case scenario of credit exposure for 31 December 2015 and 2014, without taking into account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures, set out above are based on net carrying amount as reported on the statement of financial position.

Loans and advances to customers comprise of 62% (2014 - 60%) of the total maximum exposure. The fair value of collateral held in respect of assets subject to credit risk as at 31 Decembers 2015 was Sh 16,268,384,000 (2014- Sh15, 711,536,125).

While collateral is an important mitigant to credit risk, the bank's policy is to establish that loans are within the capacity of the customer to repay, as the primary way out. The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. 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.

The bank is confident that its policies and procedures provide sufficient safeguards against exposure on credit risk as shown on the table below.

Classification of loans and receivables

	Loans and advances to customers 2015 Sh'000	Loans and advances to customers 2014 Sh'000
Carrying amount		
Individually impaired		
Grade 6: Impaired (substandard)	312,857	475,014
Grade 7: Impaired (doubtful)	1,499,300	2,316,799
Grade 8: Impaired (loss)	145,704	18,687
Gross amount	1,957,861	2,810,500
Allowance for impairment	(479,550)	(1,074,002)
Interest in suspense	(398,739)	(479,515)
Carrying amount	1,079,572	1,256,983
Collectively impaired (past due but not impaired)		
Grade 4-5: Watch list	1,021,970	904,685
Allowance for impairment	(30,659)	(27,141)
Carrying amount	991,311	877,544
Neither past due nor impaired		
Grade 1-3: Normal	7,150,373	7,078,054
Total carrying amount	9,221,256	9,212,581

Apart from the loans and receivables to customers all other credit exposures are neither past due nor impaired.

Loans and receivables neither past due nor impaired

The bank classifies loans and advances under this category for those exposures that are up to date and in line with contractual agreements. These exposures will normally be maintained within approved product programs and with no signs of impairment or distress. These exposures are categorised internally as grade 1-3, that is, normal accounts in line with CBK prudential guidelines and a provision of 1 % is made and appropriated from revenue reserves to statutory reserves.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
(a) FINANCIAL RISK (Continued)
a) Credit risk (Continued)

Loans and receivables past due but not impaired loans

Loans where the contractual interest or principal payments are past due but the bank 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 bank are classified as past due but not impaired. These exposures are graded internally as category 4-5 that is watch accounts in the bank's internal credit risk grading system, in line with CBK guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the bank has made concessions that it would not otherwise consider. Loans whose terms have been renegotiated are no longer treated as past due but are reclassified as performing loans. In subsequent years, the renegotiated terms apply in determining whether the asset is considered past due.

Allowances for impairment

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

The internal credit risk grading system which is in line with CBK prudential guidelines focus on expected credit losses – that is taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the date of the statement of financial position based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the statement of comprehensive income is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

Write-off policy

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit or loss.

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

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 Sh'ooo	2014 Sh'ooo
Against individually impaired Property	1,695,050	1,998,295
Against collectively impaired Property	1,995,622	2,185,002
Total	3,690,672	4,183,297

Settlement risk

The bank'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.

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 bank Risk.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)
(a) FINANCIAL RISK (Continued)
a) Credit risk (Continued)

Concentration of risk

Details of significant concentrations of the bank's assets, liabilities and off balance sheet items by industry groups are as detailed below:

	2015 Sh'ooo	%	2014 Sh'ooo	%
i) Advances to customers - gross				
Manufacturing	353,236	4	386,390	4
Wholesale and retail	3,788,579	36	3,290,986	32
Transport and communication	1,288,804	12	735,348	7
Agricultural	110,720	1	167,190	2
Business services	135,367	1	304,388	3
Real estate	4,215,151	40	4,338,699	42
Other	637,087	6	1,090,723	10
	10,528,944	100	10,313,724	100
ii) Customer deposits				
Central and local Government	499,403	5	592,480	6
Non-financial public enterprises	155,862	2	245,231	2
Co-operative societies	1,782,118	17	2,009,231	18
Insurance companies	400,843	4	432,272	4
Private enterprises and individuals	6,946,413	70	7,203,805	68
Non-profit institutions	211,419	2	158,940	2
	9,996,058	100	10,641,959	100
iii) Off balance sheet items				
(Letters of credit and guarantees)				
Manufacturing	10,150	1	3,742	-
Wholesale and retail	516,081	65	354,561	44
Transport and communication	38,018	5	11,304	2
Business services	234,372	29	414,937	51
Other	2,207	-	22,642	3
	800,828	100	807,186	100

b) Liquidity risk

Liquidity risk is the risk that the bank will encounter difficulty in meeting obligations from its financial liabilities when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments or other cash outflows.

Management of liquidity risk

The bank's liquidity risk management is carried out within the bank and monitored by the Asset Liability committee (ALCO).

The bank'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 bank's reputation.

Liquidity risk is addressed through the following measures:

- The treasury department monitors liquidity ratios on a daily basis against internal and regulatory requirements
- Day to day funding is managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers.
- The bank invests in short term liquid instruments which can easily be sold in the market when the need arises.
- The bank enters into lending contracts subject to availability of funds.
- The bank has an aggressive strategy aimed at increasing the customer deposit base.
- The bank borrows from the market through interbank transactions with other banks and The Central Bank of Kenya for short term liquidity requirements.
- Investments in property and equipment are properly budgeted for and done when the bank has sufficient cash flows.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the board. Daily reports covering the liquidity position of the bank are regularly submitted to Asset and Liability Committee.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

b) Liquidity risk (Continued)

Exposure to liquidity risk

The key measure used by the bank 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. The Central Bank of Kenya minimum liquidity ratio is 20%. Details of the reported bank ratio of net liquid assets to deposits and customers at the reporting date and during the reporting period were as follows:

	2015	2014
At 31 December	32%	36%
Average for the period	34%	31%
Maximum for the period	36%	36%
Minimum for the period	32%	23%

Liquidity risk based on undiscounted cash flows

The table below analyses the cash flows payable by the bank under non-derivative financial liabilities by remaining contractual maturities and non-derivative financial assets by expected maturity dates as at the date of the statement of financial position.

AT 31 DECEMBER 2015	Up to 1 month Sh'000	1 – 3 months Sh'000	4 - 12 months Sh'000	1 - 5 Years Sh'000	Total Sh'000
FINANCIAL ASSETS					
Cash and balances with the CBK	603,035	133,011	25,304	-	761,350
Balances due from banking institutions	104,709	-	-	-	104,709
Government securities	-	138,975	-	2,763,180	2,902,155
Loans and advances to customers	1,890,748	487,948	2,384,435	6,090,288	10,853,419
Total financial assets	2,598,492	759,934	2,409,739	8,791,032	14,621,633
FINANCIAL LIABILITIES					
Deposits and balances due to banking institutions	275,463	-	-	-	275,463
Customer deposits	5,739,236	4,191,840	763,292	-	10,694,368
Borrowed funds	99,121	39,300	-	2,061,563	2,199,984
Total financial liabilities	6,113,820	4,231,140	763,292	2,061,563	13,169,815
Net liquidity gap	(3,515,328)	(3,471,206)	1,646,447	6,729,469	1,451,818
AT 31 DECEMBER 2014					
Total financial assets	2,246,340	565,018	2,354,935	10,384,541	15,550,834
Total financial liabilities	4,756,038	246,519	7,145,258	2,892,791	15,040,606
Net liquidity gap	(2,509,698)	318,499	(4,790,323)	7,491,750	510,228

The previous table shows the undiscounted cash flows on the bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The bank's expected cash flows on these instruments vary significantly

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

b) Liquidity risk (Continued)

Liquidity risk based on undiscounted cash flows (Continued)

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.

c) Market risks

Market risk is the risk that fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk arise from open positions in interest rates, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, equity prices, foreign exchange rates and credit spreads. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

The bank separates exposures to market risk into either trading or non-trading portfolios. Trading portfolios include those positions arising from market-making transactions where the bank acts as principal with clients or with the market. Non-trading portfolios mainly arise from the interest rate management of the entity's retail and commercial banking assets and liabilities.

Management of market risks

Overall responsibility of managing market risk rests with the Asset and Liability Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation. The board of directors sets limits on the level of mismatch of interest rate repricing that may be undertaken which is monitored daily.

Exposure to interest rate risk

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. The ALCO is the monitoring body for compliance with these limits and is assisted by Treasury Department in its day-to-day monitoring activities.

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

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

c) Market risks (Continued)

AS AT 31 DECEMBER 2015	Up to 1 month Sh'ooo	1 – 3 months Sh'ooo	4 - 12 months Sh'ooo	1 - 5 Years Sh'ooo	Non-interest bearing Sh'ooo	Total Sh'ooo
FINANCIAL ASSETS						
Cash and balances with the CBK	-	-	-	-	759,717	759,717
Balances due from other banking institutions	104,709	-	-	-	-	104,709
Government securities	-	138,975	-	2,549,059	-	2,688,034
Loans and advances to customers	9,221,256	-	-	-	-	9,221,256
Total financial assets	9,325,965	138,975	-	2,549,059	759,717	12,773,716
FINANCIAL LIABILITIES						
Deposits and balances due to banking institutions	275,463	-	-	-	-	275,463
Customer deposits	1,171,694	4,526,392	1,772,059	-	2,525,913	9,996,058
Borrowed funds	99,121	39,300	-	1,830,873	-	1,969,294
Total financial liabilities	1,546,278	4,565,692	1,772,059	1,830,873	2,525,913	12,240,815
Interest rate sensitivity gap	7,779,687	(4,426,717)	(1,772,059)	718,186	(1,766,196)	532,901
AS AT 31 DECEMBER 2014						
Total financial assets	9,374,679	143,515	-	2,680,009	1,406,318	13,604,521
Total financial liabilities	1,758,228	370,302	6,348,097	1,782,111	2,970,866	13,229,604
Interest rate sensitivity gap	7,616,451	(226,787)	(6,348,097)	897,898	(1,564,548)	374,917

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

c) Market risks (Continued)

Currency Risk

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

The table below summarises the bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the bank's financial instruments categorised by currency.

AS AT 31 DECEMBER 2015	KSH Sh'ooo	USD Sh'ooo	GBP Sh'ooo	EURO Sh'ooo	OTHERS Sh'ooo	TOTAL Sh'ooo
FINANCIAL ASSETS						
Cash and balances with Central Bank of Kenya	680,877	32,753	4,174	41,863	50	759,717
Balances due from Banking institutions	61,374	24,232	7,386	11,475	242	104,709
Government securities	2,688,034	-	-	-	-	2,688,034
Loans and advances to customers	8,878,595	342,661	-	-	-	9,221,256
Total financial assets	**12,308,880**	**399,646**	**11,560**	**53,338**	**292**	**12,773,716**
FINANCIAL LIABILITIES						
Deposits & balances due to banking institutions	224,363	51,100	-	-	-	275,463
Customer deposits	9,687,519	286,675	6,531	15,334	-	9,996,058
Borrowed funds	1,729,552	-	-	239,742	-	1,969,294
Total financial liabilities	**11,641,434**	**337,775**	**6,531**	**255,076**	**-**	**12,240,816**
NET ON BALANCE SHEET POSITION	667,446	61,871	5,029	(201,738)	292	532,900
NET OFF BALANCE SHEET POSITION	744,077	106,559	7,617	46,940	-	905,193
AT 31 DECEMBER 2014						
Total financial assets	**13,181,226**	**338,440**	**56,288**	**24,496**	**4,071**	**13,604,521**
Total financial liabilities	**12,646,862**	**274,871**	**4,691**	**303,180**	**-**	**13,229,604**
NET ON BALANCE SHEET POSITION	534,364	63,569	51,597	(278,684)	4,071	374,917
NET OFF BALANCE SHEET POSITION	774,117	179,837	44,528	2,629	448	1,001,559

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

c) Market risks (Continued)

Market risks - sensitivity analysis

A principal part of the bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. Consolidated bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital.

For simulation modelling, the bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the bank's earnings and capital.

Interest rate risks – increase/decrease of 10% 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 modelling 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 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2015.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) FINANCIAL RISK (Continued)

c) Market risks (Continued)

Interest rate risks – increase/decrease of 10% in net interest margin

	Amount 31 December 2015 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	48,789	150,672	(53,094)
Adjusted Core Capital	1,090,056	1,919,939	988,173
Adjusted Total Capital	1,316,292	1,418,175	1,214,409
Risk Weighted Assets (RWA)	13,961,792	13,961,792	13,961,792
Adjusted Core Capital to RWA	7.8%	8.5%	7.1%
Adjusted total Capital to RWA	9.4%	10.1%	8.7%

Assuming no management actions, a series of such appreciation would increase net interest income for 2015 by Sh 101, 882,900 (2014 - Sh 91,314,000), while a series of such falls would decrease net interest income for 2015 by Sh 101,882,900 (2014 -Sh 107, 506,300).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.7% (2014: 1.3%) and 0.7% (2014: 1.3%) respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.7% (2014: 0.7 %) and 0.7% (2014: 0.7%) respectively..

Foreign exchange risks – appreciation/depreciation of Kshs 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 bank'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 31 December 2015 Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% Depreciation Sh'000
Profit Before Tax	48,789	52,452	45,126
Adjusted Core Capital	1,090,056	1,093,719	1,086,393
Adjusted Total Capital	1,316,292	1,319,955	1,312,629
Risk Weighted Assets (RWA)	13,961,792	13,961,792	13,961,792
Adjusted Core Capital to RWA	7.8%	7.8%	7.8%
Adjusted total Capital to RWA	9.4%	9.4%	9.4%

Assuming no management actions, a series of such appreciation would increase earnings for 2015 by Sh.3, 662,800 (2014 - Sh 4, 379,600), while a series of such falls would decrease earning for 2015 by Sh.3, 662,800 (2014 – Sh4, 379,600).

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by,0.0 % (2014 - 0.0%) and 0.0% (2014 - 0.1 %) respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.0% (2014 - 0.1%) and 0.0% (2014 - 0%) respectively.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) OTHER RISKS (Continued)

Non-financial risk management disclosures (Continued)

a) Strategic risk (Continued)

(b) OTHER RISKS

Non-financial risk management disclosures:

a) 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. This risk is a function of the compatibility of organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

The bank faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

The Board of Directors is ultimately responsible for the overall generation and implementation of the bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Chief Executive Officer and the Senior Management team. The Board of Directors, with support of the Chief Executive Officer Senior Management, develops and implements a new strategic cycle every 5 years to cater for the next growth phase of the bank.

The Chief Executive Officer supported by the (Executive Committee) EXCOM is responsible for the execution of the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Board of Directors for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the bank and how they are being managed.

Each business head is responsible for ensuring that strategic initiatives are aligned to the overall strategy of the bank and supported by the relevant and appropriate operating policies and programs that direct behaviour. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and that mitigating actions are taken where appropriate.

The Chief Executive Officer co-ordinates an annual strategic planning process intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks.

The bank's financial and non-financial performance, including its key risks, is reported to the Board of Directors on a bi monthly basis for review and action, where necessary.

b) Operational risk

Operational Risk is "the risk that the bank will incur direct or indirect loss due to an event or action causing the failure of technology, processes, infrastructure, personnel, and other risks having an operational impact". The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the bank include:

- People and related issues such as staff retention, frauds, amongst others.
- Systems and processes changes related to the drive to meet our clients' needs.

The board of directors takes the lead in establishing the "tone at the top" which promotes a strong risk management culture. The bank has also put in place a corporate culture that is guided by strong risk management and that supports and provides

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) OTHER RISKS (Continued)

Non-financial risk management disclosures (Continued)

b) Operational risk (Continued)

appropriate standards and incentives for professional and responsible behaviour.

All members of staff are responsible for the management and mitigation of Operational risks. This is reflected in the continuous control environment, risk awareness and management style. Specific roles or responsibilities are assigned for leading and managing the internal control environment through the following people:

- Board and CEO;
- Audit Committee;
- Internal Audit Department;
- Board Risk Management Committee;
- Risk Management Committee;
- Risk & Compliance Department;
- Business Operational Risk functions in corporate, Retail and SME ;
- Information Technology (IT) Steering Committee;
- Business Heads and Operations Head

Internal Audit is responsible for assessing compliance with Operational Risk policy and for reporting significant issues to the Board Audit Committee and the Board of Directors.

The Bank seeks to minimize actual or potential losses arising from Operational Risk failures. These include inadequately defined procedures or policies, systems failure, internal control flaws or breaches, insufficiently skilled staff, unmanageable events or customer actions. To achieve this, the Bank ensures:

- Robust operational Risk Policy and procedures that reflects industry practice are put in place and operationalized. These include toolkits to help identify, assess, control, manage and report on key Operational Risks. Toolkits in the Operational Risk Procedures manual include inter alia:
  - *i) Framework for the Bank, businesses, and support functions to identify their major Operational Risks and mitigation plans*
  - *ii) Key control standards*
  - *iii) Indicators to identify Operational Risk*
  - *iv) Incident and issues tracking mechanisms to identify causal factors and operational losses*
- All staff in business and support functions, are aware of their responsibilities for Operational Risk Management.
- Potential Operational Risk impact of bank activities and products are considered at their outset with a view to minimizing these as far as possible.
- There are structured processes to report control failures to designated individuals and escalate material issues to Risk Management Committee, Executive Committee (EXCOM) and Board Risk Management Committee as appropriate.
- Employees are given Operational Risk training appropriate to their roles.
- Employee and Bank assets are adequately protected.
- Workable Business Continuity Plans are established (including Disaster Recovery and Crisis Management procedures) to minimize the impact of unplanned events on business operations and customer service.
- The financial impact of operational losses is mitigated through the utilisation of insurance or other risk transfer mechanisms where appropriate.

c) Compliance (policy/legal/regulatory) 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.

The bank is committed to ensuring that its business activities are conducted in accordance with applicable laws and regulations, internal rules, policies and procedures, and ethical standards ("compliance laws, rules and standards"). The bank has established appropriate policies, procedures and controls that will ensure effective compliance with laws, regulations and codes relevant to its businesses, customers and staff.

Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance / advice and oversight from Legal and Compliance Department. The Risk and Compliance Department identifies and monitors the key risks and is responsible for

4. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the bank's exposures.

Senior Management and the Board Risk Management Committee receive the Risk Management Department's opinions / reports on the strength of the banks Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the bank's business practices, actions or inactions, will or may cause a decline in customer base, liquidity, and overall brand value. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.

The bank's reputation is an invaluable and fragile asset that is broad and far reaching and includes image, goodwill and brand equity. Reputational risk management supports value creation and seeks to deal effectively with potential future events that create uncertainty.

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the bank's reputational risk as part of their regular mandate. They are assisted in this aspect by the Corporate Communications Department. Their purpose is to ensure that all products, services, and activities meet the bank's reputational risk objectives in line with the Board of Director's approved appetite. The bank's reputational risk strategy however cascades into the other bank's policies procedures each level of management is responsible for the appropriateness of policies, processes and controls within its purview.

Senior Management and the Board of Directors receive periodic reports on the assessment of the bank's reputational risk exposures that arise from its business activities so as to form a view on associated risks and implement corrective actions.

(c) FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable.

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Quoted investments	6,879	-	-	6,879
	6,879	-	-	6,879
31 December 2014				
Quoted investments	3,906	-	-	3,906
	3,906	-	-	3,906

The above were valued at quoted bid prices in an active market (Nairobi Securities Exchange).

Except as detailed above, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the statement of financial position approximate their fair values.

This note provides information about how the bank determines fair values of various financial assets and financial liabilities.

Fair value of the bank's financial assets and liabilities that are measured at fair value on a recurrent basis

Some of the bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used):

Financial assets/ liabilities	*Fair value as at 31/12/15 Shs '000*	*Fair value as at 31/12/14 Shs'000*	*Fair value hierarchy*	*Valuation technique (s) and key inputs*	*Significant unobservable inputs*	*Relationship of unobservable inputs to fair value*
Quoted investments	6,011	3,906	Level 1	Quoted bid prices in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2014: none).

Reconciliation of level 3 fair value measurements

There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurements (2014: none)

5. CAPITAL MANAGEMENT

Regulatory capital

The banks objectives when managing capital are:

- To safeguard the banks' 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.

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.

The Central Bank of Kenya requires each bank to:

a) Hold the minimum level of regulatory capital of Sh1billion.
b) Maintain a ratio of total regulatory capital; to risk weighted assets plus risk weighted off balance assets at above the required minimum of 10.5%;
c) Maintain a core capital of not less than 10.5% of total deposit liabilities and
d) Maintain total capital of not less than 14.5% of risk weighted assets plus risk weighted off balance sheet items.

Institutions that met the previous minimum capital ratios of 8% and 12% but remain below the buffer-enhanced ratios of 10.5% and 14.5% had until 31 December 2014 to comply. The Bank had not complied with this requirement as at 31 December 2015 and 31 December 2014.

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

- Tier 1 capital, which includes ordinary share capital, non-cumulative irredeemable non-convertible preference shares, disclosed reserves such as share premiums, retained earnings, and 50% un-audited after tax profit less investment in subsidiaries conducting banking business, investments in equity of other institutions, intangible assets (excluding computer software) and goodwill.
- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, subordinated debt, hybrid capital instruments or any other capital instruments approved by CBK.

The bank's regulatory capital position at 31 December 2015 and 31 December 2014 was as follows:

	2015 Sh'000	2014 Sh'000
Tier 1 capital		
Ordinary share capital	898,400	398,400
Capital awaiting allocation	-	500,000
Non-cumulative irredeemable shares	721,130	721,130
Share capital	1,619,530	1,619,530
Accumulated deficit	(533,841)	(531,528)
Total	1,085,689	1,088,002
Tier 2 capital		
Revaluation reserves (25%)	99,093	77,034
General loan loss provision (statutory reserve)	127,143	70,781
Subordinated debt	-	207,838
Total	226,236	355,653
Total regulatory capital	1,311,925	1,443,655
Risk-weighted assets	13,973,956	13,138,981

	2015 Sh'000	2014 Sh'000
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 14.5%)	9.40%	10.97%
Total tier 1 capital expressed as a percentage of risk-weighted assets (CBK minimum 8%)	7.78%	8.27%

6. INTEREST INCOME

	2015 Sh'000	2014 Sh'000
Interest on loans and advances	1,729,428	1,809,167
Interest on bank placements	6,470	12,515
Interest on government securities - Held to maturity	221,516	232,855
	1,957,414	2,054,537

7. INTEREST EXPENSE

	2015 Sh'000	2014 Sh'000
Interest on customer deposits	634,718	860,254
Interest on inter-bank borrowings	57,838	29,595
Interest on borrowed funds	246,029	251,547
	938,585	1,141,396

8. FEE AND COMMISSION INCOME

	2015 Sh'000	2014 Sh'000
Ledger related fees and commissions	55,060	58,618
Credit related fees and commissions	130,433	123,209
Transaction related fees	131,372	140,059
	316,865	321,886

9. FOREIGN EXCHANGE INCOME – NET

Foreign exchange net income includes gains and losses from spot and forward contracts and translated foreign currency assets and liabilities.

10. OTHER OPERATING INCOME

	2015 Sh'000	2014 Sh'000
Gain on bond trading	11,721	26,889
Rental income	65,637	60,535
Loss on written off software	-	(719)
Recoveries on loans and advances previously written off	564,220	2,315
Sundry income	1,135	13,278
	642,713	102,298

11. OPERATING EXPENSES

	2015 Sh'000	2014 Sh'000
Staff costs (note 12)	711,921	644,383
Directors' emoluments - Fees	13,197	17,401
- Other		15,124
Depreciation (note 22)	104,599	109,159
Amortisation of intangible assets (note 23)	60,771	31,973
Amortisation of operating lease (note 24)	170	170
Contribution to Kenya Deposit Insurance Corporation	17,775	19,879
Auditors' remuneration	4,158	3,960
Other operating expenses	449,847	380,614
	1,377,562	1,207,539

	2015 Sh'ooo	2014 Sh'ooo
12. STAFF COSTS		
Salaries and wages	578,223	526,860
Training, recruitment and staff welfare costs	44,160	36,531
Pension contributions	35,731	34,326
Medical expenses	37,534	32,437
Leave pay provision	5,598	8,503
Staff insurance	6,938	5,015
Gratuity provision	3,042	-
NSSF contributions	695	711
	711,921	644,383

13. TAXATION

(a) Taxation charge

	2015 Sh'ooo	2014 Sh'ooo
Current tax based on the taxable profit for the year at 30%	7,300	17,696
Deferred tax credit (note 27)	15,607	(74,620)
Prior year (over)under provision- current tax	(858)	55,949
Prior year (over)/under provision- deferred tax	(17,682)	8,417
	4,367	7,442

(b) Reconciliation of expected tax based on accounting loss to tax charge

	2015 Sh'ooo	2014 Sh'ooo
Profit/(loss) before taxation	47,789	(274,190)
Tax calculated at a tax rate of 30%	14,637	(82,257)
Tax effect of expenses not deductible for tax purposes	10,070	27,133
Non-taxable income	(1,800)	(1,800)
Prior year under provision- current tax	(858)	55,949
Prior year under provision- deferred tax	(17,682)	8,417
	4,367	7,442

(c) Taxation recoverable

	2015 Sh'ooo	2014 Sh'ooo
At 1 January	6,300	79,945
Charge for the year	(7,300)	(17,696)
Prior year (over)/under provision	858	(55,949)
Tax paid during the year	12,307	-
At 31 December	12,165	6,300

14. EARNINGS/(LOSS) PER SHARE

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

	2015 Sh'ooo	2014 Sh'ooo
Profit/(loss) for the year (Sh'ooo)	44,422	(281,632)
Number of ordinary shares (number in thousands)	44,920	19,920
Earnings/(loss) per share		
Basic and diluted (Sh)	0.99	(14.14)

15. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2015 Sh'ooo	2014 Sh'ooo
Cash in hand	360,933	477,031
Balances with Central Bank of Kenya:		
- Cash ratio reserve	342,851	568,282
- Other balances (available for use by the bank)	55,933	361,005
	759,717	1,406,318

Cash in hand and balances with Central Bank of Kenya are non-interest bearing. The cash ratio reserve is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2015 the cash ratio reserve requirement was 5.25% (2014 – 5.25%) of all customer deposits held by the bank. These funds are not available to finance the bank's day to day operations.

16. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

(a) Balances due from banking institutions maturing within 90 days:

	2015 Sh'ooo	2014 Sh'ooo
Balances with correspondent banks	54,709	162,098
Balances with local banks	50,000	-
	104,709	162,098

(b) Balances due to banking institutions maturing within 90 days:

	2015 Sh'ooo	2014 Sh'ooo
Deposits from local banks	275,463	533,502
	275,463	533,502

Deposits with/from local banks as at 31 December 2015 represent overnight lending. The effective interest rate on deposits due from and due to local banking institutions at 31 December 2015 was 12.34% (2014 – 6.24%) and nil (2014–0.387%) for balances with correspondent banks

17. GOVERNMENT SECURITIES

(a) HELD TO MATURITY

	2015 Sh'ooo	2014 Sh'ooo
Treasury bonds –at amortised cost	2,688,034	2,823,524

The maturity profile of government securities is as follows:

	2015 Sh'ooo	2014 Sh'ooo
Less than 1 year	138,975	143,515
3 years to 5 years	92,114	100,093
Over 5 years	2,456,945	2,579,916
	2,688,034	2,823,524

The weighted average effective interest rate on treasury bonds was 8.4% (2014 –8.3%).

18. LOANS AND RECEIVABLES

	2015 Sh'ooo	2014 Sh'ooo
(a) Commercial loans	3,938,853	4,394,940
Overdrafts	1,434,106	1,459,407
Mortgages	2,632,763	2,900,564
Asset finance loans	1,122,914	827,332
Staff loans	602,829	731,481
Gross loans and receivables	9,731,465	10,313,724
Less:		
Impairment losses on loans and receivables (note 19)	(510,209)	(1,101,143)
Net loans and receivables	9,221,256	9,212,581

	2015 Sh'ooo	2014 Sh'ooo

The weighted average effective interest rate on loans and receivables as at 31 December 2015 was 17.9% (2014 – 18.3%).

Included in gross loans and receivables of Sh 9,731,465,000 (2014 – Sh 10,313,724,000) are non-performing loans amounting to Sh 1,558,664,000 (2014 – Sh 2,330,985,000). These are included in the statement of financial position net of specific provisions of Sh 479,550,000 (2014 – Sh 1,074,002,000).

(b) Analysis of gross loans and receivables by maturity

	2015 Sh'ooo	2014 Sh'ooo
Maturing:		
Within 1 year	4,295,461	3,224,518
Between 1 and 3 years	1,564,129	2,273,209
After 3 years	3,871,875	4,815,997
Loans and receivables to customers	9,731,465	10,313,724

The related party transactions and balances are covered under note 37 and concentration of advances to customers is covered under note 4.

19. IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES

	2015 Sh'ooo	2014 Sh'ooo
At 1 January	1,101,143	743,990
Increase in impairment allowances	588,684	447,772
Write offs	(617,838)	(90,619)
Recoveries	561,780	-
At 31 December	510,209	1,101,143

20. OTHER ASSETS

	2015 Sh'ooo	2014 Sh'ooo
Un-cleared items in the course of collection	24,638	34,685
Prepayments	39,274	31,384
Rent receivable	8,599	7,063
Deposits for services	15,015	13,955
Others	162,960	148,228
	250,486	235,315

21. QUOTED EQUITY SHARES – AVAILABLE FOR SALE

	2015 Sh'ooo	2014 Sh'ooo
At beginning of the year	3,906	2,061
Gain in market value of investment	2,973	1,845
At end of the year	6,879	3,906

The investment consists of 21,699 shares of Kakuzi Limited which are in the name of Jimba Credit Corporation Limited, a dormant subsidiary company.

In accordance with IFRS 13, the fair value ranking of the available for sale equity investment is at level 1.

22. PROPERTY AND EQUIPMENT

	Freehold land and buildings	Leasehold improvements	Motor vehicles	Fixtures, fittings, equipment& ATMs	Computers	Total
	Sh'ooo	Sh'ooo	Sh'ooo	Sh'ooo	Sh'ooo	Sh'ooo
COST/VALUATION						
At 1 January 2014	647,000	405,165	17,988	303,336	125,882	1,499,371
Additions	-	387	-	4,207	5,071	9,665
Reclassification	-	-	-	(3,949)	3,949	-
Surplus on revaluation	72,000	-	-	-	-	72,000
At 31 December 2014	719,000	405,552	17,988	303,594	134,902	1,581,036
At 1 January 2015	719,000	405,552	17,988	303,594	134,902	1,581,036
Additions	-	308	-	6,373	4,650	11,331
Reclassification- intangible assets	-	-	-	-	(2,550)	(2,550)
At 31 December 2015	719,000	405,860	17,988	309,967	137,002	1,589,817
Comprising						
At cost	-	405,860	17,988	309,967	137,002	870,817
At valuation 2015	719,000	-	-	-	-	719,000
	719,000	405,860	17,988	309,967	137,002	1,589,817

	Freehold land and buildings	Leasehold improvements	Motor vehicles	Fixtures, fittings, equipment& ATMs	Computers	Total
ACCUMULATED DEPRECIATION						
At 1 January 2014	63,868	254,765	14,424	220,770	59,637	613,464
Charge for the year	15,425	40,635	1,316	23,338	28,445	109,159
Reclassification	-	-	-	(36,179)	36,179	-
Eliminated on revaluation	(79,293)	-	-	-	-	(79,293)
At 31 December 2014	-	295,400	15,740	207,929	124,261	643,330
At 1 January 2015	-	295,400	15,740	207,929	124,261	643,330
Charge for the year	17,225	41,678	999	31,798	12,899	104,599
Transfered on reclassification	-	-	-	-	(2,550)	(2,550)
At 31 December 2015	17,225	337,078	16,739	239,727	134,610	745,379
NET BOOK VALUE						
At 31 December 2015	701,775	68,782	1,249	70,240	2,392	844,438
At 31 December 2014	719,000	110,152	2,248	95,665	10,641	937,706

Freehold land and buildings were last revalued as at 31 December 2014, by Vidmerck Limited, independent Valuers. Valuations were made on the basis of the open market value using the highest and best use valuation model resulting in a total valuation surplus of Sh 151,293,000. The book values of the properties were adjusted to the revalued amounts and the resultant surplus was credited to the revaluation surplus.

Motor vehicles, fixtures fittings and equipment with a cost of Sh 419, 038,164 (2014- Sh 405, 012,633) were fully depreciated as at 31 December 2015. The notional annual depreciation charge on these assets would have been Sh 84, 673,625 (2014- Sh 74, 064,546).

In accordance with IFRS 13, the fair value ranking of the land and buildings is at Level 2 as the fair value measurement is derived from 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.

If the land and buildings were stated on the historical cost basis, their carrying amounts would be as follows:

	2015 Sh'000	2014 Sh'000
At 1 January	140,160	144,681
Depreciation charge	(4,521)	(4,521)
At 31 December	135,639	140,160

23. INTANGIBLE ASSETS – COMPUTER SOFTWARE

	2015 Sh'000	2014 Sh'000
COST		
At 1 January	332,946	309,906
Additions	19,482	27,976
Reclassification/(impaired)	2,550	(4,936)
At 31 December	354,978	332,946
ACCUMULATED AMORTISATION		
At 1 January	50,962	23,206
Charge for the year	60,771	31,973
Reclassification/(eliminated) on impairment	2,550	(4,217)
At 31 December	114,283	50,962
NET BOOK VALUE		
At 31 December	240,695	281,984

24. PREPAID OPERATING LEASE RENTALS (LEASEHOLD LAND)

	2015 Sh'000	2014 Sh'000
COST		
At 1 January and 31 December	45,298	45,298
ACCUMULATED AMORTISATION		
At 1 January	37,979	37,809
Charge for the year	170	170
At 31 December	38,149	37,979
NET BOOK VALUE		
At 31 December	7,149	7,319

25. CUSTOMER DEPOSITS

	2015 Sh'000	2014 Sh'000
Current and demand accounts	2,480,424	3,239,130
Savings accounts	1,171,694	1,302,249
Fixed deposit accounts	6,298,451	6,050,484
Margins	45,489	50,096
	9,996,058	10,641,959
MATURITY ANALYSIS OF CUSTOMER DEPOSITS		
Repayable:		
On demand	3,697,607	4,541,379
Within one year	6,298,451	6,100,580
	9,996,058	10,641,959

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2015 was 7.2% (2014 – 9.3%). The related party transactions and balances are covered under note 38 and concentration of customers' deposits is covered under note 4.

26. OTHER LIABILITIES

	2015 Sh'000	2014 Sh'000
Accrued expenses	5,824	3,513
Gratuity	3,042	-
Leave pay provision	10,892	8,503
Tenants deposits	15,741	14,867
Cheques for collection	329	2,633
Sundry payables	204,993	209,359
	240,821	238,875

	2015 Sh'000	2014 Sh'000

27. DEFERRED TAX LIABILITY

The deferred tax liability computed at the enacted rate of 30% is attributed to the following items:

	2015 Sh'000	2014 Sh'000
Deferred tax assets:		
General bad debts provision	(1,573)	(17,252)
Provision for leave pay	(3,268)	(2,551)
Provision for gratuity	(912)	-
Provision for fraud	(5,527)	-
Accelerated depreciation allowances	(1,575)	-
Tax losses	(116,569)	(117,018)
	(129,423)	(136,821)
Deferred tax liabilities:		
Revaluation surplus	168,100	172,226
Accelerated capital allowances	-	5,347
	168,100	177,573
Net deferred tax liability	38,677	40,752

Movement in deferred tax liability is as follows:

	2015 Sh'000	2014 Sh'000
At 1 January	40,752	61,567
Credit to profit or loss (note 13)	15,607	(74,620)
Charged to other comprehensive income	-	45,388
Prior year (over)/under provision (note 13)	(17,682)	8,417
At 31 December	38,677	40,752

As at 31 December 2015, the bank had accumulated tax losses amounting to Sh 388,564,039 (2014 –Sh 449,087,000) available to be offset against future taxable profit. Under Kenyan legislation, tax losses can only be carried forward to a maximum of four years.

28. BORROWINGS

	2015 Sh'000	2014 Sh'000
As 1 January	2,054,143	2,099,497
Accrued interest	246,029	252,074
Repayments during the year	(330,878)	(297,428)
At the end of the year	1,969,294	2,054,143
Analysis by currency:		
Borrowings in Euros	239,742	281,487
Borrowings in Kenya Shillings (Sh)	1,729,552	1,772,656
	1,969,294	2,054,143
Analysis by lender:		
European Investment Bank (EIB)	239,742	281,487
Corporate bond – medium term notes	1,729,552	1,772,656
	1,969,294	2,054,143

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Facility terms:

a) EIB Loan facility: The facility from European investment bank was credit line of Eur 6,500,000 received by the bank as part of its participation in the global loan facility extended by EIB to a group of financial institutions in Kenya under the Cotonou Agreement. The facility terms are as follows:
- Tenure: The tenor of the financing which shall be between 4 to 10 years save in respect of sub-loans for small projects where the sub loan is less than the equivalent of EUR 50,000 and finance leases, which shall have a minimum tenor of 3 years.
- Interest rate: For a tranche denominated in EUR or Usd as margin of 2.88% per annum and for tranches denominated in Kenya shillings will attract additional currency risk premium depending on the tenor of the loan
- Security: a negative pledge on present and future business undertakings together with all the assets or revenues of the bank.

b) Medium term notes: this refers to a series of senior and subordinated notes issued by the bank and traded on the Nairobi Securities Exchange. The issued and currently traded notes have a face value Sh 1,678,200,000.
- Tenor: the notes mature on 22 July 2019
- Interest rate: the notes attract a fixed interest rate of 13.5 % for the senior notes and 13.25% for the subordinated notes

29. SHARE CAPITAL

	2015 Sh'000	2014 Sh'000
(a) Authorised:		
55,000,000 ordinary shares of Sh 20 each	1,100,000	400,000
80,000,000 4% non-cumulative irredeemable non-convertible preference shares of Sh 20 each	1,600,000	1,600,000
	2,700,000	2,000,000
(b) Issued and fully paid:		
44,920,000 ordinary shares of Sh 20 each (2014 – 19,920,000)	898,400	398,400
36,056,500 4% non-cumulative irredeemable Non-convertible preference shares of Sh 20 each	721,130	721,130
	1,619,530	1,119,530
(c) Capital awaiting allotment:		
As at 1 January	500,000	-
Received in the year	-	500,000
Allotted in the year	(500,000)	-
	-	500,000

Non-convertible non-participating preference shares are entitled to receive a discretionary dividend before any dividend is declared to the ordinary shareholders. The preference shares have no right to share in any surplus assets or profits and no voting rights.

On 15 December 2015, the additional capital of Ksh.500 million received from the National Treasury on 11 December 2014 was allotted 25,000,000 additional shares during the extra ordinary meeting of the shareholders.

30. REVALUATION SURPLUS

	2015 Sh'000	2014 Sh'000
At 1 January	405,999	308,135
Transfer of excess depreciation	(13,753)	(11,487)
Deferred tax on transfer of excess depreciation	4,126	3,446
Gains on revaluation of lease hold land buildings	-	151,293
Deferred tax on revaluation	-	(45,388)
At 31 December	396,372	405,999

The revaluation surplus arises on the revaluation of freehold land and buildings. Where revalued land or buildings are sold, the portion of the revaluation surplus that relates to that asset, and is effectively realised, is transferred directly to revenue reserves. The revaluation surpluses are non-distributable.

	2015 Sh'000	2014 Sh'000

31. ACCUMULATED DEFICIT

	2015 Sh'000	2014 Sh'000
At 1 January	(531,528)	(276,143)
Profit/(loss) for the year	44,422	(281,632)
Transfer of excess depreciation	13,753	11,487
Deferred tax on transfer of excess depreciation	(4,126)	(3,446)
Transfer (to)/from statutory reserve	(56,362)	18,206
At 31 December	(533,841)	(531,528)

32. STATUTORY RESERVE

	2015 Sh'000	2014 Sh'000
At 1 January	70,781	88,987
Transfer from/(to) accumulated deficit	56,362	(18,206)
At 31 December	127,143	70,781

33. FAIR VALUE RESERVE

	2015 Sh'000	2014 Sh'000
At 1 January	3,038	1,193
Gain in market value of quoted equity shares	2,973	1,845
At 31 December	6,011	3,038

The fair value deficit shows the effects from the fair value measurement of available-for-sale quoted investments. Any gains and losses are not recognised in the profit or loss until the asset has been sold or impaired.

34. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Reconciliation of profit/(loss) before taxation to cash used in operations

	2015 Sh'000	2014 Sh'000
Profit/(loss) before taxation	48,789	(274,190)
Adjustments for:		
Depreciation of property and equipment (note 22)	104,599	109,159
Amortisation of intangible assets (note 23)	60,771	31,973
Amortisation of leasehold land (note 24)	170	170
Loss on written off software	-	719
Profit/(loss) before working capital changes	214,329	(132,169)
Decrease/(increase) in cash ratio balance	225,431	(14,065)
(Increase)/decrease in other assets	(15,171)	19,816
(Increase)/decrease in loans and receivables	(8,675)	1,642,911
Decrease in customer deposits	(645,901)	(1,069,138)
Increase in other liabilities	1,946	(159,690)
Decrease in treasury bonds	135,490	512,053
Accrued interest on borrowings (note 28)	246,029	252,074
Cash generated from operations	153,478	1,051,792

(b) Analysis of the balances of cash and cash equivalents as shown in the statement of financial position and notes

	2015 Sh'000	2014 Sh'000
Cash in hand	360,933	477,031
Balances with Central Bank of Kenya –other	55,933	361,005
Balances with other banking institutions	104,709	162,098
Deposits and balances from other banking institutions	(275,463)	(533,502)
	246,112	466,632

For the purpose of the cash flow statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short term highly liquid investments with original maturities of three months or below, less advances from banks repayable within three months from the dates of the advances.

35. INVESTMENTS IN SUBSIDIARIES

The subsidiary companies of Consolidated Bank of Kenya Limited are:

Jimba Credit Corporation Limited

Kenya Savings & Mortgages Limited

Citizen Building Society

Estate Building Society

Estate Finance Company of Kenya Limited

Business Finance Company Limited

Home Savings and Mortgages Limited

Union Bank of Kenya Limited

Nationwide Finance Company Limited

All the subsidiaries are dormant and are wholly owned by the bank.

The operations of the above companies were vested in the bank in July 2002. Because of the insignificance of the amounts involved, the directors are of the opinion that consolidation of these subsidiaries would be of no real value.

36. CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

(a) Contingent liabilities

In common with other financial institutions, the bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2015 Sh'000	2014 Sh'000
Acceptances and letters of credit	39,620	99,302
Guarantees	761,208	707,884
Forwards and spot contingents	104,365	194,373
	905,193	1,001,559
Litigations against the bank	41,175	2,019

Nature of contingent liabilities:

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

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

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

Concentrations of contingent liabilities are covered under note 4.

Litigations against the bank relate to civil suits lodged against the bank by customers and employees in the normal course of business. The likely outcome of these suits cannot be determined as at the date of signing these financial statements. The directors, however, do not anticipate that any liability will accrue from the pending suits.

	2015 Sh'000	2014 Sh'000

37. 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, their associates and companies associated to directors. Advances to customers at 31 December 2015 include advances and loans to companies associated with the directors. Contingent liabilities at 31 December 2015 include guarantees and letters of credit for companies associated with the 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.

	Directors	
Movement in related party balances was as follows:		
Loans and advances:		
At 1 January	-	-
Advanced during the year	7,300	-
Interest earned	71	-
Repaid during the year	(525)	-
At 31 December	6,846	-

As at 31 December 2015 loans and advances to staff amounted to Sh 602,984,650 (2014– Sh 791,010,350).

The loans and advances to related parties are performing and adequately secured.

	Directors	
Customer deposits:		
At 1 January	-	-
Placed during the year	2,300	-
Net interest applied	-	-
Withdrawals	-	-
At 31 December	2,300	-

Key management compensation

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

	2015 Sh'000	2014 Sh'000
Salaries and other benefits	92,140	86,884
Fees for services as directors	13,197	17,401
	105,337	104,285

38. INCORPORATION

The bank is domiciled and incorporated in Kenya under the Companies Act.

39. CURRENCY

These financial statements are prepared in Kenya shillings thousands (Sh'000) which is the bank's functional and presentation currency.

40. EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the reporting date and the date of this report.

I/We..

of ....

being a member/members of CONSOLIDATED BANK OF KENYA LIMITED hereby appoint

....

of P.O. Box ....

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 15th Day of July 2016 and at any adjournment thereof.

Dated this... day of 2016

....

Note: 1. In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.

2.The proxy form should be completed and returned not later than 48 hours before the meeting or any adjournment thereof.

We proved once again that we are the soccer champions in the Banking arena. We are very proud of all the players, who are great ambassadors.'

Jacinta Lwanga, Team Patron

'The Interbank's soccer champions year 2015 are Consolidated Bank. Our CEO, Thomas Kiyai got the proceedings underway as the chief guest of the match. Our fans were also in full voice.'

Wycliffe Wanjie, Team Captain

Consolidated Bank
Growing with you

Consolidated Bank is regulated by the Central Bank of Kenya

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