CfC Stanbic Bank Limited

Annual Report and Financial Statements

For the year ended 31 December 2015

Table of Contents

Corporate Information

Page	Contents
2	Corporate information
3	Report of the Directors
4	Statement of Directors' responsibilities
5	Report of the independent auditor

Corporate Information

Financial Statements

Page	Contents
7	Statement of profit or loss
8	Statement of other comprehensive income
9	Statement of financial position
10	Statement of changes in equity
12	Statement of cash flows
13	Notes to the financial statements

Financial Statements

Corporate information

Chairman:	Fred N. Ojiambo, MBS, SC
Chief Executive:	Philip Odera (Appointed: 2 March 2015) Greg Brackenridge* (Retired: 2 March 2015)
Regional Chief Executive of CfC Stanbic Bank	Greg Brackenridge*
Regional Head Corporate & Investment Banking:	Michael Blades***
Non-Executive Directors:	Kitili Mbathi Rose Kimotho Edward W. Njoroge Ruth T. Ngobi Charles K. Muchene Peter N. Gethi Christopher J. Blandford – Newson*** Gayling R. May**(Retired: 25 February 2015) Jane Babsa-Nzibo (Retired: 25 February 2015)

* South African
** British
*** South African and British

Company Secretary:	Lillian N. Mbindyo P.O. Box 72833 00200 Nairobi
Auditor:	PricewaterhouseCoopers PwC Tower Waiyaki Way/Chiromo Road P.O. Box 43963 00100 Nairobi
Registered Office:	CfC Stanbic Centre Chiromo Road, Westlands P.O. Box 72833 00200 Nairobi

Report of the Directors

The Directors submit their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of CfC Stanbic Bank (the Bank or the Company).

Principal activities

The Bank is a licensed financial institution under the Banking Act (Cap 488) and is a member of the Kenya Bankers Association.

The Bank is engaged in the business of banking and the provision of related banking services.

Results

The Bank's results for the year ended 31 December 2015 are shown in the statement of profit or loss on page 7.

Dividends

In the current year, the Directors have paid an interim dividend of KShs 1.17 (2014: KShs 1.62) per ordinary share equivalent to a total sum of KShs 200 million (2014: KShs 276 million).

Subject to the approval of the shareholders at the Annual General Meeting, the Directors recommend payment of a final dividend of KShs 11.34 (2014: 11.23) per ordinary share equivalent to a total sum of KShs. 1,935 million (2014: 1,915 million). The total dividend for the year, therefore, will be KShs 12.51 (2014: KShs 12.85) for every one ordinary share amounting to KShs 2,135 million (2014: KShs 2,191 million).

The total number of issued shares at year-end was 170,577,426 (2014: 170,577,426).
The results for the year are set out fully on pages 7 to 110 in the attached financial statements.

Directors

The directors who held office during the year and to the date of this report are set out on page 2.

Events subsequent to the end of the reporting period

There is no material event that has occurred between the end of the reporting period and the date of this report.

Management by third parties

There is no aspect of the business of the Bank that has been managed by a third person or a company in which a director has had an interest during the year.

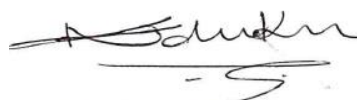
Auditor

PricewaterhouseCoopers has indicated its willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486).

Approval of financial statements

The financial statements were approved by the Board of Directors on 2 March 2016.

By Order of the Board,



LN Mbindyo
Company Secretary
2 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 company as at the end of the financial year and of its profit or loss for that year. It also requires the Directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The Directors are also responsible for safeguarding the assets of the company.

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

(i) Designing, implementing and maintaining internal controls as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

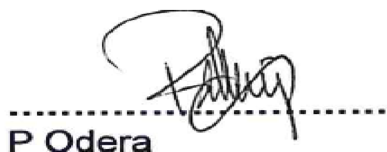
(ii) Selecting and applying appropriate accounting policies; and

(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

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

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

Approved by the Board of Directors on 2 March 2016 and signed on its behalf by:



Chairman **Chief Executive**

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CfC STANBIC BANK LIMITED

Report on the financial statements

We have audited the accompanying financial statements of CfC Stanbic Bank Limited (the “Company”) as set out on pages 7 to 110. These financial statements comprise the statement of financial position at 31 December 2015, statement of profit or loss, statement of 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.

Directors’ responsibility for the financial statements

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

Auditor’s responsibility

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

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

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

Opinion

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

REPORT OF THE INDEPENDENT AUDITOR TO THE MEMBERS OF CfC STANBIC BANK LIMITED (continued)

Report on other legal requirements

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

- we have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;

- in our opinion proper books of account have been kept by the company, so far as appears from our examination of those books; and

- the company's statement of financial position and statement of profit or loss are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Peter Ngahu – P/No 1458.

Certified Public Accountants
Nairobi

2 March 2016

Statement of profit or loss

	Note	2015 KShs'000	2014 KShs'000
		For the year ended 31 December	
Interest income	7	14,665,543	11,638,770
Interest expense	8	(5,490,683)	(3,256,814)
Net interest income		**9,174,860**	**8,381,956**
Impairment losses on loans and advances to customers	25.3	(907,305)	(702,822)
Net interest income after loan impairment charges		**8,267,555**	**7,679,134**
Fees and commission income	9	2,945,090	3,094,893
Fees and commission expense	10	(323,723)	(279,176)
Net fees and commission income		**2,621,367**	**2,815,717**
Trading income	11	4,306,207	4,734,752
Other operating income	12	153,137	306,175
Net trading and other income		**4,459,344**	**5,040,927**
Net operating income		**15,348,266**	**15,535,778**
Employee benefits	13	(4,851,926)	(4,295,671)
Administration and general expenses	14	(2,964,017)	(3,339,854)
Depreciation of property and equipment	29	(344,955)	(278,602)
Amortisation of intangible assets	30	(110,349)	(230,455)
Total operating expenses		**(8,271,247)**	**(8,144,582)**
Profit before income tax		**7,077,019**	**7,391,196**
Income tax expense	15	(2,379,983)	(1,912,500)
Profit for the year		**4,697,036**	**5,478,696**
Earnings per share			
Basic and diluted (KShs) per share	16	27.54	32.12

The notes set out on pages 13 to 110 form an integral part of these financial statements.

Statement of other comprehensive income

		For the year ended 31 December	
	Note	2015 KShs'000	2014 KShs'000
Profit for the year		**4,697,036**	**5,478,696**
Other comprehensive income, net of income tax			
Items that may be subsequently re-classified to profit or loss			
Net change in fair value movements on available-for-sale financial assets		36,724	(305,317)
Foreign currency translation differences for foreign operations		(1,025,822)	(59,542)
Other comprehensive income for the year, net of income tax		**(989,098)**	**(364,859)**
Total comprehensive income for the year		**3,707,938**	**5,113,837**

The notes set out on pages 13 to 110 form an integral part of these financial statements.

Statement of financial position

	Note	As at 31 December 2015 KShs'000	2014 KShs'000
Assets			
Cash and balances with Central Bank of Kenya	19	11,279,882	9,513,691
Financial assets – held for trading	20	16,251,044	23,836,927
Financial assets – available-for-sale	21	28,947,969	25,250,148
Pledged assets – available-for-sale	22	3,439,383	2,884,293
Derivative assets	23	4,377,196	1,960,415
Loans and advances to banks	24	23,181,591	12,862,672
Loans and advances to customers	25	104,981,565	88,347,438
Other assets and prepayments	26	2,611,069	2,581,855
Investment in subsidiaries	27	12	2
Property and equipment	29	2,294,821	2,405,738
Intangible assets	30	413,660	107,455
Current income tax	32	365,574	72,548
Deferred income tax	31	434,248	1,523,970
Total assets		**198,578,014**	**171,347,152**
Liabilities and equity			
Liabilities			
Customer deposits	33	106,493,201	96,830,280
Amounts due to other banks	34	47,964,264	33,570,267
Current income tax	32	80,305	-
Derivative liabilities	23	3,361,440	2,232,264
Financial liabilities- held-for-trading	20	521,973	-
Other liabilities	35	5,424,218	5,556,716
Borrowings	36	6,482,063	6,513,417
Total liabilities		**170,327,464**	**144,702,944**
Equity			
Share capital	37	3,411,549	3,411,549
Share premium	38	3,444,639	3,444,639
Regulatory credit risk reserve	39.4	195,697	129,649
Foreign currency translation reserve	39.3	(1,094,225)	(68,403)
Retained earnings		20,119,010	17,520,145
Proposed dividend	17	1,934,737	1,915,600
Revaluation of financial assets available-for-sale	39.1	74,162	37,438
Revaluation reserve on buildings	39.2	122,598	122,598
Share based payment reserve	40	42,383	130,993
Total equity		**28,250,550**	**26,644,208**
Total liabilities and equity		**198,578,014**	**171,347,152**

The notes set out on pages 13 to 110 form an integral part of these financial statements.

The financial statements on pages 7 to 110 were approved for issue by the Board of Directors on 2 March 2016 and signed on its behalf by:

Chairman

Chief Executive

Company Secretary

Statement of changes in equity

		Attributable to owners of the Bank									
Year ended 31 December 2015	**Note**	**Share capital**	**Share premium**	**Regulatory credit risk reserve**	**Foreign currency translation reserve**	**Revaluation of financial assets available-for-sale**	**Revaluation reserve on buildings**	**Share-based payment reserve**	**Retained earnings**	**Proposed dividend**	**Total equity**
		KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2015		**3,411,549**	**3,444,639**	**129,649**	**(68,403)**	**37,438**	**122,598**	**130,993**	**17,520,145**	**1,915,600**	**26,644,208**
Profit for the year		-	-	-	-	-	-	-	4,697,036	-	4,697,036
Other comprehensive income, net of tax		-	-	-	(1,025,822)	36,724	-	-	-	-	(989,098)
Total comprehensive income for the year		**-**	**-**	**-**	**(1,025,822)**	**36,724**	**-**	**-**	**4,697,036**	**-**	**3,707,938**
Transfer to regulatory credit risk reserve	39.4	**-**	**-**	**66,048**	**-**	**-**	**-**	**-**	**(66,048)**	**-**	**-**
Transactions with owners recorded directly in equity											
Transfer of vested share option from share based payment reserve								(102,614)	102,614		-
Equity-settled share-based payment transactions	40	-	-	-	-	-	-	14,004		-	14,004
2015 Interim/ 2014 final dividend paid	17	-	-	-	-	-	-	-	(200,000)	(1,915,600)	(2,115,600)
2015 Final dividend proposed	17	-	-	-	-	-	-	-	(1,934,737)	1,934,737	-
Total transactions with owners		**-**	**-**		**-**	**-**	**-**	**(88,610)**	**(2,032,123)**	**19,137**	**(2,101,596)**
At 31 December 2015		**3,411,549**	**3,444,639**	**195,697**	**(1,094,225)**	**74,162**	**122,598**	**42,383**	**20,119,010**	**1,934,737**	**28,250,550**

The notes set out on pages 13 to 110 form an integral part of these financial statements.

Statement of changes in equity (continued)

Year ended 31 December 2014	Note	*Attributable to owners of the Bank* Share capital	Share premium	Regulatory credit risk reserve	Foreign currency translation reserveq	Revaluation of financial assets available-for-sale	Revaluation reserve on buildings	Share-based payment reserve	Retained earnings	Proposed dividend	Total equity
		KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2014		**3,411,549**	**3,444,639**	**-**	**(5,565)**	**342,755**	**122,598**	**110,316**	**14,358,958**	**568,209**	**22,353,459**
Profit for the year		-	-	-	-	-	-	-	5,478,696	-	5,478,696
Other comprehensive income, net of tax		-	-	-	(62,838)	(305,317)	-	-	3,296	-	(364,859)
Total comprehensive income for the year		**-**	**-**	**-**	**(62,838)**	**(305,317)**	**-**	**-**	**5,481,992**	**-**	**5,113,837**
Transfer to regulatory credit risk reserve	39.4	**-**	**-**	**129,649**	**-**	**-**	**-**	**-**	**(129,649)**	**-**	**-**
Transactions with owners recorded directly in equity											
Equity-settled share-based payment transactions	40	-	-	-	-	-	-	20,677	-	-	20,677
2014 Interim/ 2013 final dividend paid	17	-	-	-	-	-	-	-	(275,556)	(568,209)	(843,765)
2014 Final dividend proposed	17	-	-	-	-	-	-	-	(1,915,600)	1,915,600	-
Total transactions with owners		**-**	**-**	**-**	**-**	**-**	**-**	**20,677**	**(2,191,156)**	**1,347,391**	**(823,088)**
At 31 December 2014		**3,411,549**	**3,444,639**	**129,649**	**(68,403)**	**37,438**	**122,598**	**130,993**	**17,520,145**	**1,915,600**	**26,644,208**

The notes set out on pages 13 to 110 form an integral part of these financial statements.

Statement of cash flows

	Note	Year ended 31 December 2015 KShs'000	2014 KShs'000
Cash flows from operating activities	43.1	6,284,464	8,417,404
Income tax paid	32	(1,601,589)	(2,615,324)
Cash flows from operating activities before changes in operating assets and liabilities		**4,682,875**	**5,802,080**
Changes in operating assets and liabilities:			
Loans and advances to customers		(16,634,127)	(19,213,946)
Loans and advances to banks		115,685	(5,685)
Financial assets –held for trading		6,116,978	(6,347,324)
Financial assets -available-for-sale		(501,970)	(4,298,223)
Deposits held for regulatory purposes		(887,400)	(267,378)
Other assets and prepayments		(29,214)	(157,075)
Amounts due to other banks		17,856,454	7,502,897
Other liabilities		(132,498)	(2,476,495)
Customer deposits		9,662,921	1,121,874
Trading liabilities		521,973	-
Net cash generated from/(used in)operating activities		**20,771,677**	**(18,339,275)**
Cash flows from investing activities:			
Purchase of property and equipment	29	(495,168)	(461,325)
Purchase of intangible assets - software	30	(338,374)	(5,902)
Proceeds from disposal of property and equipment		517	7,325
Net cash used in investing activities		**(833,025)**	**(459,902)**
Cash flows from financing activities:			
Dividends paid		(2,115,600)	(843,765)
Proceeds from borrowings	36	-	4,012,563
Repayment of borrowings	36	(31,354)	(3,346,898)
Net cash used in financing activities		**(2,146,954)**	**(178,100)**
Net increase / (decrease) in cash and cash equivalents		**17,791,698**	**(18,977,277)**
Cash and cash equivalents at start of year	43.2	22,568,262	41,608,402
Effect of exchange rate changes		(841,253)	(62,863)
Cash and cash equivalents at end of year	43.2	**39,518,707**	**22,568,262**

The notes set out on pages 13 to 110 form an integral part of these financial statements.

Notes

1. General information

CfC Stanbic Bank Limited is incorporated in Kenya under the Companies Act as a limited liability company, and is domiciled in Kenya. The address of its registered office is:

CfC Stanbic Centre
Chiromo Road
P.O. Box 72833
00200 Nairobi GPO

The Bank provides personal and business banking; corporate and investment banking services.

The financial statements for the year ended 31 December 2015 were approved for issue by the Board of Directors on 2 March 2016. Neither the entity's owners nor others have the power to amend the financial statements after issue.

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

2. Summary of significant accounting policies

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

a) Basis of preparation

The annual financial statements (AFS) are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), its interpretations adopted by the IASB, and the Kenyan Companies Act. The annual financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss and liabilities for cash-settled and equity-settled share-based payment arrangements.(accounting policy 2.5)

The following principle accounting policy elections in terms of IFRS have been made, with reference to the detailed accounting policies shown in brackets:

- purchases and sales of financial assets under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned are recognised and derecognised using trade date accounting (accounting policy 2.5);
- property and equipment and intangible assets are accounted for using the cost model (accounting policy 2.7 and 2.8);
- the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities on a net basis (accounting policy 3.2).

b) Functional and presentation currency

The annual financial statements are presented in Kenya Shillings (KShs) which is the functional and presentation currency of the Bank. All amounts are stated in thousands of shillings (KShs 000), unless indicated otherwise.

2	**Summary of significant accounting policies (continued)**
c)	**Changes in accounting policies and disclosures**
i)	***New and amended standards early adopted by the Bank***
	Amendment to IAS 1 Presentation of Financial Statements (IAS 1) effective 1 January 2016 The amendment to IAS 1 clarifies that materiality applies to the whole set of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendment further explains that professional judgement should be used in determining where and in what order information should be presented in the financial statements. During the year the Bank reviewed its financial statements to identify disclosures that were considered to be immaterial as well as to consider ways of better presenting financial information. The revised standards did not have any effect on the Bank's reported earnings or financial statement position and had no material impact on the accounting policies.
ii)	***Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank***
	A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. The following standards and ammendments set out below, are expected to have a significant effect on the financial statements of the Bank; IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (P/L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is in the process of determining IFRS 9's full impact. . IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Bank is assessing the impact of IFRS 15.

Notes (continued)

2. Summary of significant accounting policies (continued)

c) Changes in accounting policies and disclosures (continued)

Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Bank (continued)

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

IFRS 11, 'Joint arrangements'. This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. The amendment is effective for annual periods beginning on or after 1 January 2016. The amendment has no impact on the Bank operations.

IAS 16, 'Property,plant and equipment', and IAS 41, 'Agriculture',. These amendments change the financial reporting for bearer plants, such as grape vines, rubber trees and oil palms. The IASB decided that bearer plants should be accounted for in the same way as property, plant and equipment because their operation is similar to that of manufacturing. Consequently, the amendments include them within the scope of IAS 16, instead of IAS 41. The produce growing on bearer plants will remain within the scope of IAS 41. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendment has no impact on the Bank operations.

IAS 27, 'Separate financial statements'. These amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendment has no material impact on the Bank operations.

IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures'. These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. The amendments are effective for annual periods beginning on or after 1 January 2016. The amendment has no impact on the Bank operations.

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

- IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
- IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
- IAS 19, 'Employee benefits' regarding discount rates.
- IAS 34, 'Interim financial reporting' regarding disclosure of information

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

2. Summary of significant accounting policies (continued)

2.1 Translation of foreign currencies

(i) Functional and presentation currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). Which is also the presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the respective functional currencies of bank entities at exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are recognised in profit or loss (except when recognised in OCI as part of qualifying cash flow hedges and net investment hedges).

Non-monetary assets and liabilities denominated in foreign currencies that are measured at historical cost are translated using the exchange rate at the transaction date, and those measured at fair value are translated at the exchange rate at the date that the fair value was determined. Exchange rate differences on non-monetary items are accounted for based on the classification of the underlying items. Foreign exchange gains and losses on equities (debt) classified as available-for-sale financial assets are recognised in the available-for-sale reserve in OCI (profit or loss) whereas the exchange differences on equities and debt that are classified as held at fair value through profit or loss are reported as part of the fair value gain or loss in profit or loss.

(iii) Foreign operations

The results and financial position of all foreign operations that have a functional currency different from the bank's presentation currency are translated into the bank's presentation currency as follows:

- assets and liabilities are translated at the closing rate at the reporting date
- income and expenses are translated at average exchange rates for the month, to the extent that such average rates approximate actual rates for the transactions, and
- all resulting foreign exchange differences are accounted for directly in a separate component of OCI, being the foreign currency translation reserve.

On the partial disposal of a foreign operation, a proportionate share of the balance of the foreign currency translation reserve is transferred to the non-controlling interests. For all other partial disposals of a foreign operation, the proportionate share of the balance of the foreign currency translation reserve is reclassified to profit or loss.

On disposal (where a change in ownership occurs and control is lost) of a foreign operation, the relevant amount in the foreign currency translation reserve is reclassified to profit or loss at the time at which the profit or loss on disposal of the foreign operation is recognised.

These gains and losses are recognised in profit or loss either on disposal of a foreign operation or partial disposal (a reduction in ownership interest in a foreign operation other than a disposal) of an associate or joint venture that includes a foreign operation. In the case of a partial disposal of a foreign operation, the proportionate share of the cumulative amount of the exchange differences recognised in OCI is reclassified to the non-controlling interests in that foreign operation.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation are translated at the closing rate .Exchange differences are recognised in OCI.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.2 Net interest income

Interest income and expense (with the exception of those borrowing costs that are capitalised – refer to accounting policy 2.9 – Capitalisation of borrowing costs) are recognised in profit or loss on an accrual basis using the effective interest method for all interest-bearing financial instruments, except for those classified at fair value through profit or loss which are included under trading income. Effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

Direct incremental transaction costs incurred and origination fees received, including loan commitment fees, as a result of bringing margin-yielding assets or liabilities into the statement of financial position, are capitalised to the carrying amount of financial instruments that are not at fair value through profit or loss and amortised as interest income or expense over the life of the asset or liability as part of the effective interest rate.

Where the estimates of payments or receipts on financial assets (except those that have been reclassified – refer to accounting policy 2.5 – Financial instruments) or financial liabilities are subsequently revised, the carrying amount of the financial asset or financial liability is adjusted to reflect actual and revised estimated cash flows. The carrying amount is calculated by computing the present value of the estimated cash flows at the financial asset or financial liability's original effective interest rate. Any adjustment to the carrying value is recognised in net interest income.

Where financial assets have been impaired, interest income continues to be recognised as interest in suspense on the impaired value based on the original effective interest rate.

Fair value gains and losses on realised debt financial instruments, including amounts reclassified from OCI in respect of available-for-sale debt financial assets, and excluding those classified as held-for-trading, are included in net interest income.

Dividends received on preference share investments classified as debt form part of the bank's lending activities and are included in interest income.

2.3 Non-interest revenue

a) Net fee and commission revenue

Fee and commission revenue, including transactional fees, account servicing fees, investment management fees, sales commissions and placement fees are recognised as the related services are performed. Loan commitment fees for loans that are not expected to be drawn down are recognised on a straight-line basis over the commitment period. Loan syndication fees, where the bank does not participate in the syndication or participates at the same effective interest rate for comparable risk as other participants, are recognised as revenue when the syndication has been completed. Syndication fees that do not meet these criteria are capitalised as origination fees and amortised as interest income.

The fair value of issued financial guarantee contracts on initial recognition is amortised as income over the term of the contract.

Fee and commission expense included in net fee and commission revenue are mainly transaction and service fees relating to financial instruments, which are expensed as the services are received. Expenditure is recognised as fee and commission expenses where the expenditure is linked to the production of fee and commission revenue.

b) Trading revenue

Trading revenue comprises all gains and losses from changes in the fair value of trading assets and liabilities, together with related interest income, expense and dividends.

c) Other revenue

Other revenue includes gains and losses on equity instruments designated at fair value through profit or loss, dividends relating to those financial instruments, and remeasurement gains and losses from contingent consideration on disposals and purchases.
Gains and losses on equity available-for-sale financial assets are reclassified from OCI to profit or loss on derecognition or impairment of the investments. Dividends on these instruments are recognised in profit or loss.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.3 Non-interest revenue (continued)

d) Revenue sharing agreements with related companies

Revenue sharing agreements with related companies includes the allocation of revenue from transfer pricing agreements between the group's legal entities. The service payer makes payment to service sellers for services rendered. All agreements of a revenue sharing nature are presented in the income statement as follows:

- The service payer of the agreement recognises, to the extent the charge is less than revenue from the agreement, the charge to the service sellers within the income statement line item revenue sharing agreements with related companies. To the extent that the revenue allocation to service sellers within the group is greater than the available revenue from the agreement, the charge above the available revenue is recognised within other operating expenses.

- The service seller of the agreements recognises, to the extent the allocation is made out of available revenue of the service payer, the revenue from the service payer within the income statement line item revenue sharing agreements with related companies. To the extent the revenue is not received from the service payer's available revenue, such revenue is recognised as a fee and commission revenue.

2.4 Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, non–restricted balances with central banks, Treasury and other eligible bills and amounts due from banks on demand or with an original maturity of three months or less. These are subject to insignificant risk of changes in their fair value.

2.5 Financial instruments

I) initial recognition and measurement

Financial instruments include all financial assets and liabilities.The bank classifies its financial instruments into financial instruments at fair value through profit and loss, loans and receivables, held to maturity and available for sale financial instruments.The classification is determined at initial recognition.

These instruments are typically held for liquidity, investment, trading or hedging purposes. All financial instruments are initially recognised at fair value plus directly attributable transaction costs, except those carried at fair value through profit or loss where transaction costs are recognised immediately in profit or loss. Financial instruments are recognised (derecognised) on the date the bank commits to purchase (sell) the instruments (trade date accounting).

II) Subsequent measurement

Subsequent to initial measurement, financial instruments are measured either at fair value or amortised cost, depending on their classifications as follows:

a) Held-to-maturity

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

This excludes:

a) those that the bank upon initial recognition designates at fair value through profit or loss;

b) those the bank designates as available for sale; and

c) those that meet the definition of loans and receivables.

Held-to-maturity investments are carried at amortised cost, using the effective interest method, less any impairment losses.

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

II) Subsequent measurement continued)

b) Held-for-trading assets and liabilities

Held-for-trading assets and liabilities include those financial assets and liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term, those forming part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, and commodities that are acquired principally by the bank for the purpose of selling in the near future and generating a profit from fluctuations in price or broker-traders' margin. Derivatives are always categorised as held-for-trading.

Subsequent to initial recognition, the financial instruments' fair values are remeasured at each reporting date. All gains and losses, including interest and dividends arising from changes in fair value are recognised in profit or loss as trading revenue within non-interest revenue with the exception of derivatives that are designated and effective as hedging instruments (refer to note 2.5(vi))

c) Financial assets and liabilities designated at fair value through profit or loss

The bank designates certain financial assets and liabilities, other than those classified as held-for-trading, as at fair value through profit or loss when:

- this designation eliminates or significantly reduces an accounting mismatch that would otherwise arise. Under this criterion, the main classes of financial instruments designated by the bank are loans and advances to banks and customers and financial investments. The designation significantly reduces measurement inconsistencies that would have otherwise arisen. For example, where the related derivatives were treated as held-for-trading and the underlying financial instruments were carried at amortised cost. This category also includes financial assets used to match investment contracts

- groups of financial assets, financial liabilities or both are managed, and their performance evaluated, on a fair value basis in accordance with a documented risk management or investment strategy, and reported to the bank's key management personnel on a fair-value basis. Under this criterion, certain private equity, and other investment portfolios have been designated at fair value through profit or loss; or

- financial instruments containing one or more embedded derivatives that significantly modify the instruments' cash flows. Subsequent to initial recognition, the fair values are remeasured at each reporting date. Gains and losses arising from changes in fair value are recognised in interest income (interest expense) for all debt financial assets (financial liabilities) and in other revenue within non-interest revenue for all equity instruments.

d) Available-for-sale

Financial assets classified by the bank as available-for-sale are generally strategic capital investments held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices, or non-derivative financial assets that are not classified within another category of financial assets.

Available-for-sale financial assets are subsequently measured at fair value. Unrealised gains or losses are recognised directly in the available-for-sale reserve until the financial asset is derecognised or impaired. When debt (equity) available-for-sale financial assets are disposed of, the cumulative fair value adjustments in OCI are reclassified to interest income.

Available-for-sale financial assets are impaired when there has been a significant or prolonged decline in the fair value of the financial asset below its cost. The cumulative fair value adjustments previously recognised in OCI on the impaired financial assets are reclassified to profit or loss. Reversals of impairments on equity available-for-sale financial assets are recognised in OCI.

Interest income, calculated using the effective interest method, is recognised in profit or loss. Dividends received on debt (equity) available-for-sale instruments are recognised in interest income (other revenue) within profit or loss when the bank's right to receive payment has been established.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

II) Subsequent measurement continued)

e) Loans and advances

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the bank as at fair value through profit or loss or available-for-sale.

Loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Origination transaction costs and origination fees received that are integral to the effective rate are capitalised to the value of the loan and amortised through interest income as part of the effective interest rate. The majority of the bank's loans and advances are included in the loans and receivables category.

f) Financial liabilities at amortised cost

Financial liabilities that are neither held for trading nor designated at fair value are measured at amortised cost.

III) Reclassification of financial assets

The bank may choose to reclassify non-derivative trading assets out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets that would not otherwise have met the definition of loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances. In addition, the bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the bank, at the date of reclassification, has the intention and ability to hold these financial assets for the foreseeable future or until maturity.

Derivatives or any financial instrument designated at fair value through profit or loss shall not be reclassified out of their respective categories.

Reclassifications are made at fair value as of the reclassification date. Effective interest rates for financial assets reclassified to loans and receivables, held-to-maturity and available-for-sale categories are determined at the reclassification date. Subsequent increases in estimates of cash flows adjust the financial asset's effective interest rates prospectively.

On reclassification of a trading asset, all embedded derivatives are reassessed and, if necessary, accounted for separately.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

IV) Impairment of financial assets

a) Assets carried at amortised cost

The bank assesses at each reporting date whether there is objective evidence that a loan or group of loans is impaired. A loan or group of loans is impaired if objective evidence indicates that a loss event has occurred after initial recognition which has a negative effect on the estimated future cash flows of the loan or group of loans that can be estimated reliably.

Criteria that are used by the bank in determining whether there is objective evidence of impairment include:

- known cash flow difficulties experienced by the borrower
- a breach of contract, such as default or delinquency in interest and/or principal payments
- breaches of loan covenants or conditions
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation, and
- where the bank, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the bank would not otherwise consider.

The bank first assesses whether there is objective evidence of impairment individually for loans that are individually significant, and individually or collectively for loans that are not individually significant. Non-performing loans include those loans for which the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. The impairment of non-performing loans takes into account past loss experience adjusted for changes in economic conditions and the nature and level of risk exposure since the recording of the historic losses.

When a loan carried at amortised cost has been identified as specifically impaired, the carrying amount of the loan is reduced to an amount equal to the present value of its estimated future cash flows, including the recoverable amount of any collateral, discounted at the financial asset's original effective interest rate. The carrying amount of the loan is reduced through the use of a specific credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

The calculation of the present value of the estimated future cash flows of collateralised financial assets recognised on an amortised cost basis includes cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable.

If the bank determines that no objective evidence of impairment exists for an individually assessed loan, whether significant or not, it includes the loan in a group of financial loans with similar credit risk characteristics and collectively assesses for impairment. Loans that are individually assessed for impairment and for which an impairment loss is recognised are not included in a collective assessment for impairment.

Impairment of groups of loans that are assessed collectively is recognised where there is objective evidence that a loss event has occurred after the initial recognition of the group of loans but before the reporting date. In order to provide for latent losses in a group of loans that have not yet been identified as specifically impaired, a credit impairment for incurred but not reported losses is recognised based on historic loss patterns and estimated emergence periods (time period between the loss trigger events and the date on which the bank identifies the losses). Groups of loans are also impaired when adverse economic conditions develop after initial recognition, which may impact future cash flows. The carrying amount of groups of loans is reduced through the use of a portfolio credit impairment account and the loss is recognised as a credit impairment charge in profit or loss.

Increases in loan impairments and any subsequent reversals thereof, or recoveries of amounts previously impaired (including loans that have been written off), are reflected within credit impairment charges in profit or loss. Previously impaired loans are written off once all reasonable attempts at collection have been made and there is no realistic prospect of recovering outstanding amounts. Any subsequent reductions in amounts previously impaired are reversed by adjusting the allowance account with the amount of the reversal recognised as a reduction in impairment for credit losses in profit or loss.

Subsequent to impairment, the effects of discounting unwind over time as interest income.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

IV) Impairment of financial assets (continued)

b) Renegotiated loans

Loans that would otherwise be past due or impaired and whose terms have been renegotiated and exhibit the characteristics of a performing loan are reset to performing loan status. Loans whose terms have been renegotiated are subject to on-going review to determine whether they are considered to be impaired or past due.
The effective interest rate of renegotiated loans that have not been derecognised (described under the heading Derecognition of financial instruments), is predetermined based on the loan's renegotiated terms.

c) Available-for-sale financial assets

Available-for-sale financial assets are impaired if there is objective evidence of impairment, resulting from one or more loss events that occurred after initial recognition but before the reporting date, that have a negative impact on the future cash flows of the asset. In addition, an available-for-sale equity instrument is considered to be impaired if a significant or prolonged decline in the fair value of the instrument below its cost has occurred. In that instance, the cumulative loss, measured as the difference between the acquisition price and the current fair value, less any previously recognised impairment losses on that financial asset, is reclassified from OCI to profit or loss.

If, in a subsequent period, the amount relating to impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss for available-for-sale debt instruments. Any reversal of an impairment loss in respect of an available-for-sale equity instrument is recognised directly in OCI.

V) Offsetting financial instruments

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

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

VI) Derivative financial instruments

A derivative is a financial instrument whose fair value changes in response to an underlying variable, requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors and is settled at a future date. Derivatives are initially recognised at fair value on the date on which the derivatives are entered into and subsequently remeasured at fair value as described under accounting policy 2.6 - fair value.

All derivative instruments are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative, subject to offsetting principles as described under the heading Offsetting financial instruments (Accounting policy2.5(v)).

Embedded derivatives included in hybrid instruments are treated and disclosed as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract, the terms of the embedded derivative are the same as those of a stand-alone derivative and the combined contract is not measured at fair value through profit or loss. The financial host contracts are accounted for and measured applying the rules of the relevant financial instrument category.
All gains and losses from changes in the fair values of derivatives are recognised immediately in profit or loss as trading income

VII) Borrowings

Borrowings are recognised initially at fair value, generally being their issue proceeds, net of directly attributable transaction costs incurred. Borrowings are subsequently measured at amortised cost and interest is recognised using the effective interest method.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.5 Financial instruments(continued)

VIII) Financial guarantee contracts

A financial guarantee contract is a contract that requires the bank (issuer) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.
Financial guarantee contracts are initially recognised at fair value, which is generally equal to the premium received, and then amortised over the life of the financial guarantee. Subsequent to initial recognition, the financial guarantee liability is measured at the higher of the present value of any expected payment, when a payment under the guarantee has become probable, and the unamortised premium.

IX) Derecognition of financial instruments

Financial assets are derecognised when the contractual rights to receive cash flows from the financial assets have expired, or where the bank has transferred its contractual rights to receive cash flows on the financial asset such that it has transferred substantially all the risks and rewards of ownership of the financial asset. Any interest in transferred financial assets that is created or retained by the bank is recognised as a separate asset or liability.

The bank enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or a portion of the risks or rewards of the transferred assets. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfers of assets with the retention of all or substantially all risks and rewards include securities lending and repurchase agreements.
When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction, similar to repurchase transactions. In transactions where the bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, the asset is derecognised if control over the asset is lost. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. In transfers where control over the asset is retained, the bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.Financial liabilities are derecognised when they are extinguished, that is, when the obligation is discharged, cancelled or expires.

Where an existing financial asset or liability is replaced by another with the same counterparty on substantially different terms, or the terms of an existing financial asset or liability are substantially modified, such an exchange or modification is treated as a derecognition of the original asset or liability and the recognition of a new asset or liability, with the difference in the respective carrying amounts being recognised in profit or loss.
In all other instances, the renegotiated asset or liability's effective interest rate is predetermined taking into account the renegotiated terms.

X) Sale and repurchase agreements and lending of securities (including commodities)

Securities sold subject to linked repurchase agreements (repurchase agreements) are reclassified in the statement of financial position as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral. The liability to the counterparty is included under deposit and current accounts or trading liabilities, as appropriate.

Securities purchased under agreements to resell (reverse repurchase agreements), at either a fixed price or the purchase price plus a lender's rate of return, are recorded as loans and included under trading assets or loans and advances, as appropriate.

For repurchase and reverse repurchase agreements measured at amortised cost, the difference between the purchase and sales price is treated as interest and amortised over the expected life using the effective interest method.

Securities lent to counterparties are retained in the annual financial statements. Securities borrowed are not recognised in the annual financial statements unless sold to third parties. In these cases, the obligation to return the securities borrowed is recorded at fair value as a trading liability.
Income and expenses arising from the securities borrowing and lending business are recognised over the period of the transactions.

2. Summary of significant accounting policies (continued)

2.6 Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market between market participants at the measurement date under current market conditions.

When a price for an identical asset or liability is not observable, fair value is measured using another valuation technique that maximises the use of relevant observable inputs and minimises the use of unobservable inputs.

In estimating the fair value of an asset or a liability, the bank takes into account the characteristics of the asset or liability that market participants would take into account when pricing the asset or liability at measurement date.

For financial instruments, where the fair value of the financial instrument differs from the transaction price, the difference is commonly referred to as day one profit or loss. Day one profit or loss is recognised in profit or loss immediately where the fair value of the financial instrument is either evidenced by comparison with other observable current market transactions in the same instrument, or is determined using valuation models with only observable market data as inputs.

Day one profit or loss is deferred where the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument, or determined using valuation models that utilise non-observable market data as inputs. The timing of the recognition of deferred day one profit or loss is determined individually depending on the nature of the instrument and availability of market observable inputs. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

Subsequent to initial recognition, fair value is measured based on quoted market prices or dealer price quotations for the assets and liabilities that are traded in active markets and where those quoted prices represent fair value at the measurement date.

If the market for an asset or liability is not active or the instrument is unlisted, the fair value is determined using other applicable valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants.

Where discounted cash flow analyses are used, estimated future cash flows are based on management's best estimates and a market related discount rate at the reporting date for an asset or liability with similar terms and conditions.

If an asset or a liability measured at fair value has both a bid and an ask price, the price within the bid-ask spread that is most representative of fair value is used to measure fair value.

The bank has elected the portfolio exception to measure the fair value of certain groups of financial assets and financial liabilities. This exception permits the group of financial assets and financial liabilities to be measured at fair value on a net basis. This election is applied where the bank:

- manages the group of financial assets and financial liabilities on the basis of the bank's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the bank's documented risk management or investment strategy;
- provides information on that basis about the group of financial assets and financial liabilities to the bank's key management personnel; and
- is required to or has elected to measure those financial assets and financial liabilities at fair value at the end of each reporting period.

Fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement.

2. Summary of significant accounting policies (continued)

2.7 Property and equipment

Equipment and owner-occupied properties, furniture, vehicles and other tangible assets are measured at cost less accumulated depreciation and accumulated impairment losses, if any.
Cost includes expenditure that is directly attributable to the acquisition of the asset. Where significant parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Costs that are subsequently incurred are included in the asset's related carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits will flow to the bank and the cost of the item can be measured reliably. Expenditure, which does not meet these criteria, is recognised the income statement as incurred.

Owner-occupied properties are held for use in the supply of services or for administrative purposes.

Property and equipment are depreciated on the straight-line basis over the estimated useful lives of the assets to their residual values. Land is not depreciated. Leasehold buildings are depreciated over over the shorter of the lease period or its useful life,
The estimated useful lives of tangible assets are typically as follows;

Buildings	40 years
Motor vehicles	4-5 years
Computer equipment	3-5 years
Office equipment	5-10 years
Furniture and fittings	13 years
Capitalised leased assets	over the shorter of the lease term or its useful life

There has been no significant change to the estimated useful lives and depreciation methods from those applied in the previous financial year.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.
The assets' residual values, useful lives and the depreciation method applied are reviewed, and adjusted if appropriate, at each financial year end.

2.8 Intangible assets – computer software

Costs associated with developing or maintaining computer software programmes and the acquisition of software licences are generally recognised as an expense as incurred. However, direct computer software development costs that are clearly associated with an identifiable and unique system, which will be controlled by the bank and have a probable future economic benefit beyond one year, are recognised as intangible assets. Capitalisation is further limited to development costs where the bank is able to demonstrate its intention and ability to complete and use the software, the technical feasibility of the development, the availability of resources to complete the development, how the development will generate probable future economic benefits and the ability to reliably measure costs relating to the development. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Expenditure subsequently incurred on computer software is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

Direct computer software development costs recognised as intangible assets are amortised on the straight-line basis at rates appropriate to the expected useful lives of the assets (two to 10 years) from the date that the assets are available for use, and are carried at cost less accumulated amortisation and accumulated impairment losses. The carrying amount of capitalised computer software is reviewed annually and is written down when impaired.

Amortisation methods, useful lives and residual values are reviewed at each financial year end and adjusted, if necessary.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.9 Capitalisation of borrowing costs

Borrowing costs that relate to qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use or sale and which are not measured at fair value, are capitalised. All other borrowing costs are recognised in profit or loss. Borrowing costs consist of interest and other costs that an entity incurred in connection with the borrowing of funds.

2.10 Impairment of non-financial assets

Further disclosures relating to impairment of non-financial assets are also provided in the following notes

Property and equipment see note 29, note 2.7
Intangible assets see note 30, note 2.8
Disclosure on significant assumptions see note 3

Non financial assets are tested annually for impairment and additionally whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Fair value less costs to sell is determined by ascertaining the current market value of an asset and deducting any costs related to the realisation of the asset. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purposes of assessing impairment, assets that cannot be tested individually are grouped at the lowest levels for which there are separately identifiable cash inflows from continuing use (CGUs).Impairment test also can be performed on a single asset when the fair value less costs to sell or the value in use can be determined reliably. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.11 Leases

A lease is an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

A lease of assets is either classified as a finance lease or operating lease.

I) Bank as lessee

Leases, where the bank assumes substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.

Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Lease payments are calculated using the interest rate implicit in the lease, or the bank's incremental borrowing rate to identify the finance cost, which is recognised in profit or loss over the lease period, and the capital repayment, which reduces the liability to the lessor.

Payments made under operating leases, net of any incentives received from the lessor, are recognised in profit or loss on a straight-line basis over the term of the lease. Contingent rentals are expensed as they are incurred. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.11 Leases (continued)

II) Bank as lessor

Leases, where the bank transfers substantially all the risks and rewards incidental to ownership, are classified as finance leases. All other leases are classified as operating leases.
Lease and instalment sale contracts are primarily financing transactions in banking activities, with rentals and instalments receivable, less unearned finance charges, being included in loans and advances in the statement of financial position.

Finance charges earned are computed using the effective interest method, which reflects a constant periodic rate of return on the investment in the finance lease. Initial direct costs and fees are capitalised to the value of the lease receivable and accounted for over the lease term as an adjustment to the effective rate of return. The tax benefits arising from investment allowances on assets leased to clients are accounted for in the direct taxation line.

Operating lease income from properties held as investment properties, net of any incentives given to lessees, is recognised on the straight-line basis or a more representative basis where applicable over the lease term. When an operating lease is terminated before the lease period has expired, any payment required by the bank by way of a penalty is recognised as income in the period in which termination takes place.

2.12 Provisions, contingent assets and contingent liabilities

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are determined by discounting the expected future cash flows using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The increase in provision due to passage of time is recognised as an expense.

Where there are a number of similar obligations,the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Although he likelihood of outflow for any one item may be small, it may well be probable that some outflow of resources will be needed to settle the class of obligations as a whole.

A provision for restructuring is recognised when the bank has approved a detailed formal plan, and the restructuring either has commenced or has been announced publicly. Future operating costs or losses are not provided for.

A provision for onerous contracts is recognised when the expected benefits to be derived by the bank from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the bank recognises any impairment loss on the assets associated with that contract.

Contingent assets are not recognised in the annual financial statements but are disclosed when, as a result of past events, it is probable that economic benefits will flow to the bank, but this will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events which are not wholly within the bank’s control.

Contingent liabilities include certain guarantees, other than financial guarantees, and letters of credit.

Contingent liabilities are not recognised in the annual financial statements but are disclosed in the notes to the annual financial statements unless they are remote.

Notes (continued)

2. Summary of significant accounting policies (continued)

2.13 Taxation

I) Direct tax

Current tax includes all domestic and foreign taxes based on taxable profits and capital gains tax. Current tax is determined for current period transactions and events and deferred tax is determined for future tax consequences. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination (relating to a measurement period adjustment where the carrying amount of the goodwill is greater than zero), or items recognised directly in equity or in OCI.

Current tax represents the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised for all taxable temporary differences,except :

- the initial recognition of goodwill
- the initial recognition of assets and liabilities in a transaction that is not a business combination, which affects neither accounting nor taxable profits or losses, and
- investments in subsidiaries, associates and jointly controlled arrangements (excluding mutual funds) where the bank controls the timing of the reversal of temporary differences and it is probable that these differences will not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of the asset or liability and is not discounted.

Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. They are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current and deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

II) Dividends tax

Taxes on dividends declared by the bank are recognised as part of the dividends paid within equity as dividend tax represents a tax on the shareholder and not the bank.

Dividends tax withheld by the bank on dividends paid to its shareholders and payable at the reporting date to the Kenya Revenue Authority (where applicable) is included in trade and other payables in the statement of financial position.

III) Indirect taxation

Indirect taxes, including non-recoverable VAT, skills development levies and other duties for banking activities, are recognised in profit or loss and included in administrative expenses.

Notes (continued)

2.	Summary of significant accounting policies (continued)
2.14	**Employee benefits**
	I) Defined contribution plan
	The bank operates a number of defined contribution plans, based on a percentage of pensionable earnings funded by both employer companies and employees, the assets of which are generally held in separate trustee-administered funds. Contributions to these plans are recognised as an expense in profit or loss in the periods during which services are rendered by employees. The bank employees also contribute to the National Social Security Fund, these contributions are determined by local statutes and the Bank's contributions are charged to profit or loss in the year which they relate to.
	II) Termination benefits
	Termination benefits are recognised as an expense when the bank is committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the bank has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.
	III) Short-term benefits
	Short-term benefits consist of salaries, accumulated leave payments, profit share, bonuses and any non-monetary benefits such as medical aid contributions. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans or accumulated leave if the bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.
2.15	**Dividends**
	Dividends in ordinary shares are charged to equity in the period in which they are declared.
2.16	**Equity**
	Ordinary shares are classified as 'share capital' in equity. Any premium received over and above the par value of the shares is classified as 'share premium' in equity.
	I) Share issue costs
	Incremental external costs directly attributable to a transaction that increases or decreases equity are deducted from equity, net of related tax. All other share issue costs are expensed.
	II) Distributions on ordinary shares
	Distributions are recognised in equity in the period in which they are declared. Distributions declared after the reporting date is disclosed in the distributions note. Proposed dividends are disclosed separately within equity until declared.
2.17	**Earnings per share**
	.Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary share shareholdersand the weighted average number of ordinary shared outstanding for the effects of all dilutive potential shareholders if any.

Notes (continued)

2.18 Equity-linked transactions

Equity compensation plans

The bank operates both equity-settled and cash-settled share-based compensation plans.

The fair value of equity-settled share options is determined on the grant date and accounted for as staff costs over the vesting period of the share options, with a corresponding increase in the share-based payment reserve. Non-market vesting conditions, such as the resignation of employees and retrenchment of staff, are not considered in the valuation but are included in the estimate of the number of options expected to vest. At each reporting date, the estimate of the number of options expected to vest is reassessed and adjusted against profit or loss and equity over the remaining vesting period.

On vesting of share options, amounts previously credited to the share-based payment reserve are transferred to retained earnings through an equity transfer. On exercise of equity-settled share options, proceeds received are credited to share capital and premium.

Share-based payments settled in cash are accounted for as liabilities at fair value until settled. The liability is recognised over the vesting period and is revalued at every reporting date and on settlement. Any changes in the liability are recognised in profit or loss.

2.19 Segment reporting

An operating segment is a component of the bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. The bank's identification of segments and the measurement of segment results is based on the bank's internal reporting to the chief operating decision maker.

Transactions between segments are priced at market-related rates.

2.20 Fiduciary activities

The bank commonly engages in trust or other fiduciary activities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. These assets and the income arising directly thereon are excluded from these annual financial statements as they are not assets of the bank. However, fee income earned and fee expenses incurred by the bank relating to the bank's responsibilities from fiduciary activities are recognised in profit or loss.

Notes (continued)

3. Critical accounting estimates and judgements in applying accounting policies

In preparing the financial statements, estimates and judgement are made that could materially affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on factors such as historical experience and current best estimates of uncertain future events that are believed to be reasonable under the circumstances.
Unless otherwise stated, no material changes to assumptions have occurred during the year.

3.1 Going concern

The Bank's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

3.2 Credit impairment losses on loans and advances

I) Portfolio loan impairments

The bank assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in profit or loss, the bank makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio.

Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis.

The impairment for performing and non-performing but not specifically impaired loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

	Average loss emergence period	
	2015 Months	2014 Months
Personal & Business Banking		
Mortgage loans	3	3
Instalment sale and finance leases	3	3
Card debtors	3	3
Other lending	3	3
Corporate & Investment Banking	**12**	**12**

II) Specific loan impairments

Non-performing loans include those loans for which the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition as well as those loans for which instalments are due and unpaid for 90 days or more. Management's estimates of future cash flows on individually impaired loans are based on historical loss experience for assets with similar credit risk characteristics.

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. Where the net present value of estimated cash flows to differ by +/-1%, the impairment loss is to be estimated at KShs 29,091,000 higher or KShs 29,091,000 lower (2014: Kshs 20,157,000 higher or KShs 20,157,000 lower).

Notes (continued)

3.	**Critical accounting estimates and judgements in applying accounting policies (continued)**
3.2	**Impairment of available–for–sale investment**
	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.
3.3	**Fair value of financial instruments**
	The fair value of financial instruments that are not quoted in active markets is determined using valuation techniques. Wherever possible, models use only observable market data. Where required, these models incorporate assumptions that are not supported by prices from observable current market transactions in the same instrument and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of financial instruments. The total amount of the change in fair value estimated using valuation techniques not based on observable market data that was recognised in profit or loss for the year ended 31 December 2015 was a profit of KShs nil (2014: KShs nil). These changes in fair value have been materially mitigated by financial instruments classified within level 2 of the fair value hierarchy. Additional disclosures on fair value measurements of financial instruments are set out in notes 2.6 and 5.
3.4	**Development costs**
	The Bank capitalises development costs for a intangible assets in accordance with the accounting policy detailed in note 2.8. Initial capitalisation of costs is based on management's judgement that technological and economic feasibility is confirmed, usually when a product development project has reached a defined milestone and where the bank is able to demonstrate its intention and ability to complete and use the software..
3.5	**Income taxes**
	The bank is subject to direct taxation in two jurisdictions. There may be transactions and calculations for which the ultimate tax determination has an element of uncertainty during the ordinary course of business. The bank recognises liabilities based on objective estimates of the quantum of taxes that may be due. Where the final tax determination is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions, disclosed in note 32 and note 31, respectively, in the period in which such determination is made. **Deferred tax assets** Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available against which the unused tax losses can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Management's judgement surrounding the probability and sufficiency of future taxable profits, future reversals of existing taxable differences and on-going developments will determine the recognition of deferred tax. The most significant management assumption is the forecasts used to support the probability assessment that sufficient taxable profits will be generated by the entities in the bank in order to utilise the deferred tax assets. Note 31 summarises the details of the carrying amount of the deferred tax assets. Accounting policy 2.13 provides further detail regarding the bank's deferred tax accounting policy.

Notes (continued)

3.	**Critical accounting estimates and judgements in applying accounting policies (continued)**
3.6	**Share-based payment**
	The bank has a number of cash and equity-settled share incentive schemes which are issued to qualifying employees based on the rules of the schemes. The bank uses the Black-Scholes option pricing model to determine the fair value of awards on grant date for its equity-settled share incentive schemes. The valuation of the bank's obligation with respect to its cash-settled share incentive scheme obligations is determined with reference to the SBG share price, which is an observable market input. In determining the expense to be recognised for both the cash and equity-settled share schemes, the bank estimates the expected future vesting of the awards by considering staff attrition levels. The bank also makes estimates of the future vesting of awards that are subject to non-market vesting conditions by taking into account the probability of such conditions being met. Refer to note 35 (b) for further details regarding the carrying amount of the liabilities arising from the bank's cash-settled share incentive schemes and the expenses recognised in the income statement.
3.7	**Provisions**
	The accounting policy for provisions is set out in accounting policy 2.12 The principal assumptions taken into account in determining the value at which provisions are recorded at, in the bank's statement of financial position, include determining whether there is an obligation as well as assumptions about the probability of the outflow of resources and the estimate of the amount and timing for the settlement of the obligation. The probability of an event of a significant nature occurring will be assessed by management and, where applicable, consultation with the bank's legal counsel. In determining the amount and timing of the obligation once it has been assessed to exist, management exercises its judgement by taking into account all available information, including that arising after the balance sheet date up to the date of the approval of the financial statements.

Notes (continued)

4. Financial risk management

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

- Credit risk
- Liquidity risk
- Market risks
- Operational risks.

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established various committees, including the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors of the Bank on their activities.

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. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. 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 Committees are 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. The Audit Committees are assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committees.

By their nature, the Bank's activities are principally related to the use of financial instruments including derivatives. The Bank accepts deposits from customers at both fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units.

The Bank also seeks to raise its interest margins by obtaining above-average margins, net of allowances, through lending to commercial and retail borrowers with a range of credit standing. Such exposures involve not just on-statement of financial position loans and advances; the Bank also enters into guarantees and other commitments such as letters of credit and performance, and other bonds.

The Bank also trades in financial instruments where it takes positions in traded and over-the-counter instruments to take advantage of short-term market movements in bonds, currency and interest rate. The Board places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions.

Foreign exchange and interest rate exposures associated with derivatives are normally offset by entering into counter-balancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Notes (continued)

4. Financial risk management (continued)

4.1 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

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

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya (CBK), which ratios are broadly in line with those of the Bank for International Settlements (BIS).

These ratios measure capital adequacy by comparing the Bank's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The risk-based approach applies to both on and off-statement of financial position items. The focus of this approach is credit risk, interest rate risk, market risk, operational risk, concentration risk and underlying collateral risk.

The assets are weighted according to broad categories, each being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50%, and 100%) are applied.

The Bank is required at all times to maintain:

- A minimum level of regulatory capital of KShs 1 billion as at 31 December 2015;
- A core capital (tier 1) of not less than 10.5 %(2014: 8%) of total risk weighted assets plus risk weighted off-statement of financial position items;
- A core capital (tier 1) of not less than 10.5% (2014: 8%)of its total deposit liabilities; and
- A total capital (tier 1 + tier 2) of not less than 14.5% (2014(12%) of its total risk weighted assets plus risk adjusted off statement of financial position items.

Off-balance sheet credit related commitments and forwards are converted to credit risk equivalents using credit conversion factors, designed to convert these items into statement of financial position equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets.

Tier 1 capital consists of shareholders' equity comprising paid up share capital, share premium and retained earnings less intangible assets, goodwill and investments in subsidiary institutions and equity instruments of other institutions. Tier 2 capital includes the Bank's term subordinated debt and regulatory loan loss reserves and cannot exceed tier 1 capital. Regulatory loan loss reserves qualifying as tier 2 capital cannot exceed 1.25% of the risk weighted assets total value.

Effective 1 January 2015 the Central Bank of Kenya prescribed that Banks should hold a capital conservation buffer of 2.5% over and above minimum ratios set in 2014 to enable it withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements from 8% in 2014 to 10.5% in 2015 and 12% in 2014 to 14.5% in 2015, respectively.

The bank has complied with these requirements

Notes (continued)

4. Financial risk management (continued)

4.1 Capital management (continued)

The Bank's capital adequacy level was as follows:

	2015 KShs'000	2014 KShs'000
Tier 1 capital (Core capital)		
Share capital	3,411,549	3,411,549
Share premium	3,444,639	3,444,639
Foreign currency translation reserve	(1,094,225)	(68,403)
Retained earnings	20,119,010	17,520,145
Total Tier 1 capital (Core capital)	**25,880,973**	**24,307,930**
Tier 2 capital		
Regulatory credit risk reserve	195,697	129,649
Qualifying subordinate liabilities	4,274,558	4,812,270
Total Tier 2 capital	**4,470,255**	**4,941,919**
Total capital (Tier 1 + Tier 2)	**30,351,228**	**29,249,849**
Risk - weighted assets		
Operational risk	28,772,589	25,239,097
Market risk	10,530,868	13,218,970
Credit risk on-statement of financial position	107,210,903	86,866,067
Credit risk off-statement of financial position	15,769,803	13,410,401
Total risk - weighted assets	**162,284,163**	**138,734,535**
Capital adequacy ratios		
Core capital / total deposit liabilities	23.50%	23.70%
Minimum statutory ratio	8.00%	8.00%
Core capital / total risk - weighted assets	15.90%	17.52%
Minimum statutory ratio	10.50%	10.50%
Total capital / total risk - weighted assets	18.70%	21.08%
Minimum statutory ratio	14.50%	14.50%

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk

Credit risk is the risk of loss arising out of failure of client counterparties to meet their financial or contractual obligations when due.

Credit risk is composed of counterparty risk (including primary, pre-settlement risk, issuer and settlement risk) and concentration risk. These risk types are defined as follows:

Counterparty risk: The risk of credit loss to the Bank as a result of failure by a counterparty to meet its financial and/or contractual obligations to the Bank as they fall due.

Credit concentration risk: The risk of loss to the Bank as a result of excessive build-up of exposure to a specific counterparty or counterparty group, an industry, market, product, financial instrument or type of security, or geography, or a maturity. This concentration typically exists where a number of counterparties are engaged in similar activities and have similar characteristics, which could result in their ability to meet contractual obligations being similarly affected by changes in economic or other conditions.

4.2.1 Governance committees

The primary governance committees overseeing credit risk are the Board Credit Risk Committee (BCRC) and Credit Risk Management Committee (CRMC). These committees are responsible for credit risk and credit concentration risk decision-making, and delegation thereof to Credit officers and committees within defined parameters.

Credit risk management is governed by the Bank's overall credit policy guidelines. Respective Credit Risk Management Divisions, which report into the BCC, are responsible for the implementation of these guidelines, which cover compliance with prescribed sanctioning authority levels, avoidance of a high concentration of credit risk and regular review of credit limits. Limits on facilities to counter-parties are governed by internal restraints, which restrict large exposures in relation to the Bank's capital

The Bank has set in place comprehensive resources, expertise and controls to ensure efficient and effective management of credit risk.

4.2.2 General approach to managing credit risk.

The Bank's credit risk comprises mainly wholesale and retail loans and advances, together with the counterparty credit risk arising from derivative contracts entered into with our clients and market counterparties.

The Bank manages credit risk through:

- maintaining strong culture of responsible lending and a robust risk policy and control framework
- identifying, assessing and measuring credit risk clearly and accurately across the Bank , from the level of individual facilities up to the total portfolio
- defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions
- monitoring the Bank's credit risk relative to limits
- ensuring that there is expert scrutiny and independent approval of credit risks and their mitigation.

Notes (continued)

4.	**Financial risk management (continued)**
4.2	**Credit risk(continued)**
4.2.2	**General approach to managing credit risk (continued)**
	Primary responsibility for credit risk management resides with the Bank's business lines. This is complemented with an independent credit risk function embedded within the business units, which is in turn supported by the overarching group risk function. Impairment provisions are provided for losses that have been incurred at the statement of financial position date. Significant changes in the economy, or in the health of a particular industry segment that represents a concentration of the Bank's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. The exposure to any one borrower including banks is further restricted by sub-limits covering on - and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees, but a significant portion is personal lending where no such facilities can be obtained.
4.2.3	**Management reporting** A number of reports are prepared as management information on credit risk. Various analysis of the data are done and a variety of reports are prepared on a monthly and quarterly basis. Some of these reports include: ▪ Monthly BCRC Report ▪ Quarterly Board Audit Report ▪ Quarterly Board Risk Report ▪ Regulatory returns ▪ Half-year results ▪ Annual financial statements These reports are distributed to Standard Bank Group controlling divisions, regulators and are available for inspection by authorised personnel.

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.4 Credit risk measurement

(a) Loans and advances including loan commitments and guarantees)

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. All models are managed under model development and validation policies that set out the requirements for model governance structures and processes, and the technical framework within which model performance and appropriateness is maintained. The models are developed using internal historical default and recovery data. In low default portfolios, internal data is supplemented with external benchmarks and studies. Models are assessed frequently to ensure on-going appropriateness as business environments and strategic objectives change, and are recalibrated annually using the most recent internal data

In measuring credit risk of loans and advances to customers and to banks at a counter-party level, the Bank reflects three components:

(i) the 'probability of default' by the client or counter-party on its contractual obligations;

(ii) current exposures to the counter-party and its likely future development, from which the Bank derives the 'exposure at default'; and

(iii) the likely recovery ratio on the defaulted obligations (the 'loss given default').

Probability of default
The bank uses a 25-point master rating scale to quantify the credit risk for each borrower as illustrated in the table on the following page. Ratings are mapped to PDs by means of calibration formulae that use historical default rates and other data from the applicable portfolio. The bank distinguishes between through-the-cycle PDs and point-in-time PDs, and utilises both measures in decision-making and in managing credit risk exposures.

Loss given default
Loss given default (LGD) measures are a function of customer type, product type, seniority of loan, country of risk and level of collateralisation. LGDs are estimated based on historic recovery data per category of LGD. A downturn LGD is used in the estimation of the capital charge and reflects the anticipated recovery rates and macroeconomic factors in a downturn period.

Exposure at default
Exposure at default (EAD) captures the impact of potential draw-downs against unutilised facilities and changes in counterparty risk positions due to changes in market prices. By using historical data, it is possible to estimate the average utilisation of limits of an account when default occurs, recognising that customers may use more of their facilities as they approach default.

(b) Debt securities
For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by Bank Treasury for managing of the credit risk exposures as supplemented by the Bank's own assessment through the use of internal ratings tools.

Notes (continued)

4.	Financial risk management (continued)
4.2	Credit risk (continued)
4.2.4	Credit risk measurement (continued)

Relationship between the bank master rating and external ratings

Core Banking system rating scale	Moody's Investor Services	Standard & Poor's	Fitch	Grading	Credit quality
1-4	Aaa, Aa1, Aa2,Aa3	AAA,AA+,AA,AA-	AAA, AA+,AA,AA-	Investment grade	Normal monitoring
5-7	A1, A2, A3	A+, A, A-	A+ A, A-		
8-12	Baa1, Baa2, Baa3	BBB+, BBB, BBB-	BBB+, BBB, BBB-		
13-21	Ba1, Ba2, Ba3, B1, B2, B3	BB+, BB, BB-, B+, B, B-	BB+,BB, BB-, B+,B, B-	Sub- investment grade	
22-25	Caa1, Caa2, Caa3,Ca	CCC+,CCC,CCC-	CCC+,CCC,CCC-		Closing monitoring
Default	C	D	D	D	D

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified − in particular, to individual counterparties and banks, industries and countries.

The Bank structures the levels of cretdit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Credit tailored to customer profile

There is a clear distinction between the fundamental credit characteristics of the Bank's customer base. This customer base is managed according to the following market segments:

- Corporate and Investment Banking
- Personal and Business Banking

The Bank has established separate credit management functions for each market segment.

Corporate and Investment Banking (CIB)-(Corporate, sovereign and bank portfolios)

Corporate, sovereign and bank borrowers include Kenyan and international companies, sovereigns, local government entities, bank financial institutions, non-bank financial institutions and public sector entities. The entities include large companies as well as small and medium enterprises that are managed on a relationship basis. Creditworthiness is assessed based on a detailed individual assessment of the financial strength of the borrower. Exposure is usually in the form of short and long-term loans and advances but may include exposures arising from derivative contracts. In these sectors, credit risk management is characterised by a close working relationship between the counter-party, the customer relationship team and an independent credit evaluation manager. The credit evaluation manager bases his lending decision on an in-depth knowledge of the counterparty and the industry in which it operates, as well as an assessment of the creditworthiness of the counter-party based on a review of the audited financial statements and underlying risk parameters.

CIB believes that the use of sophisticated modelling techniques combined with an in-depth knowledge and understanding of each client is essential in properly assessing the credit risk, both initially and on an on-going basis, of each counterparty with whom it deals.

To this end CIB uses software developed by third party vendors, which is widely used by the banking industry globally in its credit management process. Expected default frequencies are an important tool in the formal credit assessment process of both new and existing business, and also form the basis for monitoring changes in counterparty credit quality on a day to day basis. Expected default frequencies will continue to be a vital component of credit risk management as the Bank continues to improve credit processes and increases focus on portfolio credit management.

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(a) Credit tailored to customer profile (continued)

Personal and Business Banking (PBB) Retail portfolio

Retail mortgage exposures relate to mortgage loans to individuals and are a combination of both drawn and undrawn EADs. Qualifying retail revolving exposure (QRRE) relate to cheque accounts, credit cards and evolving personal loans and products, and include both drawn and undrawn exposures. Retail other covers other branch lending and vehicle finance for retail, retail small and retail medium enterprise portfolios. Branch lending includes both drawn and undrawn exposures, while vehicle and asset finance only has drawn exposures.

Internally developed behavioural scorecards are used to measure the anticipated performance for each account. Mapping of the behaviour score to a PD is performed for each portfolio using a statistical calibration of portfolio-specific historical default experience. The behavioural scorecard PDs are used to determine the portfolio distribution on the master rating scale. Separate LGD models are used for each product portfolio and are based on historical recovery data. EAD is measured as a percentage of the credit facility limit and is based on historical averages. EAD is estimated per portfolio and per portfolio-specific segment, using internal historical data on limit utilisation.

(b) Financial covenants (for credit related commitments and loan books)

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

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

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of assets and liabilities of the statement of financial position, as transactions are either usually settled on a gross basis or under most netting agreements the right of set off is triggered only on default. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Derivatives

For derivative transactions, the bank typically uses internationally recognised and enforceable International Swaps and Derivatives Association (ISDA) agreements, with a credit support annexure, where collateral support is considered necessary. Other credit protection terms may be stipulated, such as limitations on the amount of unsecured credit exposure acceptable, collateralisation if mark-to-market credit exposure exceeds acceptable limits, and termination of the contract if certain credit events occur, for example, downgrade of the counterparty's public credit rating.

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advanced, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The main types of collateral taken are:

Personal and Business Banking	
Mortgage lending	First ranking legal charge over the property financed.
Instalment sales	Joint registration of vehicles.
Other loans and advances	Debentures over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees
Corporate and Investment Banking	
Corporate lending .	All assets debenture over the company's assets, cash cover in cash margin account, first ranking legal charge over both commercial and residential properties, directors' personal guarantees and company guarantees

Longer-term finance and lending to corporate entities is generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise possible credit loss the Bank seeks additional collateral from the counter-party as soon as impairment indicators are noticed for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments.

Valuation of collateral

The Bank has a panel of valuers who undertake valuation of property and other assets to be used as Collateral. The valuers in the panel are qualified professional valuers with adequate experience in the field of property and machinery valuation. All the valuers on the panel provide the Bank with professional indemnity to cover the Bank in case of negligence. The Bank ensures that all properties used as collateral are adequately insured during the term of the loan. Valuation reports on properties are valid for three years after which the property and equipment is revalued.

The table on the following page shows the financial effect that collateral has on the bank's maximum exposure to credit risk. The table includes collateral that management takes into consideration in the management of the bank's exposures to credit risk. All on- and off-balance sheet exposures that are exposed to credit risk, including non-performing loans, have been included.

Collateral includes:

- Financial securities that have a tradable market, such as shares and other securities
- Physical items, such as property, plant and equipment
- Financial guarantees and intangible assets.

Netting agreements, which do not qualify for offset under IFRS but which are nevertheless enforceable, are included as part of the bank's collateral for risk management purposes. All exposures are presented before the effect of any impairment provisions.

In the retail portfolio, 79% (2014: 85%) is fully collateralised. The total average collateral coverage for all retail mortgage exposures above 50% collateral coverage category is 71% (2014: 63%). Of the bank's total exposure, 42% (2014: 50%) is unsecured and mainly reflects exposures to well-rated corporate counterparties, bank counterparties and sovereign entities.

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.5 Risk limit control and mitigation policies (continued)

(e) Collateral (continued)

31 December 2015	Total exposure	Unsecured exposure	Secured exposure	Netting agreements	Secured exposure after netting	Collateral coverage - Total Greater than 0% to 50%	Greater than 50% to 100%	Greater than 100%
Asset class								
Corporate	96,527,969	3,869,097	92,658,872	-	92,658,872	5,666,386	81,892,739	5,099,747
Sovereign	53,111,448	53,111,448	-	-	-	-	-	-
Bank	23,114,332	23,114,332	-	-	-	-	-	-
Retail	51,477,884	10,606,843	40,871,041	-	40,871,041	2,280,152	36,538,751	2,052,137
-Retail mortgage	18,032,916	-	18,032,916	-	18,032,916	-	18,032,916	-
-Other retail	33,444,968	10,606,843	22,838,125	-	22,838,125	2,280,152	18,505,835	2,052,137
Total	**224,231,633**	**90,701,720**	**133,529,913**	**-**	**133,529,913**	**7,946,538**	**118,431,490**	**7,151,884**
Add: Financial assets not exposed to credit risk	10,630,652							
Add: Coins and bank notes	9,562,545							
Add: Other financial assets	1,068,107							
Less: Impairments for loans and advances	(2,430,402)							
Less: Unrecognised off balance sheet items	(37,362,184)							
Total exposure	**195,069,699**							
Reconciliation to balance sheet								
Cash and balances with central banks	11,279,882							
Derivative assets	4,377,196							
Financial assets - available-for-sale	28,947,969							
Financial assets – held for trading	16,251,044							
Pledged assets - available-for-sale	3,439,383							
Other financial assets	2,611,069							
Net loans and advances	128,163,156							
Total on – balance sheet exposure	**195,069,699**							

Notes (continued)

4.	**Financial risk management (continued)**
4.2	**Credit risk (continued)**
4.2.5	**Risk limit control and mitigation policies (continued)**
(e)	**Collateral (continued)**

						Collateral coverage - Total		
31 December 2014	**Total exposure**	**Unsecured exposure**	**Secured exposure**	**Netting agreements**	**Secured exposure after netting**	**Greater than 0% to 50%**	**Greater than 50% to 100%**	**Greater than 100%**
Asset class								
Corporate	76,046,838	4,399,093	71,647,745	-	71,647,745	2,372,023	27,535,732	41,739,990
Sovereign	59,263,744	59,263,744	-	-	-	-	-	-
Bank	12,953,223	12,953,223	-	-	-	-	-	-
Retail	**48,665,463**	**7,389,668**	**41,275,795**	**-**	**41,275,795**	**10,596,454**	**10,566,097**	**20,113,244**
-Retail mortgage	14,491,750	-	14,491,750	-	14,491,750	-	6,862,303	7,629,447
-Other retail	34,173,713	7,389,668	26,784,045	-	26,784,045	10,596,454	3,703,794	12,483,797
Total	**196,929,268**	**84,005,728**	**112,923,540**	**-**	**112,923,540**	**12,968,477**	**38,101,829**	**61,853,234**
Add: Financial assets not exposed to credit risk	3,365,935							
Add: Coins and bank notes	1,945,768							
Add: Other financial assets	1,420,167							
Less: Impairments for loans and advances	(1,991,978)							
Less: Unrecognised off balance sheet items	(31,065,786)							
Total exposure	**167,237,439**							
Reconciliation to balance sheet								
Cash and balances with central banks	9,513,691							
Derivative assets	1,960,415							
Financial assets - available-for-sale	25,250,148							
Financial assets – held for trading	23,836,927							
Pledged assets - available-for-sale	2,884,293							
Other financial assets	2,581,855							
Net loans and advances	101,210,110							
Total on – balance sheet exposure	**167,237,439**							

4.	Financial risk management (continued)
4.2	Credit risk (continued)
4.2.5	Risk limit control and mitigation policies (continued)
(e)	Collateral (continued)

Repossessed collateral

Assets repossessed as at the end of the year comprise saloon vehicles, prime movers and trailers, which had been financed by the Bank under Vehicle and Asset Finance (VAF) and residential and commercial property financed under personal markets. As at the year end, the Bank had taken possession of the following:

	2015 KShs' 000	2014 KShs' 000
Nature of assets		
Residential property	47,600	12,500
Other	178,780	490,965
	226,380	**503,465**

It is the Bank's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business use.

Renegotiated financial assets

Renegotiated loans and advances are exposures which have been refinanced, rescheduled, rolled over or otherwise modified following weaknesses in the counterparty's financial position, and where it has been judged that normal repayment will likely continue after the restructure. The table below shows the carrying amount of financial assets that would otherwise be past due or impaired whose terms have been renegotiated, by class

	2015 KShs' 000	2014 KShs' 000
Personal and Business Banking		
Instalment sales and finance leases	407,790	534,607
Other loans and advances	533,184	289,494
Corporate and Investment Banking		
Corporate lending	-	-
	940,974	**824,101**

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.6 Impairment and provisioning policy

The internal and external rating systems described above focus more on credit-quality mapping from the inception of the lending and investment activities. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (see accounting policy 2.5 (iv)) Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is lower than the amount determined from the expected loss model used for internal operational management and banking regulation purposes.

The internal rating tool assists management to determine whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the Bank:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (e.g. equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The Bank's policy requires the review of individual financial assets that are above materiality thresholds at least annually or more regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the incurred loss at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

Collectively assessed impairment allowances are provided for: (i) portfolios of homogenous assets that are individually below materiality thresholds; and (ii) losses that have been incurred but have not yet been identified, by using the available historical experience, experienced judgment and statistical techniques.

The credit quality of financial assets is managed by the Bank using the Bank's internal credit rating system. The credit rating system utilises both quantitative and qualitative information in arriving at the credit rating. Financial information is used and is key in arriving at the credit rating of individual borrowers. The qualitative information used in generating the credit rating includes quality of management, account operation and the industry in which the customer operates. The key consideration though remains the ability of the customer to meet its financial obligation from its cash flow.

The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two grading (doubtful and loss categories).

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.6 Impairment and provisioning policy (continued)

Criteria for classification of loans and advances

Performing loans

Neither past due nor specifically impaired loans: are loans that are current and fully compliant with all contractual terms and conditions. Normal monitoring loans within this category are generally rated 1 to 21, and close monitoring loans are generally rated 22 to 25 using the bank's master rating scale.

Early arrears but not specifically impaired loans: include those loans where the counterparty has failed to make contractual payments and payments are less than 90 days past due, but it is expected that the full carrying value will be recovered when considering future cash flows, including collateral. Ultimate loss is not expected but could occur if the adverse conditions persist.

Non-performing loans

Non-performing loans are those loans for which:

- the bank has identified objective evidence of default, such as a breach of a material loan covenant or condition, or
- instalments are due and unpaid for 90 days or more.

Non-performing specifically impaired loans: are those loans that are regarded as non-performing and for which there has been a measurable decrease in estimated future cash flows.

Specifically impaired loans are further analysed into the following categories:

- *Sub-standard:* Items that show underlying well-defined weaknesses and are considered to be specifically impaired.

- *Doubtful:* Items that are not yet considered final losses due to some pending factors that may strengthen the quality of the items.

- *Loss:* Items that are considered to be uncollectible in whole or in part. The bank provides fully for its anticipated loss, after taking collateral into account.

4.2.7 Credit Quality

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

Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note 4.2.5. The directors are confident in the ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both the loan and advances portfolio and debt securities based on the following:

- 54% of the total maximum exposure is derived from loans and advances to customers (2014: 53%); 25% represents investments in debt securities (2014: 31%).
- 78% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2014: 88%);
- 96% of the loans and advances portfolio are considered to be neither past due nor impaired (2014: 96%); and
- 99% of all the debt securities, which the Bank has invested in, are issued by the Central Bank of Kenya (2014: 99%).

Notes (continued.

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (b) Credit quality by class

The table below shows the credit quality by class of loans and advances, based on the Bank's credit rating system:

Year ended 31 December 2015	Total Loans and Advances to Customers (Net of IIS)	Balance sheet impairments for performing loans	Performing loans														
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans								Total non-performing loans	Non-performing loans	Interest in Suspense LCY'000
							Non-performing loans										
			Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard	Doubtful	Loss	Total	Securities and expected recoveries on specifically	Net after securities and expected recoveries on specifically impaired	Balance sheet impairments for non-performing specifically impaired loans	Gross Specific Impairment Coverage			
	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 Kshs'000	2015 %	2015 Kshs'000	2015 %	2015 Kshs'000
	N=A+B+C+L-M		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal & Business Banking	**51,119,213**	**589,025**	**36,471,461**	**5,992,222**	**6,167,723**	**-**	**1,903,928**	**261,532**	**620,175**	**2,785,635**	**1,404,643**	**1,380,992**	**1,083,164**	**38.9**	**2,785,635**	**5.4**	**1,642,524**
Mortgage lending	17,891,656	102,202	12,705,282	2,846,400	1,644,624	-	832,832	-	3,778	836,610	576,617	259,993	118,733	14.2	836,610	4.7	141,260
Instalment sales and finance leases	10,952,446	211,999	7,070,353	388,864	2,737,022	-	513,542	251,918	47,857	813,317	367,120	446,197	389,087	47.8	813,317	7.4	57,110
Card debtors	286,220	-	227,248		49,298	-	-	-	9,674	9,674	262	9,412	9,412	97.3	9,674	3.4	-
Other Loans and Advances	21,988,891	274,824	16,468,578	2,756,958	1,736,779	-	557,554	9,614	558,866	1,126,034	460,644	665,390	565,932	50.3	1,026,576	4.7	99,458
Overdrafts	*763,607*	*13,209*	*354,844*	*183,780*	*212,204*	-	*562*	*1,887*	*10,866*	*13,315*	*-5,882*	*19,197*	*18,661*	*140.2*	*13,315*	*1.7*	*536*
Term Loans	*9,854,983*	*159,659*	*8,345,010*	*320,153*	*682,982*	-	*64,787*	*3,067*	*493,355*	*561,209*	*49,515*	*511,694*	*457,323*	*81.5*	*561,209*	*5.7*	*54,371*
Business Term Loans and Overdrafts	*11,370,301*	*101,956*	*7,768,724*	*2,253,025*	*841,593*	-	*492,205*	*4,660*	*54,645*	*551,510*	*417,011*	*134,499*	*89,948*	*16.3*	*551,510*	*4.9*	*44,551*
Corporate & Investment Banking	**56,292,754**	**570,224**	**36,676,994**	**4,176,834**	**13,756,292**	**124,542**	**1,920,102**	**28,115**	**-**	**1,948,217**	**1,370,103**	**578,114**	**187,989**	**9.6**	**2,072,759**	**3.7**	**390,125**
Corporate loans	56,292,754	570,224	36,676,994	4,176,834	13,756,292	124,542	1,920,102	28,115	-	1,948,217	1,370,103	578,114	187,989	9.6	2,072,759	3.7	390,125
Gross loans and advances	**107,411,967**	**1,159,249**	**73,148,455**	**10,169,056**	**19,924,015**	**124,542**	**3,824,030**	**289,647**	**620,175**	**4,733,852**	**2,774,746**	**1,959,106**	**1,271,153**	**26.9**	**4,858,394**	**4.5**	**2,032,649**
Percentage of total book (%)	**100%**	**1.08%**	**68.10%**	**9.47%**	**18.55%**	**0.12%**	**3.56%**	**0.27%**	**0.58%**	**4.41%**	**2.58%**	**1.82%**	**1.18%**		**4.52%**		**1.89%**
Less: balance sheet impairment for loans and advances	**(2,430,402)**																
Net loan advances to customers	**104,981,565**																
Add:																	
Cash and bank balances with central ba	11,279,883																
Derivative assets	4,377,196																
Financial assets available for sale	28,947,969																
Financial assets available for trading	16,251,044																
Pledged assets available for sale	3,439,383																
Other financial assets	2,611,069																
Total on balance sheet exposure	**171,888,109**																
Off balance sheet exposure																	
Letters of credit and bank acceptances	5,439,722																
Guarantees	21,965,002																
Irrevocable unutilised facilities	9,957,460																
Total exposure to credit risk	**209,250,293**																

Notes (continued.

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (b) Credit quality by class continued

Year ended 31 December 2014		Performing loans				Non-performing loans											
			Neither past due nor specifically impaired		Not specifically impaired		Specifically impaired loans										
							NPL* NET OF IIS**										
	Total loans and advances to customers	Balance sheet impairments for performing loans	Normal monitoring	Close monitoring	Early arrears	Non-performing	Sub-standard	Doubtful	Loss	Total	Securities and expected recoveries on specifically impaired loans	Net after securities and expected recoveries on specifically impaired loans	Balance sheet impairments for non-performing specifically impaired loans	Gross specific impairment coverage	Total non-performing loans	Non-performing loans	Interest in Suspense
	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	KShs'000 2014	% 2014	KShs'000 2014	% 2014	KShs'000 2014
	N=A+B+C+L		A	B	C	D	E	F	G	H=E+F+G	I	J=H-I	K		L=H+D		M
Personal and Business Banking	**44,699,473**	**521,027**	**37,287,646**	**1,077,271**	**4,699,413**	-	**886,407**	**140,401**	**608,335**	**1,635,143**	**682,031**	**953,113**	**953,113**	**58**	**1,635,143**	**4**	**241,772**
- Mortgage lending	14,491,506	73,239	12,693,138	47,079	1,367,878	-	380,943	-	2,468	383,411	333,643	49,768	49,768	13	383,411	3	95,707
- Instalment sales and finance leases	10,191,281	108,059	7,686,620	328,970	1,762,946	-	255,776	135,546	21,423	412,745	134,000	278,745	278,745	68	412,745	4	52,128
- Card debtors	291,293	-	231,195	-	50,712	-	-	-	9,386	9,386	3773	5,613	5,613	60	9,386	3	-
- Other loans and advances	19,725,393	339,729	16,676,693	701,222	1,517,877	-	249,688	4,855	575,058	829,601	210,615	618,987	618,987	75	829,601	4	93,937
Corporate and Investment Banking	**45,639,943**	**367,885**	**38,626,541**	**3,080,981**	**2,543,834**	-	**1,343,880**	**44,707**	-	**1,388,587**	**1,238,633**	**149,953**	**149,953**	**11**	**1,388,587**	**3**	**104,570**
- Corporate lending	45,639,943	367,885	38,626,541	3,080,981	2,543,834	-	1,343,880	44,707	-	1,388,587	1,238,633	149,953	149,953	11	1,388,587	3	104,570
Total recognised loans and advances to customers	**90,339,416**	**888,912**	**75,914,187**	**4,158,252**	**7,243,247**	-	**2,230,287**	**185,108**	**608,335**	**3,023,730**	**1,920,664**	**1,103,066**	**1,103,066**	**36**	**3,023,730**	**3**	**346,342**
Percentage of total loans and advances (%)	100%	0.98%	84.03%	4.60%	8.02%	-	2.47%	0.20%	0.67%	3.35%	2.13%	1.22%	1.22%		3.35%		0.38%
Less:																	
Balance sheet impairments for Loans and advances	(1,991,978)																
Net loans and advances to customers	**88,347,438**																
Add the following other banking activities exposures																	
Cash and balances with central bank	7,567,922																
Derivative assets	1,960,415																
Financial assets - available-for-sale	25,250,148																
Financial assets – held for trading	23,836,927																
Pledged assets - available-for-sale	2,884,293																
Other financial assets	2,581,855																
Total on-balance sheet exposure	**152,428,998**																
Off-balance sheet exposure																	
Letters of credit and banks' acceptances	9,340,525																
Guarantees	13,918,776																
Irrevocable unutilised facilities	7,806,485																
Total exposure to credit risk	**183,494,784**																

*NPL – Non-performing loans **IIS – Interest in suspense

Notes (continued)

4. Financial risk management (continued)

4.2 Credit risk (continued)

4.2.7 (c) Ageing analysis of past due but not impaired financial assets

Loans and advances less than 90 days past due are not considered impaired unless other information is available to indicate the contrary.

The table below shows the ageing of financial assets that are past due at the reporting date but not impaired, per class.

	Performing (Early arrears)			Non - performing		
31 December 2015	**1 to 29 days KShs'000**	**30 to 59 days KShs'000**	**60 to 89 days KShs'000**	**90 to 180 days KShs'000**	**More than 180 days KShs'000**	**Total KShs'000**
Personal and Business Banking	**4,184,395**	**1,368,090**	**615,238**	**-**	**-**	**6,167,723**
Mortgage lending	1,045,668	347,436	251,522	-	-	1,644,626
Instalment sales and finance leases	1,776,396	730,076	230,550	-	-	2,737,022
Other loans and advances	1,362,331	290,578	133,166	-	-	1,786,075
						-
Corporate and Investment Banking	13,034,037	309,417	412,838	-	124,542	13,880,834
Corporate lending	13,034,037	309,417	412,838	-	124,542	13,880,834
	-					-
Total recognised financial instruments	**17,218,432**	**1,677,507**	**1,028,076**		**124,542**	**20,048,557**
31 December 2014						
Personal and Business Banking	**3,053,620**	**963,097**	**682,696**	**-**	**-**	**4,699,413**
Mortgage lending	964,683	315,647	87,548	-	-	1,367,878
Instalment sales and finance leases	1,103,675	434,481	224,789	-	-	1,762,945
Other loans and advances	985,262	212,969	370,359	-	-	1,568,590
Corporate and Investment Banking	**1,627,082**	**533,573**	**383,179**	**-**	**-**	**2,543,834**
Corporate lending	1,627,082	533,573	383,179	-	-	2,543,834
Total recognised financial instruments	**4,680,702**	**1,496,670**	**1,065,875**	**-**	**-**	**7,243,247**

4.	Financial risk management (continued)
4.3	**Market risk**
	Market risk is the risk of a change in market value, earnings (actual or effective) or future cash-flows of a portfolio of financial instruments (including commodities), caused by moves in market variables such as equity, bond and commodity prices, currency exchange rates and interest rates, credit spreads, recovery rates, correlations and implied volatilities in all of these measures.
4.3.1	**Governance committees** The Bank's policy is that all trading activities are undertaken within the Bank's trading operations. The Board grants general authority to take on market risk exposure to the Bank's Assets and Liabilities Committee (ALCO). Market risk management process is required to measure, monitor and control market risk exposures. The Bank manages market risk through following four principles.
(i)	**Identification of market risks in the trading and banking books** This process entails checking that all market risks are identified. It includes an analysis of new business plans, new products, new pricing models, new risk models and regular reviews by Market Risk staff of financial and management accounts balance sheets, income statements, and portfolio structure hierarchies, accounting classification and accounting elections, jointly with financial control, Risk Self Assessments jointly with operational risk, price testing reports and profit and loss decomposition reports.
(ii)	**Measurement of market risk** Measurement of market risks deals specifically and separately with normal market conditions and stress market conditions. Measurement of trading exposures under stress market conditions is effected by subjecting the portfolios to stress testing, e.g. historical scenarios, hypothetical scenarios on individual asset classes and across different asset classes. In order to highlight 'points of weakness' and identify particular sources of trading book exposure vulnerability, these stress tests capture the effects of abnormal movements in market variables (yield curves including basis curves, volatility surfaces, spot and/or rate moves, credit spread curves, recovery rate sensitivities etc.).
(iii)	**Management of market risk** The Bank manages market risk through a specification of risk appetite in form of market risk limits. It uses a suite of risk measurement techniques, including Value at Risk (VaR), Stress Value at Risk (SVar), stress testing, stop loss triggers, back-testing and specific business unit and product controls.
(iv)	**Reporting of market risk** Market Risk has reporting procedures that highlight for attention within Market Risk or by management all forms of exposures i.e. limit breaches or other reports that will periodically be required to submit to different stakeholders e.g. Local ALCO, Local Board, ICAAP stakeholders, Shareholders (Annual financial statements); Rating agencies; Central Bank of Kenya and other regulators.

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.2	**Market risk exposure on banking operations** Banking-related market risk exposure principally involves the management of the potential adverse effect of interest rate movements on net interest income and the economic value of equity that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities. They include endowment risk, repricing risk, basis risk, optionality risk and yield curve risk. The Bank's approach to managing Interest Rate Risk in Banking Book (IRRBB) is governed by applicable regulations and is influenced by the competitive environment in which the Bank operates. Treasury and Capital Management team monitors banking book interest rate risk together with the country ALCO. The market risk function is independent of trading operations and it is accountable to ALCO. It is responsible for identifying, measuring, managing, controlling and reporting market risk as outlined in the market risk governance standard, with support from the central market risk function. The market risk function also has the ability to set individual trader mandates. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk management unit to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO
4.3.3	**Approved regulatory capital approaches** The Bank applies the Standardized Approach for calculating market risk capital. The standardized method uses a "building block" approach, with the capital charge for each risk category calculated separately. Market risk Qualifying Assets includes interest rate risk assets in the trading book and foreign currency and commodities risk assets throughout the bank. Specific Risk refers to potentially adverse movement in the price of an individual loan/debt owing to factors related to the individual issuers. Specific risk does not affect foreign exchange and commodities related instruments. This is because changes in FX rates and commodities prices are completely dependent on general market movements.
4.3.4	**Trading book market risk** Trading book market risk is represented by financial instruments held on the trading book, arising out of normal global markets' trading activity.
4.3.5	**Approach to managing market risk in the trading book** The CfC Stanbic Bank policy is that all trading activities are undertaken within the Bank's trading operations. The market risk functions are independent of trading operations and accountable to ALCO. All VaR and stressed VaR (SVaR) limits require prior approval from ALCO. The market risk functions have the authority to set limits at a lower level. Market risk teams are responsible for identifying, measuring, managing, monitoring and reporting market risk as outlined in the market risk governance standard. Exposures and excesses are monitored and reported daily. Where breaches in limits and triggers occur, actions are taken by market risk functions to move exposures back in line with approved market risk appetite, with such breaches being reported to management and ALCO.

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.5	Approach to managing market risk in the trading book

a. VaR and SVaR

The bank uses the historical VaR and SVaR approach to quantify market risk under normal conditions and under stressed conditions.
For risk management purposes VaR is based on 250 days of unweighted recent historical data, a holding period of one day and a confidence level of 95%. The historical VaR results are calculated in four steps:

- Calculate 250 daily market price movements based on 250 days' historical data.
- Calculate hypothetical daily profit or loss for each day using these daily market price movements.
- Aggregate all hypothetical profits or losses for day one across all positions, giving daily hypothetical profit or loss, and then repeat for all other days.
- VaR is the 95th percentile selected from the 250 days of daily hypothetical total profit or loss.

Daily losses exceeding the VaR are likely to occur, on average, 13 times in every 250 days.

SVaR uses a similar methodology to VaR, but is based on a period of financial stress and assumes a 10-day holding period and a 99% confidence interval.

Where the bank has received internal model approval, the market risk regulatory capital requirement is based on VaR and SVaR, both of which use a confidence level of 99% and a 10-day holding period.

Limitations of historical VaR are acknowledged globally and include:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature.
- The use of a one-day holding period assumes that all positions can be liquidated or the risk offset in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully.
- The use of a 95% confidence level, by definition, does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and, therefore, does not necessarily reflect intraday exposures.
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market moves.

b. Stop-loss triggers

Stop-loss triggers are used to protect the profitability of the trading desks, and are monitored by market risk on a daily basis. The triggers constrain cumulative or daily trading losses through acting as a prompt to a review or close-out positions.

c. Stress tests

Stress testing provides an indication of the potential losses that could occur under extreme but plausible market conditions, including where longer holding periods may be required to exit positions. Stress tests comprise individual market risk factor testing, combinations of market factors per trading desk and combinations of trading desks using a range of historical and hypothetical simulations. Daily losses experienced during the year ended 31 December 2015 did not exceed the maximum tolerable losses as represented by the bank's stress scenario limits.

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.5	Approach to managing market risk in the trading book (continued)

d. Back-testing

The bank back-tests its VaR models to verify the predictive ability of the VaR calculations and ensure the appropriateness of the models within the inherent limitations of VaR Back-testing compares the daily hypothetical profit and losses under the one-day buy and hold assumption to the prior day's calculated VaR In addition, VaR is tested by changing various model parameters, such as confidence intervals and observation periods to test the effectiveness of hedges and risk-mitigation instruments.

Refer to the graph below for the results of the bank's back-testing during 2015. The decreased volatility in VaR of May and consequent increase from July reflects market volatility following uncertainty around government funding and history of the government front loading off its borrowing within the first half of the financial year coupled by Global and Emerging markets risk off scenarios.

We categorize a VaR model as green, amber or red and assign regulatory capital multipliers based on this categorization. A green model is consistent with a satisfactory VaR model and is achieved for models that have thirteen or less back-testing exceptions in a 12-month period. All the bank's approved models were assigned green status for the year ended 31 December 2015 (2014: green).

e. Specific business unit and product controls

Other market risk limits and controls specific to individual business units include permissible instruments, concentration of exposures, gap limits, maximum tenor, stop-loss triggers, price validation and balance sheet substantiation.

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.5	Approach to managing market risk in the trading book (continued)

f. Trading book portfolio characteristics

VaR for the year under review

Trading book market risk exposures arise mainly from residual exposures from client transactions and limited trading for the bank's own account. In general, the bank's trading desks have run low levels of market risk throughout the year ended 31 December 2015.

Trading book normal VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	48,354	12,165	26,682	21,059	27,818
FX Trading	11,654	1,636	4,600	4,498	3,232
Consolidated Interest Rate Trading	49,376	11,654	26,886	20,855	27,882
Money Markets Trading	29,033	11,450	17,890	20,855	13,950
Fixed Income Trading	24,842	-	8,178	-	14,647
Credit Trading	818	307	511	409	724
Derivatives	-	-	-	-	-

Trading book normal VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2014	31-Dec-2013
Bank wide	65,504	27,248	42,954	27,818	28,384
FX Trading	7,414	1,883	3,123	3,232	2,876
Consolidated Interest Rate Trading	60,389	23,799	39,270	27,882	29,083
Money Markets Trading	47,227	13,724	28,153	13,950	20,146
Fixed Income Trading	22,731	308	10,103	14,647	13,747
Credit Trading	869	-	498	724	9
Derivatives	63	-	27	-	35

Trading book stress VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2015	31-Dec-2014
Bank wide	2,058,065	7	837,456	2,866	1,322,903
FX Trading	157,841	260	74,831	414	86,270
Consolidated Interest Rate Trading	2,771,007	2,749	876,712	2,749	1,358,199
Money Markets Trading	1,039,358	2,729	510,734	2,729	675,152
Fixed Income Trading	1,225,209	-	443,365	10	663,357
Credit Trading	22,184	115	16,050	117	19,698
Derivatives	102	-	102	1	45

Trading book stress VaR analysis by book (KShs '000)

Desk Name	Maximum	Minimum	Average	31-Dec-2014	31-Dec-2013
Bank wide	1,690,189	415,419	1,213,947	1,322,903	1,318,621
FX Trading	134,312	6,862	65,341	86,270	36,155
Consolidated Interest Rate Trading	1,692,987	430,337	1,222,484	1,358,199	1,332,325
Money Markets Trading	984,784	384,115	617,280	675,152	616,074
Fixed Income Trading	976,673	21,998	621,100	663,357	715,741
Credit Trading	39,034	371	17,028	19,698	674
Derivatives	1,113	45	534	45	406

Notes (continued)

4. Financial risk management (continued)

4.3 Market risk (continued)

4.3.5 Approach to managing market risk in the trading book (continued)

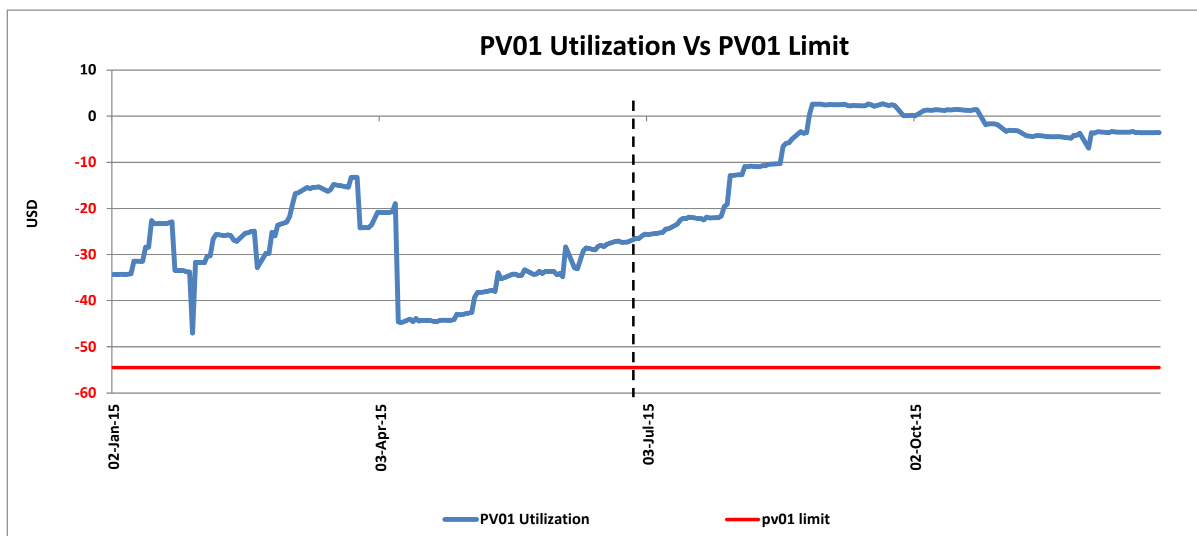
f. Trading book portfolio characteristics (continued)

Desk Name	LCY*	EUR	GBP	USD	ZAR	Other FCY**	Total FCY	31 December 2015	31 December 2014
Money Markets Trading	2,502	(1,111)	(349)	(4,642)	-	-	(6,102)	*(3,600)*	(11,985)
Fixed Income Trading	12	-	-	9	-	-	9	*21*	(22,794)
Credit Trading	(310)	-	-	3	-	-	3	*(307)*	(615)
Derivatives	0	-	-	-	-	-	-	*0*	-
FX Trading	298	(127)	8	(107)	-	-	(226)	*72*	75
Total Trading	**2,502**	**(1,238)**	**(341)**	**(4,737)**	**-**	**-**	**(6,316)**	**(3,814)**	**(35,319)**
Money Markets Banking	(17,033)	-	-	-	-	-	-	*(17,033)*	(26,981)
Treasury Capital Management	3	-	-	-	-	-	-	3	(168)
Total Banking	**(17,030)**	**-**	**-**	**-**	**-**	**-**	**-**	***(17,030)***	**(27,149)**
All Desks (Combined)	**(14,528)**	**(1,238)**	**(341)**	**(4,737)**	**-**	**-**	**(6,316)**	**(20,844)**	**(62,468)**

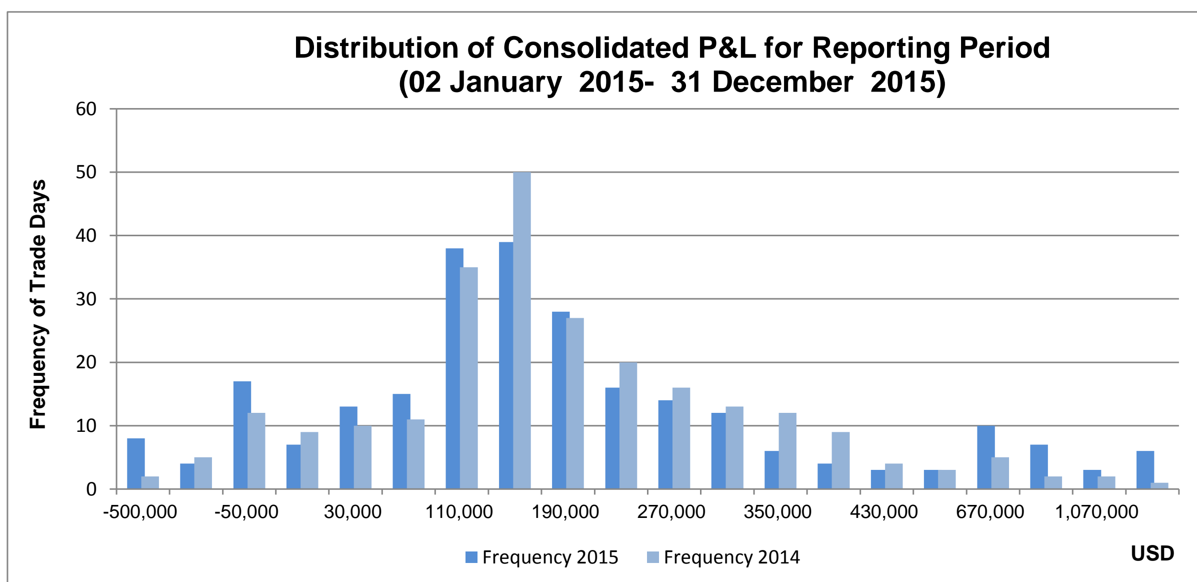
*LCY – Local currency

**FCY – Foreign currency

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.5	Approach to managing market risk in the trading book (continued)
	f. Trading book portfolio characteristics (continued)



Analysis of trading profit



The graph to above shows the distribution of daily profit and losses for the period. It captures trading volatility and shows the number of days in which the bank's trading-related revenues fell within particular ranges. The distribution is skewed favorably to the profit side.
For the year ended 31 December 2015, trading profit was positive for 217 out of 252 days. (2014: 239 out of 248 days).

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.6	Foreign exchange risk

Definition
The bank's primary exposures to foreign currency risk arise as a result of the translation effect on the bank's net assets in foreign operations, intragroup foreign-denominated debt and foreign denominated cash exposures and accruals.

Approach to managing foreign 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 Asset and Liability Committee sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily risk according to existing legislation, and accounting parameters. It takes into account naturally offsetting risk positions and manages the bank's residual risk by means of forward exchange contracts, currency swaps and option contracts.

Hedging is undertaken in such a way that it does not constrain normal operational activities. In particular, the need for capital to fluctuate with risk-weighted assets is taken into account.

The repositioning of the currency profile is a controlled process based on underlying economic views of the relative strength of currencies. The bank does not ordinarily hold open exposures of any significance with respect to the banking book.

Gains or losses on derivatives are reported in profit or loss.

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2014.

Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in millions of Kenya Shillings):

At 31 December 2015	USD	GBP	Euro	Others	Total
Assets					
Cash and bank balances	15,424	1,608	799	2,686	20,517
Loans and advances	51,700	323	8,408	14	60,445
Financial investments assets	-	-	-	59	59
Other assets and prepayments	6,949	-	524	1,816	9,289
Total financial assets	**74,073**	**1,931**	**9,731**	**4,575**	**90,310**
Liabilities					
Balances due to banking institutions and group companies	49,307	701	172	147	50,327
Customer deposits	41,010	1,538	2,322	2,512	47,382
Other liabilities and accrued expenses	7,659	40	623	1,862	10,184
Total financial liabilities	**97,976**	**2,279**	**3,117**	**4,521**	**107,893**
Net on balance sheet financial position	**(23,903)**	**(348)**	**6,614**	**54**	**(17,583)**
Off balance sheet net notional position	**24,575**	**391**	**(6,621**	**(107)**	**18,239**
Overall net position	**672**	**43**	**(7)**	**(53)**	**656**
At 31 December 2014					
Net on balance sheet financial position	(20,836)	(1,300)	1,715	(325)	(20,746)
Off balance sheet net notional position	22,171	1,363	(1,613)	(66)	21,855
Overall net position	**1,335**	**63**	**102**	**(391)**	**1,109**

4.	Financial risk management (continued)
4.3	Market risk (continued)
4.3.6	Foreign exchange risk (continued)

The table below indicates the extent to which the Bank was exposed to currency risk as at 31 December on its monetary assets and liabilities denominated in foreign currency. The table shows the sensitivity analysis for each currency to which the Bank has significant exposure and the effect of the change in exchange rate on income statement.

Year ended 31 December 2015 Currency	Increase in currency rate in % 2015	Effect on profit before tax 2015 KShs'000	Effect on profit after tax 2015 KShs'000	Decrease in currency rate in % 2015	Effect on profit before tax 2015 KShs'000	Effect on profit after tax 2015 KShs'000
USD	**1.09%**	7,338	5,137	**1.03%**	(6,891)	(4,824)
GBP	**1.47%**	632	443	**2.32%**	(997)	(698)
EUR	**2.74%**	(180)	(126)	**3.82%**	250	175

Year ended 31 December 2014 Currency	Increase in currency rate in % 2014	Effect on profit before tax 2014 KShs'000	Effect on profit after tax 2014 KShs'000	Decrease in currency rate in % 2014	Effect on profit before tax 2014 KShs'000	Effect on profit after tax 2014 KShs'000
USD	**0.45%**	(6,007)	(4,205)	**0.58%**	7,742	5,419
GBP	**0.90%**	(557)	(390)	**1.05%**	650	455
EUR	**1.11%**	(1,122)	(786)	**1.28%**	1,294	906

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Interest rate risk

Interest rate risk in the banking book (IRRBB)

Definition

These are risks that have an impact on net interest income that arise from structural interest rate risk caused by the differing repricing characteristics of banking assets and liabilities.

IRRBB is further divided into the following sub risk types:

- **Repricing risk:** timing differences in the maturity (fixed rate) and repricing (floating rate) of assets and liabilities.
- **Yield curve risk:** shifts in the yield curves that have adverse effects on the bank's income or underlying economic value.
- **Basis risk:** hedge price not moving in line with the price of the hedged position. Examples include bonds/swap basis, futures/ underlying basis.
- **Optionality risk:** options embedded in bank asset and liability portfolios, providing the holder with the right, but not the obligation, to buy, sell, or in some manner alter the cash flow of an instrument or financial contract.
- **Endowment risk:** exposure arising from the net differential between interest rate insensitive assets such as non-earning assets, interest rate insensitive liabilities such as non-paying liabilities, and equity.

Approach to managing IRRBB

Banking book-related market risk exposure principally involves managing the potential adverse effect of interest rate movements on banking book earnings (net interest income and banking book mark-to-market profit or loss) and the economic value of equity.

The bank's approach to managing IRRBB is governed by applicable regulations and is influenced by the competitive environment in which the bank operates. The bank's TCM team monitors banking book interest rate risk operating under the oversight of ALCO.

Measurement

The analytical techniques used to quantify IRRBB include both earnings- and valuation-based measures. The analysis takes account of embedded optionality such as loan prepayments and accounts where the account behaviour differs from the contractual position.

The results obtained from forward-looking dynamic scenario analyses, as well as Monte Carlo simulations, assist in developing optimal hedging strategies on a risk-adjusted return basis.

Desired changes to a particular interest rate risk profile are achieved through the restructuring of on-balance sheet repricing or maturity profiles, or through derivative overlays.

Limits

Interest rate risk limits are set in relation to changes in forecast banking book earnings and the economic value of equity. Economic value of equity sensitivity is calculated as the net present value of aggregate asset cash flows less the net present value of aggregate liability cash flows.

All assets, liabilities and derivative instruments are allocated to gap intervals based on either their repricing or maturity characteristics. Assets and liabilities for which no identifiable contractual repricing or maturity dates exist are allocated to gap intervals based on behavioural profiling.

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.7	Interest rate risk (continued)

Hedging of endowment risk

IRRBB is predominantly the consequence of endowment exposures, being the net effect of non-rate sensitive assets less non-rate sensitive liabilities and equity.

The endowment risk is hedged using liquid instruments as and when it is considered opportune. Where permissible, hedge accounting is adopted using the derivatives. The interest rate view is formulated through ALCO processes, following meetings of the monetary policy committees, or notable market developments.

Non-endowment IRRBB (repricing, yield curve, basis and optionality) is managed within the treasury and the global markets portfolios.

The table below indicates the KShs equivalent sensitivity of the bank's banking book earnings (net interest income and banking book mark-to-market profit or loss) and other comprehensive income (OCI) given a parallel yield curve shock. A floor of 0% is applied to all interest rates under the decreasing interest rate scenario. Hedging transactions are taken into account while other variables are kept constant.

Currency	Increase in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000	Decrease in basis points 2015 KShs'000	Sensitivity of net interest income 2015 KShs'000	Sensitivity of other comprehensive income 2015 KShs'000
KShs	350	844,670	(203,213)	300	(901,025)	174,182
Others*	100	8,087	-	100	(6,626)	-

Currency	Increase in basis points 2014 KShs'000	Sensitivity of net interest income 2014 KShs'000	Sensitivity of other comprehensive income 2014 KShs'000	Decrease in basis points 2014 KShs'000	Sensitivity of net interest income 2014 KShs'000	Sensitivity of other comprehensive income 2014 KShs'000
KShs	350	614,403	(354,811)	300	(626,615)	304,124
Others*	100	(423)	-	100	(1,586)	-

* This is any other currency held by the Bank not denominated in KShs

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.7	Liquidity risk

Liquidity risk arises when the Bank, despite being solvent, is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms. This inability to maintain or generate sufficient cash resources may arise where counterparties who provide the Bank with short-term funding withdraw or do not rollover that funding, or normally liquid assets become illiquid as a result of a generalised disruption in asset markets.

The nature of banking and trading activities results in a continuous exposure to liquidity risk. The Bank manages liquidity in accordance with applicable regulations and within Bank's risk appetite. The Bank's liquidity risk management governance framework supports the measurement and management of liquidity at various levels to ensure that all payment obligations can be met by the Bank under both normal and stressed conditions. Liquidity risk management ensures that the Bank has the appropriate amount, diversification and tenor of funding and liquidity to support its asset base at all times.

The Bank's liquidity risk management framework differentiates between:

- **Tactical (shorter-term) risk management:** managing intra-day liquidity positions and daily cash flow requirements, and monitoring adherence to prudential and internal requirements and setting deposit rates as informed by ALCO.

- **Structural (long-term) liquidity risk management**: ensuring a structurally sound balance sheet, a diversified funding base and prudent term funding requirements.

- **Contingent liquidity risk management:** monitoring and managing early warning liquidity indicators while establishing and maintaining contingency funding plans, undertaking regular liquidity stress testing and scenario analysis, and setting liquidity buffers in accordance with anticipated stress events

Governance committees

The primary governance committee overseeing this risk is the Bank Asset Liability Committee (ALCO), which is chaired by the Chief Executive. There is independent risk oversight of all liquidity limits and guidelines by Market Risk, Finance and Central Asset Liability Management units. ALCO reports to the Board Risk Committee.

Approach to managing liquidity risk

There is a sound and robust liquidity management process to measure, monitor and manage liquidity exposures. The following elements are incorporated as part of a cohesive liquidity management process:

a) Maintaining a structurally sound statement of financial position;

With actual cash flows typically varying significantly from the contractual position, behavioural profiling is applied to assets, liabilities and off-balance sheet commitments with an indeterminable maturity or drawdown period, as well as to certain liquid assets. Behavioural profiling assigns probable maturities based on historical customer behaviour. This is used to identify significant additional sources of structural liquidity in the form of liquid assets and core deposits, such as current and savings accounts, which exhibit stable behaviour despite being repayable on demand or at short notice.

Structural liquidity mismatch analysis are performed regularly to anticipate the mismatch between payment profiles of balance sheet items, in order to highlight potential risks within the Bank's defined liquidity risk thresholds.

b) Foreign currency liquidity management;

A specific number of indicators are observed in order to monitor changes in market liquidity as well as the impacts on liquidity as a result of movements in exchange rates. Foreign currency loans and advances are restricted to the availability of foreign currency deposits.

4	Financial risk management (continued)
4.3	Market risk (continued)
4.3.7	Liquidity risk (continued)

c) Ensuring the availability of sufficient contingency liquidity;
Funding markets are evaluated on an on-going basis to ensure appropriate Bank funding strategies are executed depending on the market, competitive and regulatory environment. The Bank employs a diversified funding strategy.

d) Preserving a diversified funding base;
Concentration risk limits are used within the Bank to ensure that funding diversification is maintained across products, sectors, and counterparties. Primary funding sources are in the form of deposits across a spectrum of retail and wholesale clients, as well as long-term capital.

e) Undertaking regular liquidity stress testing;
Stress testing and scenario analysis are based on hypothetical as well as historical events. These are conducted on the funding profiles and liquidity positions of the Bank. The crisis impact is typically measured over a two month period, as this is considered the most crucial time horizon for a liquidity event. Anticipated on- and off-balance sheet cash flows are subjected to a variety of bank-specific and systemic stresses and scenarios to evaluate the impact of unlikely but plausible events on liquidity positions. The results are assessed against the liquidity buffer and contingency funding plans to provide assurance as to the Bank's ability to maintain sufficient liquidity under adverse conditions.

f) Maintaining adequate liquidity contingency plans or liquidity buffer;
Portfolios of highly marketable securities over and above regulatory and stress testing requirements are maintained as protection against unforeseen disruptions in cash flows. These portfolios are managed within ALCO defined limits on the basis of diversification and liquidity.

g) Short-term and long-term cash flow management;
Active liquidity and funding management is an integrated effort across a number of functional areas. Short-term cash flow projections are used to plan for and meet the day-to-day requirements of the business, including adherence to prudential and internal requirements.

The Bank's long term funding strategy is derived from the projected net asset growth which includes consideration of Personal & Business Banking and Corporate & Investment Banking asset classes, capital requirements, the maturity profile of existing wholesale funding and anticipated changes in the retail deposit base. Funding requirements and initiatives are assessed in accordance with ALCO requirements for diversification, tenure and currency exposure, as well as the availability and pricing of alternative liquidity sources.

Liquidity contingency plans are designed to, as far as possible, protect stakeholder interests and maintain market confidence in the event of a liquidity crisis. The plans incorporate an extensive early warning indicator process supported by a clear and decisive crisis response strategy. Early warning indicators cover bank-specific and systemic crises and are monitored according to assigned frequencies and tolerance levels.

Crisis response strategies are formulated for the relevant crisis management structures and address internal and external communications and escalation processes, liquidity generation management actions and operations, and heightened and supplementary information requirements to address the crisis event.

The cumulative impact of the above elements is monitored on a monthly basis by the Bank's ALCO and the process is underpinned by a system of extensive internal and external controls. In periods of increased volatility, the frequency of meetings is increased as required to facilitate appropriate and timely management action.

To ensure integrity of the process there is use of application of purpose built technology, documented processes and procedures; independent oversight by risk management and regular independent reviews and evaluations of the effectiveness of the system. The total amount of liquidity held is adequate to meet all internal stress tests as well as regulatory requirements.

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Liquidity risk (continued)

Exposure to liquidity risk

The key measure by the bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose, 'net liquid assets' includes cash and cash equivalents and financial investment debt securities for which there is an active and liquid market less any deposits from banks. Details of the reported bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	2015 %	2014 %
At 31 December	73.7	41.4
Average for the year	54.4	47.5
Maximum for the year	74.1	60.3
Minimum for the year	36.1	40.7

The tables below present the remaining contractual maturities of the bank's non-derivative financial liabilities; it includes a maturity analysis for financial assets that the banks holds as part of managing liquidity risk – e.g. financial assets that are expected to generate cash inflows to meet cash outflows on financial liabilities.

The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Notes (continued)

4	**Financial risk management (continued)**
4.3	**Market risk (continued)**
4.3.7	**Liquidity risk (continued)**
	Maturity analysis for financial assets and financial liabilities

	Carrying value 2015 KShs'000	Gross nominal inflow/(outflow) 2015 KShs'000	Redeemable on demand 2015 KShs'000	Maturing within 1 month 2015 KShs'000	Maturing after 1 month but within 6 months 2015 KShs'000	Maturing after 6 months but within 12 months 2015 KShs'000	Maturing after 12 months but within 5 years 2015 KShs'000	Maturing After 5 years 2015 KShs'000
Non- derivative financial assets								
Cash and balances to banks	**11,279,882**	**11,279,882**	11,279,882	-	-	-	-	-
Financial assets held for trading	**16,251,044**	**16,725,301**	-	-	8,035,571	6,368,002	2,321,587	141
Pledged assets – available –for-sale	**3,439,383**	**3,961,032**	-	-	487,005	1,681,155	1,792,872	-
Financial assets- available-for-sale	**28,947,969**	**31,056,445**	-	3,248,750	16,740,460	7,022,453	1,685,006	2,359,776
Loans and advances to banks	**23,181,591**	**23,181,591**	10,671,838	12,509,753	-	-	-	-
Loans and advances to customers	**104,981,565**	**149,083,610**	22,670,917	4,938,685	20,103,386	12,696,293	52,983,658	35,690,671
Other assets	**2,611,069**	**2,611,069**	2,611,069	-	-	-	-	-
	190,692,503	**237,898,930**	**47,233,706**	**20,697,188**	**45,366,422**	**27,767,903**	**58,783,123**	**38,050,588**
Derivative assets:	**4,377,196**	**-**	-	-	-	-	-	-
- Inflows	**-**	**1,909,870**	-	332,264	1,033,097	503,841	38,004	2,665
- Outflows	**-**	**(235,147)**	-	(989)	(40,299)	(28,180)	(165,599)	(81)
	4,377,196	**1,674,723**	**-**	**331,275**	**992,798**	**475,661**	**(127,595)**	**2,584**
Non- derivative financial liabilities								
Deposits from banks	**(47,964,264)**	**(52,280,892)**		(80,750)	(3,646,759)	(22,883,779)	(21,650,824)	(4,018,779)
Deposits from customers	**(106,493,201)**	**(108,444,210)**	(62,349,335)	(26,955,982)	(8,467,818)	(9,397,904)	(1,273,171)	-
Trading liabilities	**(521,973)**	**(585,000)**	-	(585,000)	**-**	**-**	-	-
Borrowings	**(6,482,063)**	**(9,783,306)**	**-**	**-**	(413,260)	(2,785,113)	(2,326,438)	(4,258,493)
Other liabilities	**(5,424,218)**	**(5,424,218)**	5,424,218	-	-	-	-	-
Contingent liabilities	**(37,362,184)**	**(27,404,724**	(9,957,460)-	(3,321,072)	(10,943,432)	(6,564,897)	(4,910,399)	(1,664,922)
Capital commitments	**(208,424)**	**(208,424)**		(208,424)				
Operating leases	**(5,118,541)**	**-**				(445,575)	(1,237,280)	(3,435,686)
	(209,574,868)	**(204,130,774)**	**(66,882,577)**	**(31,151,228)**	**(23,471,269)**	**(42,077,268)**	**(31,398,112)**	**(13,377,880)**
Derivative liabilities:	**(3,361,440)**							
- Inflows		**896,493**	-	107,514	535,408	232,671	18,235	2,665
- Outflows		**(920,251)**	-	(103,692)	(298,232)	(282,614)	(235,632)	(81)
	(3,361,440)	**(23,758)**	**-**	**3,822**	**237,176**	**(49,943)**	**(217,397)**	**2,584**

Notes (continued)

4 Financial risk management (continued)

4.3 Market risk (continued)

4.3.7 Liquidity risk (continued)

Maturity analysis for financial assets and financial liabilities (continued)

	Carrying value 2014 KShs'000	Nominal value 2014 KShs'000	Redeemable on demand 2014 KShs'000	Maturing within 1 month 2014 KShs'000	Maturing after 1 month but within 6 months 2014 KShs'000	Maturing after 6 months but within 12 months 2014 KShs'000	Maturing after 12 months but within 5 years 2014 KShs'000	Maturing After 5 years 2014 KShs'000
Non- derivative financial assets								
Cash and balances to banks	**9,513,691**	**9,513,691**	9,513,691	-	-	-	-	-
Financial assets held for trading	**23,836,927**	**34,972,294**	-	1,913,270	3,127,712	10,667,817	11,753,508	7,509,987
Pledged assets – available –for-sale	**2,884,293**	**3,222,832**	-	-	338,640	2,532,880	351,312	-
Financial assets- available-for-sale	**25,250,148**	**28,230,603**	-	1,899,825	2,891,943	17,015,090	3,901,482	2,522,263
Loans and advances to banks	**12,862,672**	**12,888,400**	11,479,498	1,292,286	-	116,616	-	-
Loans and advances to customers	**88,347,438**	**139,170,252**	24,572,641	6,702,613	13,677,254	9,095,690	49,837,363	35,284,691
Other assets	**2,581,855**	**2,581,855**	2,581,855	-	-	-	-	-
	165,277,024	**230,579,927**	**48,147,685**	**11,807,994**	**20,035,549**	**39,428,093**	**65,843,665**	**45,316,941**
Derivative Assets:	**1,960,415**							
- Inflows	**-**	**529,205**	-	39,408	91,970	220,544	173,087	4,196
- Outflows	**-**	**(283,739)**	-	(12,341)	(33,555)	(147,010)	(90,771)	(62)
	1,960,415	**245,466**	**-**	**27,067**	**58,415**	**73,534**	**82,316**	**4,134**
Non- derivative financial liabilities								
Deposits from banks	**(33,570,267)**	**(37,634,629)**	(5,161,831)	(271,565)	(1,391,183)	(10,260,942)	(20,549,108)	-
Deposits from customers	**(96,830,280)**	**(97,760,321)**	(75,091,989)	-	(15,798,374)	(3,282,446)	(3,587,512)	-
Borrowings	**(6,513,417)**	**(11,783,316)**	-	(174,232)	(259,000)	(433,232)	(5,880,852)	(5,036,000)
Other liabilities	**(5,556,716)**	**(5,556,716)**	(5,556,716)	-	-	-	-	-
Contingent liabilities	**(31,065,786)**	**(31,065,786)**	(517,162)	(5,053,203)	(14,149,892)	(8,079,187)	(2,853,070)	(413,272)
Capital commitments	**(581,935)**	**(581,935)**	-	(581,935)	-	-	-	-
Operating leases	**(2,153,187)**	**(2,153,187)**	-	-	-	(392,576)	(1,184,025)	(576,586)
	(176,271,588)	**(186,535,890)**	**(86,327,698)**	**(6,080,935)**	**(31,598,449)**	**(22,448,383)**	**(34,054,567)**	**(6,025,858)**
Derivative Liabilities:	**(2,232,264)**							
- Inflows	**-**	**33,587**	-	10,191	3	23,379	14	-
- Outflows	**-**	**(1,194,504)**	-	(79,721)	(382,336)	(411,390)	(316,863)	(4,194)
	(2,232,264)	**(1,160,917)**	**-**	**(69,530)**	**(382,333)**	**(388,011)**	**(316,849)**	**(4,194)**

Notes (continued)

4	**Financial risk management (continued)**
4.3	**Market risk (continued)**
4.3.7	**Liquidity risk (continued)**
	Maturity analysis for financial assets and financial liabilities (continued)

The amounts in the table above have been compiled as follows:

	Type of financial instrument	Basis on which amounts are compiled
	Non-derivative financial liabilities and financial assets	Undiscounted cash flows which include interest payments
	Issued financial guarantee contracts, and unrecognised loan commitments	Earliest possible contractual maturity. For issued financial guarantee contracts, maximum amount of the guarantee is allocated to the earliest period in which the guarantee could be called.
	Derivative financial liabilities and financial assets held for risk management purpose	Contractual undiscounted cashflows. The amounts shown are the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.
	As part of the management of liquidity risk arising from financial liabilities, the bank holds liquid assets comprises cash and cash equivalents and debt securities issued by sovereigns which can be readily sold to meet liquidity requirements. In addition the bank maintains lines of credit with other banks and holds unencumbered assets eligible for use as collateral with central banks.	

Notes (continued)

4 Financial risk management (continued)

4.4 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

- Derivative asset and liabilities – fair value;
- Loans and advances – amortised cost and
- Customer deposits – amortised cost

	Gross amount of recognised financial assets 2015 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral received 2015 KShs'000	Net amount 2015 KShs'000
Assets					
Loans and advances	104,981,565	-	104,981,565	(5,208,794)	99,772,771
Derivative assets	4,377,196	-	4,377,196	-	4,377,196
	109,358,761	**-**	**109,358,761**	**(5,208,794)**	**104,149,967**

	Gross amount of recognised financial liabilities 2015 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2015 KShs'000	Net amounts of financial assets presented in the statement of financial position 2015 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2015 KShs'000	Net amount 2015 KShs'000
Liabilities					
Deposits	106,493,201	-	106,493,201	(5,208,794)	101,284,407
Derivative liabilities	3,361,440	-	3,361,440	-	3,361,440
	109,854,641	**-**	**109,854,641**	**(5,208,794)**	**104,645,847**

	Gross amount of recognised financial assets 2014 KShs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2014 KShs'000	Net amounts of financial assets presented in the statement of financial position 2014 KShs'000	Financial instruments, financial collateral and cash collateral received 2014 KShs'000	Net amount 2014 KShs'000
Assets					
Loans and advances	88,347,438	-	88,347,438	(3,502,061)	84,845,377
Derivative assets	1,960,415	-	1,960,415	-	1,960,415
	90,307,853	**-**	**90,307,853**	**(3,502,061)**	**86,805,792**

	Gross amount of recognised financial liabilities 2014 KShs'000	Gross amounts of recognised financial assets offset in statement of financial position 2014 KShs'000	Net amounts of financial assets presented in the statement of financial position 2014 KShs'000	Financial instruments, financial collateral and cash collateral pledged 2014 KShs'000	Net amount 2014 KShs'000
Liabilities					
Deposits	96,830,280	-	96,830,280	(3,502,061)	93,328,219
Derivative liabilities	2,232,264	-	2,232,264	-	2,232,264
	99,062,544	**-**	**99,062,544**	**(3,502,061)**	**95,560,483**

Notes (continued)

4 Financial risk management (continued)

4.4 Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements (continued)

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties following other predetermined events. In addition the bank and its counterparties do not intent to settle on a net basis or to realise the assets and the liabilities simultaneously.

The bank receives collateral in the form of cash in respect of lending.

The table below sets out the nature of agreement, and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

Financial instrument	Nature of agreement	Basis on which amounts are compiled
Derivative assets and liabilities	ISDAs	The agreement allows for offset in the event of default.
Trading assets and trading liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default.
Loans and advances to banks	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.
Deposits and current accounts	Banks Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banks Act requirements.

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the bank has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

* An ISDA master agreement is a standard agreement used in over-the-counter derivatives transactions. The ISDA Master Agreement, published by the International Swaps and Derivatives Association (ISDA), is a document that outlines the terms applied to a derivatives transaction between two parties.

Notes (continued)

5. Assets and liabilities at fair value

5.1 Fair value hierarchy of instruments measured at fair value

Valuation process

All financial instruments carried at fair value, regardless of classification, are marked to market using models that have been validated independently by the bank's model validation unit and approved by the market risk methodologies committee. This control applies to both off-the-shelf models as well as those developed internally by the bank. Further, all inputs into the valuation models are subject to independent price validation procedures carried out by the market risk unit. Such price validation is performed on at least a monthly basis and daily where possible given the liquidity of the underlying price inputs. Less liquid risk drivers, which are typically used to mark level 3 assets and liabilities to market, are carefully validated and tabled at the monthly price validation forum to ensure these are reasonable and used consistently. Sensitivities arising from exposures to such drivers are similarly scrutinised, together with movements in level 3 fair values. They are also disclosed on a monthly basis to the market risk committee and ALCO.

Level hierarchy

The table that follows analyses financial instruments carried at fair value, by level of fair value hierarchy. The different levels are based on the extent that available market data is used in the calculation of the fair value of the financial instruments. The levels have been defined as follows:

Level 1 – fair value is based on quoted market prices (unadjusted) in active markets for identical instruments.

Level 2 – fair value is determined through valuation techniques based on observable inputs, either directly, such as quoted prices, or indirectly, such as derived from quoted prices. This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3 – fair value is determined through valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the assets and liabilities.

Significant unobservable inputs

The fair value of level 3 assets and liabilities is determined using valuation techniques that include reference to recent arm's length transactions, discounted cash flow analyses, pricing models and other valuation techniques commonly used by market participants. However, such techniques typically have unobservable inputs that are subject to management judgement. These inputs include credit spreads on illiquid issuers, implied volatilities on thinly traded stocks, correlation between risk factors, prepayment rates and other illiquid risk drivers. Exposure to such illiquid risk drivers is typically managed by:

- using bid-offer spreads that are reflective of the relatively low liquidity of the underlying risk driver
- raising day one profit provisions in accordance with IFRS
- quantifying and reporting the sensitivity to each risk driver
- limiting exposure to such risk drivers and analysing this exposure on a regular basis.

Notes (continued)

5. Assets and liabilities at fair value (continued)

5.2 Assets and liabilities measured at fair value

The table below analyses financial instruments carried at fair value, by level of fair value hierarchy:

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2015			
Assets			
Financial assets – held for trading	20	16,251,044	16,251,044
Financial assets – available-for-sale	21	28,947,969	28,947,969
Pledged assets - available-for-sale	22	3,439,383	3,439,383
Derivative assets	23	4,377,196	4,377,196
		53,015,592	53,015,592
Comprising:			
Held-for-trading		20,628,240	20,628,240
Available-for-sale		32,387,352	32,387,352
		53,015,592	53,015,592
Liabilities			
Trading liabilities	20	521,973	521,973
Derivative liabilities	23	3,361,440	3,361,440
		3,883,413	**3,883,413**
Comprising:			
Held-for-trading		**3,883,413**	**3,883,413**

	Note	Level 2 KShs'000	Total KShs'000
At 31 December 2014			
Assets			
Financial assets – held for trading	20	23,836,927	23,836,927
Financial assets – available-for-sale	21	25,250,148	25,250,148
Pledged assets - available-for-sale	22	2,884,293	2,884,293
Derivative assets	23	1,960,415	1,960,415
		53,931,783	**53,931,783**
Comprising:			
Held-for-trading		25,797,342	25,797,342
Available-for-sale		28,134,441	28,134,441
		53,931,783	**53,931,783**
Liabilities			
Trading liabilities		-	-
Derivative liabilities	23	**2,232,264**	**2,232,264**
Comprising:			
Held-for-trading		**2,232,264**	**2,232,264**

There were no financial assets measured at fair value 1 and 3 as at 31 December 2015 and 31 December 2014

There were no transfers between levels in 2015 and 2014.

Sensitivity of fair value of level 2 financial instruments

The fair value of level 2 financial instruments is determined using valuation techniques which incorporate assumptions that are not supported by prices from observable current market transactions in the same instruments and are not based on available observable market data. Such assumptions include risk premiums, liquidity discount rates, credit risk, volatilities and correlations. Changes in these assumptions could affect the reported fair values of these financial instruments.

Notes (continued)

5. Assets and liabilities at fair value (continued)

5.2 Assets and liabilities measured at fair value (continued)

Level 2 financial assets and financial liabilities

2015	Valuation basis/technique	Main assumptions[1]
Derivative instruments	Discounted cash flow model	Discount rate
	Black-Scholes model	Risk-free rate, volatility rate
	Multiple valuation technique	Valuation multiples
Trading assets	Discounted cash flow model	Discount rate, liquidity discount rate
	Black-Scholes model	Risk-free rate, volatility rate
Pledged assets	Discounted cash flow model	Discount rate, liquidity discount rate
Financial investments	Discounted cash flow model	Discount rate, liquidity discount rate
	Multiple valuation technique	Valuation multiples
	Quoted exit price adjusted for notice period	Discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Trading liabilities	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Other financial liabilities	Discounted cash flow model	Discount rate, liquidity discount rate

1 The main assumptions for all instruments include applicable credit spreads.

Notes (continued)

5. Assets and liabilities at fair value (continued)

5.3 Assets and liabilities not measured at fair value

Level 2 financial assets and financial liabilities

The fair value hierarchy for financial assets not measured at fair value is as shown in the table below:

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2015					
Assets					
Cash and balances with CBK	11,279,882	-	-	11,279,882	11,279,882
Loans and advances to banks	10,671,838	-	15,600,084	26,271,922	23,181,591
Loans and advances to customers	-	-	113,740,365	113,740,365	104,981,565
	21,951,720	**-**	**129,340,449**	**151,292,169**	**139,443,038**
Liabilities					
Deposits from banks	-	-	(44,113,497)	(44,113,497)	(47,964,264)
Deposits from customers	(62,349,335)	-	(35,285,467)	(97,634,802)	(106,493,201)
Subordinated debt	-	(8,657,793)	-	(8,657,793)	(6,482,063)
	(62,349,335)	**(8,657,793)**	**(79,398,964)**	**(150,406,092)**	**(160,939,528)**

	Level 1 KShs'000	Level 2 KShs'000	Level 3 KShs'000	Fair value KShs'000	Carrying value KShs'000
At 31 December 2014					
Assets					
Cash and balances with CBK	9,513,691	-	-	9,513,691	9,513,691
Loans and advances to banks	11,479,498	-	1,272,676	12,752,174	12,862,672
Loans and advances to customers	-	-	88,347,438	88,347,438	88,347,438
	20,993,189	**-**	**89,620,114**	**110,613,303**	**110,723,801**
Liabilities					
Deposits from banks	(5,161,831)	-	(27,290,066)	(32,451,897)	(33,570,267)
Deposits from customers	(75,091,989)	-	(19,800,729)	(94,892,718)	(96,830,280)
Subordinated debt	-	(7,309,874)	-	(7,309,874)	(6,513,417)
	(80,253,820)	**(7,309,874)**	**(47,090,795)**	**(134,654,489)**	**(136,913,964)**

The valuation techniques used in determining the fair value of financial assets and liabilities classified within level 2 and level 3.

The table below indicates the valuation techniques and main assumptions used in the determination of the fair value of the level 2 and level 3 assets and liabilities not measured at fair value but for which fair value is disclosed:

2014	Valuation basis/technique	Main assumptions
Loans and advances to banks	Discounted cash flow model	Discount rate, liquidity discount rate
Loans and advances to customers	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from banks	Discounted cash flow model	Discount rate, liquidity discount rate
Deposits from customers	Discounted cash flow model	Discount rate, liquidity discount rate
Subordinated debt	Discounted cash flow model	Discount rate, liquidity discount rate

Notes (continued)

6. Segment information

The Bank is required to disclose information to the users of its financial statements to evaluate the nature and financial effects of the business activities in which it engages and the economic environments in which it operates in compliance with IFRS 8.

An operating segment is a component of the Bank engaged in business activities, whose operating results are reviewed regularly by management in order to make decisions about resources to be allocated to segments and assessing segment performance. Identification of segments and the measurement of segment results is based on the Bank's internal reporting to management

The Chief Executive officer with the assistance of the Executive Committee (EXCO) and the Asset and Liability Committee (ALCO) is the Bank's chief operating decision-maker. The directors have determined the operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions. Management considers the business from client turnover perspective.

The Bank has therefore segmented its operations into two, Personal and Business Banking (PBB) and Corporate and Investment Banking (CIB).

Personal and Business Banking (PBB)

PBB provides banking and other financial services to individual customers and small to medium sized enterprises. The products offered include:

- Mortgage lending – provides residential accommodation loans to individual customers.
- Instalment sales and finance leases – comprises two areas, instalment finance in the consumer market, mainly vehicles, and secondly, finance of vehicles and equipment in the business market.
- Card products – provides card facilities to individuals and businesses.
- Transactional and lending products – transactions in products associated with the various points of contact channels such as ATMs, Internet, and branches. This includes deposit taking activities, electronic banking, cheque accounts and other lending products.

Corporate and Investment Banking (CIB)

CIB provides commercial and investment banking services to larger corporates, financial institutions, and international counter-parties. The products offered include:

- Global Markets – includes foreign exchange and debt securities trading.
- Transactional products and services – includes transactional banking and investor services.
- Investment Banking – includes project finance, advisory, structured finance, structured trade finance, corporate lending, primary markets and property finance.

Major Customers

The Bank does not have any one major customer that contributes more than 10% of the Bank's revenues. However, the Bank has one major customer whose deposits contribute 8.22% of total deposits as at December 2015 (2014: 8%). The interest expense paid to this customer is reported under the Corporate and Investment Banking segment.

Notes (continued)

6. Segment information (continued)

The segment financial results are as follows:

Income statement

	Total KShs'000 2015	Total KShs'000 2014	CIB KShs'000 2015	CIB KShs'000 2014	PBB KShs'000 2015	PBB KShs'000 2014
Interest income	14,665,543	11,638,770	8,753,986	6,914,930	5,911,557	4,723,840
Interest expense	(5,490,683)	(3,256,814)	(3,752,224)	(2,331,895)	(1,738,459)	(924,919)
Net interest income	**9,174,860**	**8,381,956**	**5,001,762**	**4,583,035**	**4,173,098**	**3,798,921**
Impairment losses on loans and advances	(907,305)	(702,822)	(240,239)	(60,729)	(667,066)	(642,093)
Net interest income after loan impairment charges	**8,267,555**	**7,679,134**	**4,761,523**	**4,522,306**	**3,506,032**	**3,156,828**
Fees and commission income	2,945,090	3,094,893	1,279,746	1,186,928	1,665,344	1,907,965
Fees and commission expense	(323,723)	(279,176)	(111,767)	(35,527)	(211,956)	(243,649)
Net fees and commission income	**2,621,367**	**2,815,717**	**1,167,979**	**1,151,401**	**1,453,388**	**1,664,316**
Trading income	4,306,207	4,734,752	3,980,190	4,734,752	326,017	-
Net other operating income	153,137	306,175	20,072	88,160	133,065	218,015
Net trading and other income	**4,459,344**	**5,040,927**	**4,000,262**	**4,822,912**	**459,082**	**218,015**
Total income	**15,348,266**	**15,535,778**	**9,929,764**	**10,496,619**	**5,418,502**	**5,039,159**
Employee benefits expense	(4,851,926)	(4,295,671)	(2,167,700)	(1,853,111)	(2,684,226)	(2,442,560)
Depreciation and amortisation expense	(455,304)	(509,057)	(150,631)	(179,529)	(304,673)	(329,528)
Administrative expenses	(2,964,017)	(3,339,854)	(1,394,615)	(1,883,768)	(1,569,402)	(1,456,086)
Profit before income tax	**7,077,019**	**7,391,196**	**6,216,818**	**6,580,211**	**860,201**	**810,985**
Income tax expense	(2,379,983)	(1,912,500)	(2,098,232)	(1,686,958)	(281,751)	(225,542)
Profit for the year	**4,697,036**	**5,478,696**	**4,118,586**	**4,893,253**	**578,450**	**585,443**

Notes (continued)

6. Segment information (continued)

Statement of financial position

	Total KShs'000 2015	Total KShs'000 2014	CIB KShs'000 2015	CIB KShs'000 2014	PBB KShs'000 2015	PBB KShs'000 2014
Assets						
Cash and balances with Central Bank of Kenya	11,279,882	9,513,691	10,239,328	8,652,810	1,040,554	860,881
Financial investments	48,638,396	51,971,368	48,638,396	51,953,618	-	17,750
Derivative assets	4,377,196	1,960,415	4,377,196	1,960,415	-	-
Loans and advances to banks	23,181,591	12,862,672	23,181,591	12,862,672	-	-
Loans and advances to customers	104,981,565	88,347,438	55,495,189	45,121,899	49,486,376	43,225,539
Investment in subsidiary	12	2	2	2	10	-
Property, equipment and intangibles	2,708,481	2,513,193	799,633	800,809	1,908,848	1,712,384
Deferred income tax	434,248	1,523,970	286,135	578,338	148,113	945,632
Current income tax	365,574	72,548	241,293	38,213	124,281	34,335
Other assets	2,611,069	2,581,855	921,220	460,791	1,689,849	2,121,064
Total assets	**198,578,014**	**171,347,152**	**144,179,983**	**122,429,567**	**54,398,031**	**48,917,585**
Liabilities						
Customer deposits	106,493,201	96,830,280	52,855,249	52,000,928	53,637,952	44,829,352
Amounts due to other banks	47,964,264	33,570,267	47,910,844	33,570,267	53,420	-
Current income tax	80,305	-	63,273	-	17,032	-
Trading liabilities	521,973	-	521,973	-	-	-
Derivative liabilities	3,361,440	2,232,264	3,361,440	2,232,264	-	-
Borrowings	6,482,063	6,513,417	4,145,719	4,215,066	2,336,344	2,298,351
Other liabilities	5,424,218	5,556,716	3,249,515	2,247,910	2,174,703	3,308,806
Total liabilities	**170,327,464**	**144,702,944**	**112,108,013**	**94,266,435**	**58,219,451**	**50,436,509**
Shareholders' equity	**28,250,550**	**26,644,208**	**18,055,195**	**17,879,513**	**10,195,355**	**8,764,695**
Funding	**-**	**-**	**14,016,775**	**10,283,619**	**(14,016,775)**	**(10,283,619)**
Total equity and liabilities	**198,578,014**	**171,347,152**	**144,179,983**	**122,429,567**	**54,398,031**	**48,917,585**
Additions to property and equipment	495,168	461,325	132,954	92,843	362,214	368,483
Additions to intangible assets	338,374	5,902	71,879	1,641	266,495	4,262

Notes (continued)

6. Segment information (continued)

The Bank is domiciled in Kenya and the revenue and non-current assets by country of domicile are included in the sections below:

Income statement

	Total KShs'000 2015	Total KShs'000 2014	Kenya KShs'000 2015	Kenya KShs'000 2014	South Sudan KShs'000 2015	South Sudan KShs'000 2014
Interest income	14,665,543	11,638,770	14,653,278	11,628,693	12,265	10,077
Interest expense	(5,490,683)	(3,256,814)	(5,490,683)	(3,256,814)	-	-
Net interest income	**9,174,860**	**8,381,956**	**9,162,595**	**8,371,879**	**12,265**	**10,077**
Impairment losses on loans and advances	(907,305)	(702,822)	(907,305)	(702,822)	-	-
Net interest income after loan impairment charges	**8,267,555**	**7,679,134**	**8,255,290**	**7,669,057**	**12,265**	**10,077**
Fees and commission income	2,945,090	3,094,893	2,661,848	2,595,854	270,739	499,039
Fees and commission expense	(323,723)	(279,176)	(308,378)	(267,378)	(2,842)	(11,798)
Net fees and commission income	**2,621,367**	**2,815,717**	**2,353,470**	**2,328,476**	**267,897**	**487,241**
Trading income	4,306,207	4,734,752	3,537,860	3,857,355	768,347	877,397
Net other operating income	153,137	306,175	32,934	306,159	120,203	16
Net trading and other income	**4,459,344**	**5,040,927**	**3,570,794**	**4,163,514**	**888,550**	**877,413**
Total income	**15,348,266**	**15,535,778**	**14,179,554**	**14,161,047**	**1,168,712**	**1,374,731**
Employee benefits expense	(4,851,926)	(4,295,671)	(4,523,645)	(4,009,407)	(328,281)	(286,264)
Depreciation and amortisation expense	(455,304)	(509,057)	(413,191)	(475,964)	(42,113)	(33,093)
Administrative expenses	(2,964,017)	(3,339,854)	(2,630,836)	(2,843,950)	(333,181)	(495,904)
Profit before income tax	**7,077,019**	**7,391,196**	**6,611,882**	**6,831,726**	**465,137**	**559,470**
Income tax expense	(2,379,983)	(1,912,500)	(2,290,835)	(1,823,929)	(89,148)	(88,571)
Profit for the year	**4,697,036**	**5,478,696**	**4,321,047**	**5,007,797**	**375,989**	**470,899**

Notes (continued)

6. Segment information (continued)

Statement of financial position

	Total KShs'000 2015	Total KShs'000 2014	Kenya KShs'000 2015	Kenya KShs'000 2014	South Sudan KShs'000 2015	South Sudan KShs'000 2014
Assets						
Cash and balances with Central Bank of Kenya	11,279,883	17,521,912	10,512,095	9,173,551	767,788	8,348,361
Financial investments	48,638,396	51,971,368	48,579,644	51,728,625	58,752	242,743
Derivative assets	4,377,196	1,960,415	4,377,196	1,960,415	-	-
Loans and advances to banks	23,181,590	8,195,296	13,970,754	5,281,887	9,210,836	2,913,409
Loans and advances to customers	104,981,565	88,347,438	104,957,511	88,303,147	24,054	44,291
Investment in subsidiary	12	2	12	2	-	-
Property, equipment and intangibles	2,708,481	2,513,193	2,656,805	2,267,661	51,676	245,532
Deferred income tax asset	434,248	1,523,970	431,215	1,523,135	3,033	636
Current income tax	365,574	72,548	365,574	34,594	-	37,954
Other assets	2,611,069	4,822,417	2,583,286	4,650,761	27,783	171,855
Total assets	**198,578,014**	**176,928,559**	**188,434,092**	**164,923,778**	**10,143,922**	**12,004,781**
Liabilities						
Customer deposits	106,493,201	96,830,280	99,433,407	89,235,838	7,059,794	7,594,442
Amounts due to other banks	47,964,264	36,911,112	47,213,019	36,459,420	751,245	451,692
Current income tax	80,305	-	-	-	80,305	-
Trading liabilities	521,973	-	521,973	-	-	-
Derivative liabilities	3,361,440	2,232,264	3,361,440	2,232,264	-	-
Borrowings	6,482,063	6,513,417	6,482,063	6,513,417	-	-
Other liabilities	5,424,214	7,797,278	3,825,459	5,142,247	1,598,755	2,655,031
Total liabilities	**170,327,460**	**150,284,351**	**160,837,361**	**139,583,186**	**9,490,099**	**10,701,165**
Shareholders' equity	**28,250,554**	**26,644,208**	**27,596,727**	**25,340,591**	**653,823**	**1,303,617**
Total equity and liabilities	**198,578,014**	**176,928,559**	**188,434,088**	**164,923,777**	**10,143,922**	**12,004,782**
Additions to property and equipment	495,168	461,325	490,702	334,828	4,466	126,497
Additions to intangible assets	338,374	5,902	337,671	5,902	703	-

Notes (continued)

6. Segment information (continued)

Reconciliation of reportable assets and liabilities

	2015 KShs'000	2014 KShs'000
Assets		
Total assets for reportable segments	203,354,863	176,928,559
Elimination of inter-branch balances	(4,776,849)	(5,581,408)
Entity's total assets	**198,578,014**	**171,347,151**
Liabilities		
Total liabilities for reportable segments	203,354,861	176,928,559
Elimination of inter-branch balances	(4,776,847)	(5,581,408)
Entity's total liabilities	**198,578,014**	**171,347,151**

Notes (continued)

7. Interest income

	2015 KShs'000	2014 KShs'000
Loans and advances to customers	10,486,033	8,507,782
Net income - financial assets - available-for-sale	2,842,722	2,845,086
Loans and advances to banks	1,336,788	285,902
	14,665,543	**11,638,770**

All interest income reported above relates to financial assets not carried at fair value through profit or loss.

8. Interest expense

	2015 KShs'000	2014 KShs'000
Current accounts	127,528	113,686
Savings and term deposit accounts	3,173,015	2,147,692
Deposits and loans from banks	1,351,727	463,682
Interest on borrowed funds	838,413	531,754
	5,490,683	**3,256,814**

All interest expense reported above relates to financial liabilities not carried at fair value through profit or loss.

9. Fees and commission income

	2015 KShs'000	2014 KShs'000
Points of representation transaction fees	1,165,185	1,132,321
Documentation and administration fees	175,346	363,612
Electronic banking fees	227,231	186,263
Knowledge based fees and commission	810,405	829,109
Card based commission	67,402	76,107
Foreign service fees	244,275	335,806
Other bank related fees and commission	255,246	171,675
	2,945,090	**3,094,893**

10. Fees and commission expense

	2015	2014
Points of representation transaction fees	125,125	81,368
Card based commission	59,232	81,352
Other bank related fees and commission	139,366	116,456
	323,723	**279,176**

Other bank related fees and commission includes direct sales agent commissions and card courier fees.

The net fees and commission earned by the bank on trust and fiduciary activities where the bank holds or invests assets on behalf of its customers is KShs 290,659,000 (2014: KShs 286,171,000).

All net fee and commission revenue reported above relates to financial assets or liabilities not carried at fair value through profit or loss.

Notes (continued)

	2015 KShs'000	2014 KShs'000
11. Trading income		
Net foreign exchange income	3,098,093	2,838,560
Other income – financial assets – held for trading	140,445	149,988
Fixed income – financial assets – held for trading	1,067,669	1,746,204
	4,306,207	**4,734,752**
12. Other operating income		
Gain on disposal of property and equipment	-	2,278
Other income	153,137	303,897
	153,137	**306,175**
13. Employee benefits expense		
Salaries and wages	4,531,083	4,018,630
Retirement benefit costs	320,843	277,041
	4,851,926	**4,295,671**
Included in retirement benefit costs are;		
Defined contribution scheme	315,301	271,863
National Social Security Fund	5,542	5,178
	320,843	**277,041**
14. Administration and general expenses		
Audit fees	12,937	13,259
Directors' fees	18,634	15,996
Information technology	319,020	758,819
Communication expenses	168,756	164,664
Premises costs	607,370	593,280
Professional fees	373,100	593,872
Stationery and printing costs	53,255	59,096
Marketing and advertising costs	207,946	102,717
Insurance costs	103,000	100,818
Administration and membership fees	38,953	33,489
Training expenses	106,373	103,307
Security expenses	127,695	119,846
Bank charges	39,899	152,471
Deposit Protection Scheme contribution	163,724	153,366
Leased equipment rental	1,990	3,148
Loss on disposal of fixed assets	643	-
Absorbed VAT	399,277	222,505
Other operating costs	221,445	149,201
	2,964,017	**3,339,854**

Other operating costs relates mainly to travel and entertainment costs incurred in the ordinary course of business.

Notes (continued)

15 Income tax expense

	2015 KShs'000	2014 KShs'000
Current income tax	1,360,980	2,362,496
Current year charge	1,358,821	2,328,338
Previous year's charge	2,159	34,158
Deferred income tax	1,019,003	(449,996)
- Current year charge/ (credit)	1,023,486	(298,940)
- Previous year's credit	(4,483)	(151,056)
Income tax expense for the year	**2,379,983**	**1,912,500**

Reconciliation of tax expense to expected tax base based on accounting profit:

The tax on the profit before tax differs from the theoretical amount using the statutory income tax rate as follows:

	2015 KShs'000	2014 KShs'000
Profit before income tax	**7,077,019**	**7,391,196**
Tax at statutory tax rate of 30% (2014: 30%)	2,123,106	2,217,359
Tax effect of:		
Income not subjected to tax	90,162	(304,599)
Expenses not deductible for tax purposes	84,209	96,383
Previous year current income tax over provision	(2,159)	(34,158)
Previous year deferred income tax over provision	(4,483)	(151,056)
Effect of different tax rate in South Sudan	89,148	88,571
Income tax expense	**2,379,983**	**1,912,500**

16. Earnings per share – basic and diluted

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.

	2015	2014
Earnings (Profit after tax)		
Earnings for the purposes of basic earnings per share (KShs' 000)	4,697,036	5,478,696
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share (in thousands)	170,577	170,577
Earnings per share (KShs) basic and diluted	**27.54**	**32.12**

There were no potentially dilutive shares as at 31 December 2015 or 31 December 2014. Therefore, diluted earnings per share are the same as basic earnings per share.

Notes (continued)

17. Dividend

	2015	2014
The calculation of dividends per share is based on:		
Dividends for the year attributable to ordinary shareholders:		
Interim dividend paid (KShs '000)	200,000	275,556
Final dividend proposed (KShs '000)	1,934,737	1,915,600
	2,134,737	**2,191,156**
Number of ordinary shares at issue date (thousands)	170,577	170,577
Dividends per share – KShs	**12.51**	**12.85**

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

At the Annual General Meeting to be held on 2 March 2016, a final dividend per share in respect of the year ended 31 December 2015 of KShs 11.34 (2014:11.23) per share amounting to a total of KShs 1,934,737 (2014: KShs 1,915,600) is to be proposed. These financial statements do not reflect this dividend payable, the proposed dividend has however been transferred to a separate category of equity.

During the year an interim dividend per share of KShs 1.17 (2014: KShs 1.62) per share, amounting to a total of KShs 200,000,000 (2014: KShs 275,556,000) was paid. The total dividend for the year is therefore KShs 12.51 (2014: KShs 12.85) amounting to a total of KShs 2,134,737,000 (2014: KShs 2,191,156,000).

Payment of dividends is subject to withholding tax at a rate of either 10% or 15% depending on the residence of the respective shareholders.

Notes (continued)

18 Classification of assets and liabilities

Accounting classifications and fair values of assets and liabilities

The table below categorises the bank's assets and liabilities as at 31 December 2015 between that which is financial and non-financial.

All financial assets and liabilities have been classified according to their measurement category with disclosure of the fair value being provided for those items.

2015	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Other non-financial assets/liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	11,279,882	-	-	-	11,279,882	11,279,882
Financial assets – held for trading	16,251,044	-	-	-	-	16,251,044	16,251,044
Financial assets – available-for-sale	-	-	28,947,969	-	-	28,947,969	28,947,969
Pledged assets– available-for-sale	-	-	3,439,383	-	-	3,439,383	3,439,383
Derivative assets	4,377,196	-	-	-	-	4,377,196	4,377,196
Loans and advances to banks	-	27,177,339	-	-	-	27,177,339	26,271,922
Loans and advances to customers	-	104,981,565	-	-	-	104,981,565	113,740,365
Other financial assets	-	2,611,069	-	-	-	2,611,069	-
Other non - financial assets	-	-	-	-	3,508,315	3,508,315	-
	20,628,240	**146,049,855**	**32,387,352**		**3,508,315**	**202,573,762**	**204,307,761**
Liabilities							
Customer deposits	-	-	-	(106,493,201)	-	(106,493,201)	(97,634,802)
Amounts due to other banks	-	-	-	(47,964,264)	-	(47,964,264)	(44,113,497)
Derivative liabilities	(3,361,440)	-	-	-	-	(3,361,440)	(3,361,440)
Trading liabilities	(521,973)	-	-	-	-	(521,973)	(521,973)
Borrowings	-	-	-	(6,482,063)	-	(6,482,063)	(8,657,793)
Other financial liabilities	-	-	-	(5,424,218)	-	(5,424,218)	-
Other non - financial liabilities	-	-	-	-	(80,305)	80,305	-
	(3,883,413)	-	-	**(166,363,746)**	**(80,305)**	**(170,166,854)**	**(154,289,505)**

Notes (continued)

18 Classification of assets and liabilities (continued)

Accounting classifications and fair values of assets and liabilities (continued)

2014	Held for Trading KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Other non-financial assets/liabilities KShs'000	Total carrying amount KShs'000	Fair value KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	9,513,691	-	-	-	9,513,691	9,513,691
Financial assets – held for trading	23,836,927	-	-	-	-	23,836,927	23,836,927
Financial assets – available-for-sale	-	-	25,250,148	-	-	25,250,148	25,250,148
Pledged assets– available-for-sale	-	-	2,884,293	-	-	2,884,293	2,884,293
Derivative assets	1,960,415	-	-	-	-	1,960,415	1,960,415
Loans and advances to banks	-	12,862,672	-	-	-	12,862,672	12,752,174
Loans and advances to customers	-	88,347,438	-	-	-	88,347,438	112,067,296
Other financial assets	-	2,581,855	-	-	-	2,581,855	-
Other non - financial assets	-	-	-	-	4,109,713	4,109,713	-
	25,797,342	**113,305,656**	**28,134,441**	**-**	**4,109,713**	**171,347,152**	**188,264,944**
Liabilities							
Customer deposits	-	-	-	(96,830,280)	-	(96,830,280)	(94,892,717)
Amounts due to other banks	-	-	-	(33,570,266)	-	(33,570,266)	(28,392,440)
Derivative liabilities	(2,232,264)	-	-	-	-	(2,232,264)	(2,232,264)
Borrowings	-	-	-	(6,513,417)	-	(6,513,417)	(10,622,299)
Other financial liabilities	-	-	-	(5,556,716)	-	(5,556,716)	-
	(2,232,264)	**-**	**-**	**(142,470,679)**	**-**	**(144,702,943)**	**136,139,720**

Notes (continued)

19. Cash and balances with Central Bank of Kenya

	2015 KShs'000	2014 KShs'000
Cash in hand	2,626,011	1,945,769
Balances with Central Bank of Kenya	8,653,871	7,567,922
	11,279,882	**9,513,691**

Banks are required to maintain a prescribed minimum cash reserve including cash in hand and balances with Central Bank of Kenya. The minimum cash reserve is non-interest earning and is based on the value of deposits as adjusted for by Central Bank of Kenya requirements. At 31 December 2015, the cash reserve requirement was 5.25% of the eligible deposits (2014: 5.25%). The cash reserve requirement balance for the year ended 31 December 2015 is KShs 5,603,547,000 (2014: KShs 4,716,147,000).

20. Financial assets and liabilities held for trading

Financial assets – held for trading

	2015 KShs'000	2014 KShs'000
Government treasury bills and bonds	16,065,972	23,561,380
Corporate bonds	185,072	275,547
	16,251,044	**23,836,927**

Maturity analysis

	2015 KShs'000	2014 KShs'000
Maturing within 1 month	-	-
Maturing after 1 month but within 6 months	7,693,657	3,528,162
Maturing after 6 months but within 12 months	6,431,989	2,443,994
Maturing after 12 months	2,125,398	17,864,771
	16,251,044	**23,836,927**

The maturities represent periods to contractual redemption of trading assets recorded. Dated trading assets had a redemption value at 31 December 2015 of KShs 16,915,433,000 (2014: KShs 23,605,000,000). The weighted average effective interest yield on debt securities held for trading at 31 December 2015 was 13.47% (2014:11.37%).

Financial liabilities - held for trading

	2015 KShs'000	2014 KShs'000
Unlisted	521 973	-
	521 973	**-**

Maturity analysis

	2015 KShs'000	2014 KShs'000
Maturing within 1 month	521 973	-
	521 973	**-**

The maturities represent periods to contractual redemption of trading liabilities recorded. Dated trading liabilities had a redemption value at 31 December 2015 of KShs 500,000,000 (2014: KShs nil). The weighted average effective interest cost on debt securities held for trading at 31 December 2015 was 17.00% (2014: nil)

Notes (continued)

21. Financial assets – available-for-sale

	2015 KShs'000	2014 KShs'000
Debt securities – at fair value:		
Listed	28,947,969	25,250,148
Unlisted	-	-
	28,947,969	**25,250,148**
Comprising:		
Government bonds	6,434,015	5,517,112
Government treasury bills	22,513,954	19,733,036
	28,947,969	**25,250,148**

The weighted average effective interest yield on available-for-sale investment securities at 31 December 2015 was 12.31% (2014:11.37%). A fair value loss of KShs 192,247,000 (2014: Gain of KShs 95,793,000) has been recognised in the statement of other comprehensive income on page 8. A realised loss of KShs 228,971,000 (2014: KShs 401,109,000) has been transferred to the statement of profit or loss.

Maturity analysis	2015 KShs'000	2014 KShs'000
Maturing within 1 month	3,475,545	-
Maturing after 1 month but within 6 months	16,525,911	4,426,163
Maturing after 6 months but within 12 months	7,285,469	16,743,233
Maturing after 12 months but within 5 years	688,030	2,748,387
Maturing after 5 years	973,014	1,332,365
	28,947,969	**25,250,148**

Dated financial investment securities had a redemption value at 31 December 2015 of KShs 29,823,000,000 (2014 – KShs 26,380,414,000).

22. Pledged assets - available-for-sale

	2015 KShs'000	2014 KShs'000
Available-for-sale debt securities	**3,439,383**	**2,884,293**
Maturity analysis		
Maturing after 6 months but within 12 months	1,638,184	2,609,932
Maturing after 12 months but within 5 years	1,801,199	-
Maturing after 5 years	-	274,361
	3,439,383	**2,884,293**

Dated pledged assets had a redemption value at 31 December 2015 of KShs 3,270,000,000 (2014: KShs 2,770,000,000).

The assets pledged by the Bank are strictly for the purpose of providing collateral for the counter-party. To the extent that the counter-party is permitted to sell and/or re-pledge the assets, they are classified on the statement of financial position as pledged assets.
These transactions are conducted under terms that are usual and customary to security lending, and security borrowings and lending activities.

Notes (continued)

23 Derivative assets and derivative liabilities

All derivatives are classified as derivatives held-for-trading.

23.1 Use and measurement of derivative instruments

In the normal course of business, the bank enters into a variety of derivative transactions for both trading and hedging purposes. Derivative financial instruments are entered into for trading purposes and for hedging foreign exchange, interest rate, inflation and for credit exposures. Derivative instruments used by the bank in both trading and hedging activities include swaps, options, forwards, futures and other similar types of instruments based on foreign exchange rates, credit risk, inflation risk, interest rates and the prices of commodities and equities.

The risks associated with derivative instruments are monitored in the same manner as for the underlying instruments. Risks are also measured across the product range in order to take into account possible correlations.

The fair value of all derivatives is recognised in the statement of financial position and is only netted to the extent that there is both a legal right of set-off and an intention to settle on a net basis, or the intention to realise the derivative asset and settle the derivative liability simultaneously.

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period.

The major types of swap transactions undertaken by the bank are as follows:

Interest rate swap contracts which generally entail the contractual exchange of fixed and floating interest payments in a single currency, based on a notional amount and an interest reference rate.

Options are contractual agreements under which the seller grants the purchaser the right, but not the obligation, either to buy (call option) or to sell (put option) by or at a set date, a specified amount of a financial instrument or commodity at a predetermined price. The seller receives a premium from the purchaser for this right. Options may be traded OTC or on a regulated exchange.

Forwards and futures are contractual obligations to buy or sell financial instruments or commodities on a future date at a specified price. Forward contracts are tailor-made agreements that are transacted between counterparties in the OTC market, whereas futures are standardised contracts transacted on regulated exchanges.

23.2 Derivatives held-for-trading

The bank transacts derivative contracts to address client demand both as a market maker in the wholesale markets and in structuring tailored derivatives for clients. The bank also takes proprietary positions for its own account. Trading derivative products include the following derivative instruments:

23.2.1 Foreign exchange derivatives
Foreign exchange derivatives are primarily used to economically hedge foreign currency risks on behalf of clients and for the bank's own positions. Foreign exchange derivatives primarily consist of foreign exchange forwards and swaps, foreign exchange futures and foreign exchange options.

23.2.2 Interest rate derivatives
Interest rate derivatives are primarily used to modify the volatility and interest rate characteristics of interest-earning assets and interest-bearing liabilities on behalf of clients and for the bank's own positions. Interest rate derivatives primarily consist of bond options, caps and floors, forwards, options, swaps and swap options.

Notes (continued)

23 Derivative assets and derivative liabilities (continued).

23.3 Day one profit or loss

Where the fair value of an instrument differs from the transaction price, and the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument, or based on a valuation model whose variables include only data from observable markets, the difference, commonly referred to as day one profit or loss, is recognised in profit or loss immediately. If the fair value of the financial instrument is not able to be evidenced by comparison with other observable current market transactions in the same instrument or non-observable market data is used as part of the input to the valuation models, any resulting difference between the transaction price and the valuation model is deferred and subsequently recognised in accordance with the bank's accounting policies (refer to accounting policy 2.5 – Financial instruments).

23.4 Fair values

The fair value of a derivative financial instrument represents, for quoted instruments in an active market, the quoted market price and, for an unquoted instrument, the present value of the positive and/or negative cash flows which would have occurred if the rights and obligations arising from that instrument were closed out in an orderly marketplace transaction at the reporting date.

23.5 Notional amount

The contract/notional amount is the sum of the absolute value of all bought and sold contracts. The notional amounts have been translated at the closing exchange rate at the reporting date where cash flows are receivable in foreign currency. The amount cannot be used to assess the market risk associated with the positions held and should be used only as a means of assessing the bank's participation in derivative contracts.

	2015			2014		
		Fair values			Fair values	
	Notional contract amount KShs'000'	Assets KShs'000'	Liabilities KShs'000'	Notional contract amount KShs'000'	Assets KShs'000'	Liabilities KShs'000'
Foreign exchange derivatives						
Currency forwards	27,166,604	806,252	344,391	19,528,133	157,321	495,278
Currency swaps	29,290,760	474,439	169,212	17,184,268	92,088	25,980
Currency options	15,591,707	489,350	240,593	6,468,325	301,544	301,544
Total over-the-counter derivatives	**72,049,071**	**1,770,041**	**754,196**	**43,180,726**	**550,953**	**822,802**
Interest rate derivatives						
Interest rate swaps	38,796,546	2,188,147	2,188,236	36,138,477	946,866	946,866
Cross currency interest rate swaps	-	419,008	419,008	-	462,596	462,596
Total over-the-counter derivatives	38,796,546	2,607,155	2,607,244	36,138,477	1,409,462	1,409,462
Total derivative assets held for trading	**110,845,617**	**4,377,196**	**3,361,440**	**79,319,203**	**1,960,415**	**2,232,264**
Current	64,485,198	1,571,689	670,595	38,319,236	300,217	579,637
Non-current	46,360,419	2,805,507	2,690,845	40,999,967	1,660,198	1,652,627
Total	**110,845,617**	**4,377,196**	**3,361,440**	**79,319,203**	**1,960,415**	**2,232,264**

Notes (continued)

24. Loans and advances to banks

	2015 KShs'000	2014 KShs'000
Balances with banks	9,395,335	2,176,124
Balances due from group companies (Note 42.1)	6,850,229	2,678,327
Balances with Bank of South Sudan	6,936,027	8,008,221
	23,181,591	**12,862,672**
Maturity analysis:		
Redeemable on demand	8,878,406	11,479,498
Maturing within 1 month	14,303,185	1,267,493
Maturing after 6 months but within 12 months	-	115,681
Net loans and advances to banks	**23,181,591**	**12,862,672**

25. Loans and advances to customers

25.1 Net loans and advances

	2015 KShs'000	2014 KShs'000
Mortgage lending	12,926,721	12,445,155
Instalment sale (Note 25.7)	11,947,118	11,247,487
Overdraft and other demand lending	23,167,699	24,572,345
Term lending	59,084,209	41,783,137
Card lending	286,220	291,292
Gross loans and advances to customers	**107,411,967**	**90,339,416**
Allowances for impairments		
Impairment for non-performing loans	(1,271,153)	(1,103,066)
Impairment for performing loans	(1,159,249)	(888,912)
Credit impairment allowances	**(2,430,402)**	**(1,991,978)**
Net loans and advances	**104,981,565**	**88,347,438**
Maturity analysis:		
Redeemable on demand	21,383,715	23,480,591
Maturing within 1 month	3,343,504	893,743
Maturing after 1 month but within 6 months	13,577,063	9,691,238
Maturing after 6 months but within 12 months	5,460,166	1,857,566
Maturing after 12 months but within 5 years	32,577,385	21,309,288
Maturing after 5 years	28,639,732	31,115,012
Net loans and advances	**104,981,565**	**88,347,438**

The weighted average effective interest rate on loans and advances to customers as at 31 December 2015 was 11.87% (2014: 10.76%). The Bank extends advances to personal, commercial and corporate sectors as well as to the public sector. Advances made to individuals are mostly in the form of mortgages, instalment sales and overdrafts.

Notes (continued)

25. Loans and advances to customers (continued)

25.2 Impairment reserve

Year ended 31 December 2015	Specific impairment KShs'000	Portfolio impairment KShs'000	Total KShs'000
At start of year	1,103,066	888,912	1,991,978
Amounts written off during the year as uncollectible	(562,319)	-	(562,319)
Amounts recovered during the year (Note 25.3)	(506,657)	-	(506,657)
Provision for loans impairment (Note 25.3)	1,237,063	270,337	1,507,400
At end of year	**1,271,153**	**1,159,249**	**2,430,402**
Year ended 31 December 2014			
At start of year	955,995	944,044	1,900,039
Amounts written off during the year as uncollectible	(709,224)	-	(709,224)
Amounts recovered during the year (Note 25.3)	(441,734)	-	(441,734)
Provision for loans impairment (Note 25.3)	1,298,029	(55,132)	1,242,897
At end of year	**1,103,066**	**888,912**	**1,991,978**

25.3 Loans impairment charge

	2015 KShs'000	2014 KShs'000
Loans impairment for non-performing loans (Note 25.2)	1,237,063	1,298,029
Loans impairment for performing loans (Note 25.2)	270,337	(55,132)
Amounts recovered during the year (Note 25.2)	(506,657)	(441,734)
Recoveries of amounts previously written off	(93,438)	(98,341)
Net impairment charge on loans and advances	**907,305**	**702,822**

25.4 Impaired loans and advances

	2015 KShs'000	2014 KShs'000
Impaired loans and advances	4,858,394	3,023,730
Provision for impairment losses (Note 25.2)	(1,271,153)	(1,103,066)
Recoverable amount of impaired loans and advances	**3,587,241**	**1,920,664**
Interest in suspense	**687,954**	**346,342**

The directors are of the opinion that net recoverable amounts are reasonable and are expected to be realised based on past experience.

Notes (continued)

25. Loans and advances to customers (continued)

25.5 Industry analysis

Total on-balance sheet economic sector credit risk concentrations for loans and advances are presented in the table below:

	2015 KShs'000	%	2014 KShs'000	%
Agriculture	15,865,976	15%	12,665,224	14%
Electricity and water	3,068,322	3%	1,339,010	2%
Manufacturing	19,630,417	19%	13,186,069	15%
Building and construction	1,590,273	2%	1,450,950	2%
Wholesale, retail trade and restaurants	23,444,691	22%	23,065,200	25%
Transport and communication	5,686,427	5%	5,031,094	6%
Finance and insurance	3,708,618	4%	2,087,208	2%
Real estate and business services	6,820,535	6%	5,219,801	6%
Other activities and social services	25,166,306	24%	24,302,882	28%
	104,981,565	**100%**	**88,347,438**	**100%**

25.6 Segmental analysis of non-performing loans and advances – industry

	2015 KShs'000	%	2014 KShs'000	%
Agriculture	1,690,648	35%	1,090,831	36%
Manufacturing	10,579	-	7,203	-
Building and construction	128,527	3%	112,078	4%
Wholesale, retail trade and restaurants	722,510	15%	336,801	11%
Transport and communication	289,031	6%	71,976	2%
Finance and insurance	211,551	4%	30	-
Real estate and business service	308,076	6%	341,636	11%
Other activities and social service	1,497,472	31%	1,063,175	36%
	4,858,394	**100%**	**3,023,730**	**100%**

25.7 Instalment sale and finance leases

The Bank holds instalment sales contracts with customers where the Bank finances the purchase of assets under a series of contracts which transfer title to the Bank as security for the loan. The Bank receives the lease payments and sets off the payments against the principal loan and interest repayments. While in principal the Bank only finances the purchase of the assets, the agreements that are necessary to execute the arrangement confer a lessor status on the bank.

	2015 KShs'000	2014 KShs'000
Gross investment in Instalment sale and finance leases:		
Not later than 1 year	654,212	1,192,394
Later than 1 year and not later than 5 years	10,854,666	9,839,752
Later than 5 years	438,276	225,284
	11,947,154	**11,257,430**
Unearned finance charge	(36)	(9,943)
Net investment in Instalment sale and finance leases	**11,947,118**	**11,247,487**

Notes (continued)

25. Loans and advances to customers (continued)

25.7 Instalment sale and finance leases (continued)

The amount of finance lease receivable included above is KShs 12,380,000 (2014: KShs 157,046,000).

Impairment provisions of KShs 392,013,000 (2014: KShs 228,056,000) for instalment sale and finance lease receivables are included in the impairment for non-performing loans.

25.8 Loans and advances to employees

The aggregate amount of loans and advances to employees on the statement of financial position is:

	2015 KShs'000	2014 KShs'000
At start of year	3,674,792	3,218,623
New loans issued	938,332	1,149,866
Interest	185,718	220,419
Loan repayments	(1,088,796)	(914,116)
At end of year	**3,710,046**	**3,674,792**

26. Other assets and prepayments

Uncleared effects	894,482	866,875
Prepayments	335,445	428,491
Off market loan adjustment	624,333	645,186
Due from group companies (Note 42.6)	654,102	488,044
Other receivables	102,707	153,259
	2,611,069	**2,581,855**

27. Investment in subsidiaries

CfC Stanbic Nominees Limited - 100% ownership	2	2
Stanbic Insurance Agency Limited - 100% ownership	10	-
	12	**2**

CfC Stanbic Nominees Limited was dormant during the two financial years, Stanbic Insurance Agency was incorporated in April 2015 and started its operations in August 2015. The Bank has not prepared consolidated financial statements as it is a wholly owned subsidiary of CfC Stanbic Holdings Limited, a company incorporated in Kenya, which prepares consolidated financial statements available to the public.

There were no significant restrictions on the Bank's ability to access the assets and settle liabilities of the subsidiaries. The total amount disclosed as investment in subsidiaries is a non-current asset.

28. Other investments

	2015 KShs'000	2014 KShs'000
Unquoted:		
Equity investment at cost	17,500	17,500
Impairment of equity investment	(17,500)	(17,500)
	-	**-**

The investment is in Anglo African Property Holding Limited where the Bank holds a beneficial interest of 1%.

Notes (continued)

29. Property and equipment

	Land & Premises KShs'000	Equipment Furniture & Fittings KShs'000	Motor Vehicles KShs'000	Work in Progress (WIP) KShs'000	Total KShs'000
31 December 2015					
Opening net book amount	**377,523**	**1,652,570**	**28,775**	**346,870**	**2,405,738**
Additions	-	392,344	33,969	68,855	495,168
Transfer from work in progress	-	104,733	-	(104,733)	-
Transfer to intangible work in progress	-	-	-	(78,180)	(78,180)
Disposals	-	(1,003)	-	-	(1,003)
Depreciation charge on disposal	-	328	-	-	328
Translation differences	-	(30,614)	(2,809)	(123,268)	(156,691)
Depreciation charge	(15,666)	(304,804)	(24,485)	-	(344,955)
Impairment	-	(7,373)	-	(18,211)	(25,584)
Closing net book value	**361,857**	**1,806,181**	**35,450**	**91,333**	**2,294,821**
At 31 December 2015					
Cost	473,907	3,337,632	173,893	91,333	4,076,765
Accumulated depreciation	(112,050)	(1,531,451)	(138,443)	-	(1,781,944)
Net book amount	**361,857**	**1,806,181**	**35,450**	**91,333**	**2,294,821**

	Land & Premises KShs'000	Equipment Furniture & Fittings KShs'000	Motor Vehicles KShs'000	Work in Progress (WIP) KShs'000	Total KShs'000
31 December 2014					
Opening net book amount	**393,190**	**1,608,326**	**53,707**	**178,428**	**2,233,651**
Additions	-	164,818	-	296,507	461,325
Transfer from work in progress	-	124,568	-	(124,568)	-
Disposals	-	(7,252)	(5,284)	-	(12,536)
Depreciation charge on disposal	-	2,189	5,284	-	7,473
Translation differences	-	(988)	(1,088)	(2,949)	(5,025)
Depreciation charge	(15,667)	(239,091)	(23,844)	-	(278,602)
Impairment loss	-	-	-	(548)	(548)
Closing net book value	**377,523**	**1,652,570**	**28,775**	**346,870**	**2,405,738**
At 31 December 2014					
Cost	473,907	2,955,459	151,858	346,870	3,928,094
Accumulated depreciation	(96,384)	(1,302,889)	(123,083)	-	(1,522,356)
Net book amount	**377,523**	**1,652,570**	**28,775**	**346,870**	**2,405,738**

Work in progress is composed of refurbishments and equipment for branches and projects that had not been completed as at year end. The total amount disclosed as property and equipment is non-current.

As at 31 December 2015 and 31 December 2014, there were no items of property and equipment pledged by the bank to secure liabilities.

Notes (continued)

30. Intangible assets

Year ended 31 December 2015	Work in progress KShs'000	Computer Software KShs'000	Total KShs'000
Cost			
At 1 January	**-**	**1,534,273**	**1,534,273**
Transfer form property and equipment	78,180	-	78,180
Transfer from work in progress	(38,987)	38,987	-
Additions	9,780	328,594	338 374
At 31 December	**48,973**	**1,901,854**	**1,950,827**
Amortisation			
At 1 January	-	(1,426,818)	(1,426,818)
Amortisation for the year	-	(110,349)	(110,349)
At 31 December	**-**	**(1,537,167)**	**(1,537,167)**
Net Book value At 31 December	**48,973**	**364,687**	**413,660**

Year ended 31 December 2014	2014 Computer Software KShs'000
Cost	
At 1 January	1,528,371
Additions	5,902
At 31 December	**1,534,273**
Amortisation	
At 1 January	(1,196,363)
Amortisation for the year	(230,455)
At 31 December	**(1,426,818)**
Net Book value At 31 December	**107,455**

The total amount disclosed as intangible assets is non-current and relates to computer software. Work in progress relates to computer software for upgrades in mobile banking and telephone system which had not been completed as at year end.

As at 31 December 2015, the intangible assets had a remaining useful life of 5 years.

Notes (continued)

31. Deferred income tax

	2015 KShs'000	2014 KShs'000
At start of year	(1,523,970)	(1,071,026)
Credit to statement of profit or loss (Note 15)	1,019,003	(449,996)
Credit to other comprehensive income	70,719	(2,948)
At end of year	**(434,248)**	**(1,523,970)**

The total amount disclosed as deferred income tax asset is a non-current asset.

Included in the total amount is a deferred income tax asset for Kenya of KShs 431,000,000 (2014: Kshs 1,523,334,000) and the branch in South Sudan of KShs 3,000,000 (2014: KShs 636,000).

Deferred income tax (assets)/liabilities and deferred income tax (credit)/charge in the income statement and other comprehensive income are attributable to the following items:-

Year ended 31 December 2015	1.1.2015 KShs'000	Charge/ (Credited) to statement of profit or loss KShs'000	Credited to OCI KShs'000	31.12.2015 KShs'000
Arising from:				
Property and equipment	40,907	15,968	-	56,875
Impairment charges on loans and advances	(465,684)	(120,325)	-	(586,009)
Leasing	(319,763)	298,276	-	(21,487)
Unrealised gain on south sudan paid up capital		181,053	-	181,053
Unrealised gain on bonds – Available-For-Sale	9,427	-	70,719	80,146
Unrealised gain on bonds – Held For Trading	(66,800)	383,052	-	316,252
Other provisions	(715,681)	257,387	-	(458,294)
Exchange difference on translation	(6,376)	3,592	-	(2,784)
Net deferred income tax asset	**(1,523,970)**	**1,019,003**	**70,719**	**(434,248)**

Year ended 31 December 2014	1.1.2014 KShs'000	Credited to statement of profit or loss KShs'000	Credited to OCI KShs'000	31.12.2014 KShs'000
Arising from:				
Property and equipment	83,549	(42,642)	-	40,907
Impairment charges on loans and advances	(420,784)	(44,900)	-	(465,684)
Leasing	(145,461)	(174,302)	-	(319,763)
Unrealised gain on bonds – Available-For-Sale	12,375	-	(2,948)	9,427
Unrealised gain on bonds – Held For Trading	85,189	(151,989)	-	(66,800)
Other provisions	(679,909)	(35,772)	-	(715,681)
Exchange difference on translation	(5,985)	(391)	-	(6,376)
Net deferred income tax asset	**(1,071,026)**	**(449,996)**	**(2,948)**	**(1,523,970)**

Notes (continued)

32 (a) Current income tax (recoverable) /payable

	2015 KShs'000	2014 KShs'000
As at 1 January	(34,594)	73,985
Current tax charge (Note 15)	1,270,609	2,294,136
Income tax paid	(1,601,589)	(2,402,715)
As at 31 December	**(365,574)**	**(34,594)**

The amount above relates to current income tax recoverable in Kenya and is current

32 (b) Current income tax payable / (recoverable)

	2015 KShs'000	2014 KShs'000
As at 1 January	(37,954)	114,604
Exchange difference on translation	27,888	(8,347)
Current tax charge (Note 15)	90,371	68,398
Income tax paid	-	(212,609)
As at 31 December	**80,305**	**(37,954)**

The amount above relates to current income tax payable in South Sudan and is current.

The current income tax payable and current income tax receivable have been separately recognised as Kenya and South Sudan have no legal enforceable right to set off current tax.

33 Customer deposits

	2015 KShs'000	2014 KShs'000
Current accounts	61,808,911	60,914,523
Call deposits	6,108,105	6,906,082
Savings accounts	11,165,430	7,271,383
Term deposits	27,410,755	21,738,292
	106,493,201	**96,830,280**
Maturity analysis:		
Redeemable on demand	78,710,434	75,091,989
Maturing within 1 month	9,565,257	-
Maturing after 1 month but within 6 months	5,871,655	15,430,440
Maturing after 6 months but within 12 months	2,038,793	3,069,261
Maturing after 12 months	10,307,062	3,238,590
	106,493,201	**96,830,280**

Notes (continued)

33 Customer deposits (continued)

Organisation analysis:

Deposit products include current accounts, savings accounts, call deposits, and fixed deposits. The weighted average effective interest rate on customer deposits as at 31 December 2015 was 4.03% (2014: 2.74%)

	2015 KShs'000	%	2014 KShs'000	%
Central government	10,103,071	9%	8,380,513	9%
Non-financial public enterprises	1,561,691	1%	3,140,036	3%
Non-bank financial institutions	1,068,124	1%	230,554	-
Insurance companies	933,221	1%	582,091	1%
Hire purchase companies	93	0%	43	-
Private enterprises	84,265,599	79%	83,096,168	86%
Non-profit institutions and individuals	8,561,402	8%	1,400,875	1%
	106,493,201	**100%**	**96,830,280**	**100%**

34. Amounts due to other banks

	2015 KShs'000	2014 KShs'000
Deposits from banks	33,150,815	18,585,085
Balances due to group companies (42.2)	14,813,449	14,985,182
	47,964,264	**33,570,267**

Maturity analysis

	2015 KShs'000	2014 KShs'000
Redeemable on demand	2,116,494	5,161,831
Maturing within 1 month	-	271,587
Maturing after 1 month but within 6 months	1,666,529	-
Maturing after 6 months but within 12 months	21,383,857	9,059,760
Maturing after 12 months	22,797,384	19,077,089
	47,964,264	**33,570,267**

35 (a). Other liabilities

	2015 KShs'000	2014 KShs'000
Accruals	1,784,722	2,453,503
Deferred bonus scheme (Note 35(b))	181,296	196,304
Unpresented bank drafts	93,367	156,410
Margin on guarantees and letters of credit	469,742	469,742
Items in transit	79,435	269,645
Due to group companies (Note 42.7)	987,109	888,297
Sundry creditors	1,828,547	1,122,815
	5,424,218	**5,556,716**

Notes (continued)

35 (b). Deferred bonus scheme (DBS)

It is essential for the Bank to retain key skills over the longer term. This is done particularly through share-based incentive plans. The purpose of these plans is to align the interests of the Bank, its subsidiaries and employees, as well as to attract and retain skilled, competent people.

The Bank has implemented a scheme to defer a portion of incentive bonuses over a minimum threshold for key management and executives. This improves the alignment of shareholder and management interests by creating a closer linkage between risk and reward, and also facilitates retention of key employees.

All employees granted an annual performance award over a threshold have part of their award deferred. The award is indexed to Standard Bank Group's (SBG) share price and accrues notional dividends during the vesting period, which are payable on vesting. The awards vest in three equal amounts at 18 months, 30 months and 42 months from the date of award. The final pay-out is determined with reference to SBG's share price on vesting date.

The provision in respect of liabilities under the scheme amounts to KShs at 31 December 2015 181,296,000 (2014: KShs 196,304,000) and the amount charged for the year was KShs 92,200,000 (2014: KShs 127,707,000).

	Units	
Reconciliation	**2015**	**2014**
Units outstanding at beginning of the year	255,987	201,528
Granted	128,753	156,629
Exercised	(121,730)	(80,323)
Lapsed	(16,056)	(17,445)
Transfers	-	(4,402)
Units outstanding at end of the year	**246,954**	**255,987**

	2015	2014
Weighted average fair value at grant date (ZAR)*	156.96	126.87
Expected life (years)	2.51	2.51
Risk-free interest rate (%)	5.54	5.54

* South African Rand

Notes (continued)

36. Borrowings

At 31 December 2015

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,401,094	12.50%	7-Jul-09	7-Jul-16
CfC Stanbic Bond	97,907	97,944	182 day T-bill +175 bps	7-Jul-09	7-Jul-16
CfC Stanbic Bond	4,000,000	3,983,025	12.95%	15-Dec-14	15-Dec-21
Total	**6,500,000**	**6,482,063**			

At 31 December 2014

	Notional value KShs'000	Carrying value KShs'000	Interest Rate	Date of Issue	Maturity date
CfC Stanbic Bond	2,402,093	2,402,916	12.50%	7-Jul-09	7-Jul-16
CfC Stanbic Bond	97,907	97,938	182 day T-bill +175 bps	7-Jul-09	7-Jul-16
CfC Stanbic Bond	4,000,000	4,012,563	12.95%	15-Dec-14	15-Dec-21
Total	**6,500,000**	**6,513,417**			

There were no charges placed on any of the Bank's assets in relation to these borrowings.

The difference between the carrying and notional value represents, accrued interest and the unamortised issue costs.

Interest expense incurred in the above borrowings was KShs 838,412,000 (2014: KShs 531,753,000). The weighted average effective interest rate on borrowings as at 31 December 2015 was 12.51% (2014: 9.33%).

Notes (continued)

37. Share capital

Authorised share capital

	2015		2014	
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Authorised share capital of Kes 20 each	187,250	3,745,000	187,250	3,745,000
And 31 December	**187,250**	**3,745,000**	**187,250**	**3,745,000**

Issued share capital

	2015			2014
	Number of Shares (thousands)	Share Capital KShs '000	Number of Shares (thousands)	Share Capital KShs '000
Balance as at 1 January	170,577	3,411,549	170,577	3,411,549
And 31 December	**170,577**	**3,411,549**	**170,577**	**3,411,549**
Unissued shares	**16,673**	**333,451**	**16,673**	**333,451**

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

38. Share premium

	2015 KShs'000	2014 KShs'000
At 1 January	3,444,639	3,444,639
At 31 December	**3,444,639**	**3,444,639**

39. Nature and purpose of reserves

39.1 Revaluation reserve on available-for-sale financial assets

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale financial assets until the investment is derecognised or impaired.

39.2 Revaluation reserve on buildings

The revaluation reserve represents solely the surplus on the revaluation of buildings and freehold land net of deferred income tax and is non-distributable.

39.3 Foreign currency translation reserve

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial statements of foreign operations.

39.4 Regulatory reserve

The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

Notes (continued)

40. Share-based payment reserve

	2015 KShs'000	2014 KShs'000
As at 31 December	**42,383**	**130,993**

The Bank's share incentive scheme enables key management personnel and senior employees of the Bank to benefit from the performance of SBG (SBG) shares.

The Bank has two equity-settled schemes, namely the Group Share Incentive Scheme and the Equity Growth Scheme. The Group Share Incentive Scheme confers rights to employees to acquire ordinary shares at the value of the SBG share price at the date the option is granted. The Equity Growth Scheme represents appreciation rights allocated to employees. The eventual value of the right is effectively settled by the issue of shares equivalent in value to the value of the rights.

As at 31 December 2015, the total amount included in staff costs for Group Share Incentive Scheme was KShs.13,947,000 (2014: KShs 20,228,000) and for Equity Growth Scheme was KShs 57,000 (2014: KShs 449,000).

The two schemes have five different sub-types of vesting categories as illustrated by the table below:

	Year	% vesting	Expiry
Type A	3, 4, 5	50, 75, 100	10 Years
Type B	5, 6, 7	50, 75, 100	10 Years
Type C	2, 3, 4	50, 75, 100	10 Years
Type D	2, 3, 4	33, 67, 100	10 Years
Type E	3, 4, 5	33, 67, 100	10 Years

A reconciliation of the movement of share options and appreciation rights is detailed below:

Group Share Incentive Scheme	Option price range (ZAR) 2015	Number of options 2015	Number of options 2014
Options outstanding at beginning of the year		476,538	503,400
Transfers	62.39 – 111.94	6,000	67,050
Exercised	62.39 – 111.94	(113,505)	(93,912)
Lapsed		(21,250)	-
Options outstanding at end of the year		**347,783**	**476,538**

The weighted average SBG share price for the year to 31 December 2015 year end was ZAR 147.88 (2014: ZAR 134.83).

The following options granted to employees had not been exercised at 31 December 2015:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
5,000	98.00	98.00	Year to 31 December 2017
17,875	92.00	92.00	Year to 31 December 2018
26,875	62.39	62.39	Year to 31 December 2019
128,063	104.53 – 111.94	109.41	Year to 31 December 2020
169,970	97.80 – 107.55	99.70	Year to 31 December 2021
347 783			

Notes (continued)

40. Share-based payment reserve (continued)

The following options granted to employees had not been exercised at 31 December 2014:

Number of ordinary shares	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
7,000	65.60	65.60	Year to 31 December 2015
1,300	79.50	79.50	Year to 31 December 2016
7,000	98.00	98.00	Year to 31 December 2017
38,550	92.00	92.00	Year to 31 December 2018
52,500	62.39	62.39	Year to 31 December 2019
183,125	104.53 – 111.94	109.41	Year to 31 December 2020
187,063	97.80 – 107.55	99.70	Year to 31 December 2021
476,538			

Equity Growth Scheme	Appreciation right price range (ZAR) 2015	Number of rights 2015	Number of rights 2014
Rights outstanding at beginning of the year		37,200	158,604
Transfers			(114,904)
Exercised[1]	62.39-79.50	(11,000)	(6,500)
Lapsed			-
Rights outstanding at end of the year[2]		**26,200**	**37,200**

[1.] *During the year 5,255 (2014: 3,529) SBG shares were issued to settle the appreciated rights value.*

[2.] *At 31 December 2014 the Bank would need to issue 3,578 (2014: 16,392) SBG shares to settle the outstanding appreciated rights value.*

The following rights granted to employees had not been exercised at 31 December 2015:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
8,500	98,00	98.00	Year to 31 December 2017
5,500	92,00	92.00	Year to 31 December 2018
12,200	62,39	62.39	Year to 31 December 2019
26,200			

The following rights granted to employees had not been exercised at 31 December 2014:

Number of rights	Option price range (ZAR)	Weighted average price (ZAR)	Option expiry period
3,500	79.50	79.50	Year to 31 December 2016
8,500	98.00	98.00	Year to 31 December 2017
5,500	92.00	92.00	Year to 31 December 2018
19,700	62.39	62.39	Year to 31 December 2019
37,200			

Notes (continued)

41. Contingent liabilities

Commitments were with respect to:	2015 KShs'000	2014 KShs'000
Irrevocable letters of credit and acceptances	5,439,722	9,340,525
Revocable unutilised facilities	9,957,460	7,806,485
Guarantees	21,965,002	13,918,776
	37,362,184	**31,065,786**

41.1 Nature of contingent liabilities

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

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

An acceptance is an undertaking by the Bank to pay a bill of exchange drawn on a customer. The Bank expects most of the acceptances to be presented, and to be reimbursed by the customer almost immediately.

41.2 Segmental analysis of off-balance sheet liabilities

	2015 KShs'000	%	2014 KShs'000	%
Agriculture	1,468,841	4%	2,021,583	7%
Manufacturing	5,585,725	15%	10,099,055	33%
Construction	2,854,395	8%	323,410	1%
Energy	1,168,491	3%	1,032,960	3%
Transport and communication	1,891,545	5%	1,178,322	4%
Distribution/wholesale	10,889,978	29%	11,665,236	38%
Financial Services	11,899,498	32%	3,499,572	11%
Tourism	8,753	0%	11,306	-
Other activities and social service	1,594,958	4%	1,234,342	4%
	37,362,184	**100%**	**31,065,786**	**100%**

41.3 Legal proceedings

In the conduct of its ordinary course of business, the bank is exposed to various actual and potential claims, lawsuits and other proceedings relating to alleged errors and omissions, or non-compliance with laws and regulations. The directors are satisfied, based on present information and the assessed probability of claims eventuating, that the bank has adequate insurance programmes and provisions in place to meet such claims.

Notes (continued)

42. Related party transactions

The Bank is a wholly owned subsidiary of CfC Stanbic Holdings Limited, which is in turn a subsidiary of Stanbic Africa Holdings Limited (SAHL), incorporated in the United Kingdom. The ultimate parent of the Bank is SBG Limited, which is incorporated in South Africa.

There are other companies which are related to CfC Stanbic Bank Limited through common shareholdings or common directorships.

In the normal course of business, nostro and vostro accounts are operated and placements of both foreign and local currencies are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are as shown below;

42.1 Loans and advances to group banks

	2015 KShs'000	2014 KShs'000
Stanbic Bank Uganda Limited	99,260	50,828
Stanbic Bank Tanzania Limited	27,145	28,365
Standard Bank (Mauritius) Limited	2	-
Standard Bank of South Africa Limited	6,723,822	2,146,508
Standard Bank Isle of Man	-	452,626
	6,850,229	**2,678,327**
Interest income earned on the above is:	**5,141**	**3,008**

42.2 Deposits due to group to banks

	2015	2014
Standard Bank of South Africa Limited	143,793	67,690
Standard Bank London Holdings Plc	-	389,338
Standard Bank Namibia Limited	460	1,314
Stanbic Bank Uganda Limited	463,722	575,393
Stanbic Bank Zambia Limited	22	14
Stanbic Bank Zimbabwe Limited	139	136
Stanbic Bank Botswana Limited	844	568
Standard Bank (Mauritius) Limited	1,674,994	64,890
Stanbic Bank Malawi Limited	759	22
Standard Bank Isle of Man	12,118,331	13,591,222
Stanbic Bank Tanzania Limited	5,290	239,842
Standard Bank PLC	404,912	54,732
Standard Bank Swaziland	25	21
Stanbic Bank Ghana	158	-
	14,813,449	**14,985,182**
Interest expense incurred on the above is:	**509,999**	**306,431**

The weighted average effective interest rate on amounts due from group companies as at 31 December 2015 is 0.28% (2014: 0.17%) and on amounts due to group companies was 1.70% (2014:1.70%).

Notes (continued)

42. Related party transactions (continued)

42.3 Deposits due to group companies non-bank

	2015 KShs'000	2014 KShs'000
CfC Stanbic Holdings Limited	145,701	56,138
SBG Securities Limited	515,247	928,030
Heritage	195,073	134,957
STANLIB Kenya Limited	88,236	63,595
Liberty Life	123,636	53,611
Stanbic Insurance Agency Limited	6,101	-
	1,073,994	**1,236,331**
Interest expense incurred on the above is:	**20,701**	**2,987**

42.4 Due to subsidiary

	2015	2014
CfC Stanbic Nominees Limited	2	2
Stanbic Insurance Agency Limited	10	-
	12	2

42.5 Key management compensation

Key management personnel include: the members of the CfC Stanbic Bank Limited board of directors and prescribed officers effective for 2015 and 2014. Non-executive directors are included in the definition of key management personnel as required by IAS 24 Related Party Disclosures. The definition of key management includes the close family members of key management personnel and any entity over which key management exercise control or joint control. Close members of family are those family members who may be expected to influence, or be influenced by that person in their dealings with the bank. They include the person's domestic partner and children, the children of the person's domestic partner, and dependants of the person or the person's domestic partner.

Key amangement have transacted with the Bank as indicated in note 42.5.1 and 42.5.2;

42.5.1 Loans and advances to key management

The aggregate amount of loans to directors, affiliates and their families on the statement of financial position is:

	2015 KShs'000	2014 KShs'000
Loans outstanding at the beginning of the year	39,107	53,647
Loans granted during the year	31,685	37,711
Accrued interest	2,800	596
Loans repaid during the year	(39,776)	(52,847)
Loans outstanding at the end of the year	**33,816**	**39,107**

Loans include mortgage loans, instalment sale and finance leases and credit cards. No specific credit impairments have been recognised in respect of loans granted to key management (2014: KShs nil). The mortgage loans and instalment sale and finance leases are secured by the underlying assets. All other loans are unsecured.

Notes (continued)

42. Related party transactions (continued)

42.5.2 Key management remuneration

	2015 KShs'000	2014 KShs'000
Fees for services as a director	18,634	15,996
Salaries and other employment benefits	269,155	151,220
Post employment pension	2,292	-
Share-based payments	18,956	7,637
	309,037	**174,853**

42.6 Other receivable from related companies

	2015	2014
SBG Securities Limited	49,523	5,126
CfC Life Assurance Limited	1,515	962
The Heritage Insurance Company Limited	1,281	798
CfC Stanbic Holdings Limited	3,401	1,670
Stanbic Bank Uganda Limited	7,581	2,919
Stanbic Bank Tanzania Limited	301,336	300,830
Standard Bank Mauritius Limited	-	22
Standard Bank of South Africa Limited	535,155	364,452
Stanbic Bank Zambia Limited	704	109
Stanbic Bank Malawi Limited	139	-
Standard Bank s.a.r.l. (Mozambique)	10	10
Stanbic Bank Lesotho	-	(183)
Standard Bank London Holdings Plc	-	754
STANLIB Kenya Limited	22,286	91,077
Standard Bank Swaziland Limited	425	-
Standard Bank RDC s.a.r.l	26	-
Standard Bank de Angola S.A.	513	-
Stanbic Insurance Agency Limited	11,345	-
Standard Advisory London Limited	241	-
	935,481	**768,546**
Provisions on regional costs balances	(281,379)	(280,502)
	654,102	**488,044**

Movement analysis

	2015	2014
At 1 January	768,546	921,029
Additions	731,643	775,383
Receipts	(564,708)	(927,866)
Closing Balance	**935,481**	**768,546**
Provisions on regional costs balances	(281 379)	(280,502)
At 31 December	**654,102**	**488,044**

Notes (continued)

42. Related party transactions (continued)

42.7 Other payables due to related companies

	2015 KShs'000	2014 KShs'000
Standard Bank Malawi Limited	1,079	-
Standard Bank of South Africa Limited	949,220	888,297
Stanbic Bank Uganda Limited	50	-
SBG Securities Limited	2,609	-
Stanbic Insurance Agency Limited	34,151	-
	987,109	**888,297**

There is no interest accruing for these outstanding liabilities

42.8 Related party expenses

The Bank incurred the following related party expenses payable to the Standard Bank of South Africa;

	2015 KShs'000	2014 KShs'000
Franchise fees	450,791	426,384
Information technology	81,629	200,608
Other operating costs	508	33,806
	532,928	**660,798**

43. Notes to the cash flow statement

43.1 Cash flows from operating activities

	2015 KShs'000	2014 KShs'000
Reconciliation of profit before income tax to cash flow from operating activities:		
Net income before income tax	7,077,019	7,391,196
Adjusted for:		
- Amortisation of intangible assets (Note 30)	110,349	230,455
- Depreciation - property and equipment (Note 29)	344,955	278,602
- Impairment - property and equipment (Note 29)	25,584	548
- Change in fair value of derivatives	(1,287,605)	498,188
- Share based payment expense	14,004	20,677
- Loss/(gain) on disposal of property and equipment	158	(2,262)
Cash flow from operating activities	**6,284,464**	**8,417,404**

Notes (continued)

43.2 Analysis of cash and cash equivalents

	2015 KShs'000	2014 KShs'000
Cash and balances with CBK	5,676,335	4,797,544
Treasury bills	12,777,274	10,602,682
Loans and advances to banks	23,181,591	12,746,987
Amounts due to other banks	(2,116,493)	(5,578,951)
Cash and cash equivalents at year end	**39,518,707**	**22,568,262**

For the purpose of presentation of cash flows in the financial statements, the cash and cash equivalents include balances with Central Bank of Kenya net of cash reserve ratio, net of balances from banking institutions and treasury bills with a maturity period of three months or less from the contract date.

44. Capital commitments

Capital commitments for the acquisition of property and equipment are summarised below:

	2015 KShs'000	2014 KShs'000
Authorised and contracted for	208,424	581,935
Authorised but not contracted for	27,970	181,984

45. Operating leases

The company pays rent for its branch operations and hire of computers under operating leases.

At 31 December, the future minimum lease payments under non-cancellable operating leases were payable as follows:

	2015 KShs'000	2014 KShs'000
Less than one year	445,575	392,576
Between one and five years	1,237,280	1,184,025
More than five years	3,435,686	576,586
	5,118,541	**2,153,187**

46. Fiduciary activities

The assets held on behalf of individuals, trusts, retirement benefit plans and other institutions:

	2015 KShs'000	2014 KShs'000
Assets held on behalf of individual's trusts and other institutions	**177,185,777**	**195,839,394**

47 Comparatives

Where necessary, comparative figures within notes have been restated to either conform to changes in presentation in the current year or for the adoption of new IFRS requirements.