BANK OF AFRICA

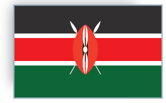
Groupe BMCE BANK

FINANCIAL STATEMENTS AT 31 DECEMBER 2015

KENYA

Table of contents

KENYA



Opening date: July 2004

Created in 1981: BANQUE INDOSUEZ Kenyan Branch > CREDIT AGRICOLE–INDOSUEZ > CALYON.
Incorporated under Kenyan law, integrated as a subsidiary into BOA network in 2004.

Capital as at 31/12/2015

Kenyan Shillings (KES) 5.276 billion

Board of Directors as at 31/12/2015

Ambassador Dennis AWORI, Chairman
Mohamed BENNANI
Abdelkabir BENNANI
Amine BOUABID
Vincent de BROUWER
Anis KADDOURI
Susan KASINGA
Dr. Monica J. KERRETTS-MAKAU
Eunice MBOGO
Alexandre RANDRIANASOLO
Bernardus ZWINKELS

Auditor

PRICEWATERHOUSECOOPERS

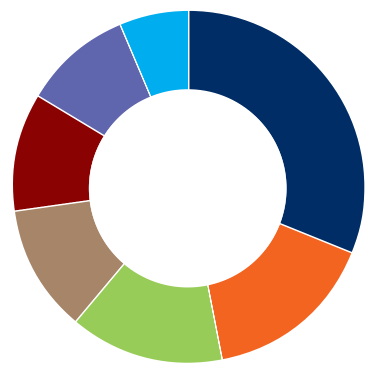
Registered office

Reinsurance Plaza - Taifa Road
P.O. Box 69562 - 00400 - Nairobi - KENYA
Tel.: (254) 20 327 5000 / 221 11 75
Fax: (254) 20 221 1477

E-mail: <yoursay@boakenya.com>
Web site: www.boakenya.com

Principal Shareholders as at 31/12/2015

BANK OF AFRICA IN BENIN	31.34%
NETHERLANDS DEVELOPMENT FINANCE COMPANY (FMO)	15.80%
AFH-OCEAN INDIEN	14.01%
BANK OF AFRICA IN MADAGASCAR	11.65%
BANK OF AFRICA IN CÔTE D'IVOIRE	11.00%
BOA GROUP S.A.	10.00%
OTHERS SHAREHOLDERS	6.2%



Key features of the 2015 (Amount in KHS)

Activity	2015	Yearly* growth %
Deposits	47,487,589	14.0
Loans	37,798,691	-1.7
Number of branches at the end of the financial year	42	20.0
Structure		
Total Assets	69,280,267	11.4
Shareholders' equity	8,495,736	7.4
Average number of employees	513	7.1

Capital Adequacy Ratio

Tier 1	6,970,150
Tier 2	1,680,773
Risk Weighted Asset (RWA)	52,778,178
Tier 1 + Tier 2 / RWA (%)	16.4

(*) Yearly growth 2015-2014

Income

Net operating income	4,272,109	26.9
Operating expenses	2,911,646	10.3
Gross operating profit	1,360,463	87.1
Cost of risk (in value) (**)	2,777,945	394.5
Net income	(1,023,361)	-810.1%
Operating ratio (%)		
Cost of risk (%)	5.6	1.6
Return on Assets (ROA %)	-1.5	0.3
Return on Equity (ROE %)	-12.5	2.0

(**) Including general provision

Financial Analysis

BANK OF AFRICA in Kenya made a net loss of KES 1 billion in 2015 due to significant loan loss provisions booked on non-performing loans (NPLs). The increased NPLs are attributed to adverse macro-economic conditions as well as delayed payments to certain borrowers especially those dealing with Government construction projects which affected their ability to service their loans. Further, the Bank cleaned up its loan portfolio in line with Convergence principles leading to increased NPLs.

The balance sheet grew by 11.4% driven by increased customer deposits and Shareholders' equity. Shareholders' equity grew by 7.4% following a rights issue where the Bank raised additional share capital of KES 1.7 billion. Customer deposits grew by 14.0% supported by increased customer numbers and the expanding retail branch network. The Bank opened 7 new branches in 2015 to bring its total network to 40 Branches and 2 Business Centres. Net loans and advances decreased by 2.1% due to a slowdown in lending in the second half of 2015 attributed to liquidity constraints and adverse interest rates experienced in the market. Operating income grew by 26.9% in the year driven by increased net interest income and enhanced fee and commission income.

The Bank's Management is optimistic about 2016 and is working to improve the quality of the loan book and recover the bad loans. Other focus areas include mobilising current and savings account deposits as well as containing operating expenses.

Reports of the Directors

For the year ended 31 December 2015

The Directors have pleasure in submitting their report together with the financial statements for the year ended 31 December 2015. The report discloses the state of affairs of the Company.

Principal activities

The Bank is engaged in the business of commercial banking and provision of related services and is licensed under the Banking Act and regulated by the Central Bank of Kenya.

Results

The results of the company for the year are set out on page 8.

Dividend

The Directors do not recommend the proposal of a dividend in respect of the year ended 31 December 2015 (2014: Nil).

Directors

The Directors who served during the year to the date of this report are as set out below:

Name	Position	Nationality
Ambassador Dennis Awori	**Chairman**	**Kenyan**
Amine Bouabid		Moroccan
Mohamed Bennani	(Resigned 14 Sept. 2015)	Moroccan
Alexandre Randrianasolo		Malagasy
Vincent De Brouwer		Belgian
Bernardus A.M. Zwinkels		Dutch
Abdelkabir Bennani		Moroccan
Susan Kasinga		Kenyan
Eunice Mbogo		Kenyan
Dr. Monica J. Kerretts-Makau	(Resigned 22 May 2015)	Kenyan
Anis Kaddouri	Acting Managing Director (Resigned 24 Oct. 2015)	Moroccan
Ronald Marambii	Managing Director (Appointed with effect from 30 October 2015)	Kenyan

Auditors

The auditors, KPMG Kenya, who were appointed during the year in place of PricewaterhouseCoopers, continue in office in accordance with Section 159 (2) of the Kenyan Companies Act (Cap 486) and subject to Section 24(1) of the Banking Act (Cap 488).

Approval of financial statements

The financial statements were approved by a meeting held by the Directors on 23 February 2016.

By order of the Board

Company Secretary

Corporate Governance Reports

For the year ended 31 December 2015

Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and the framework of internal controls. The Board of Bank of Africa Kenya Limited is keen on ensuring the Corporate governance outlines the way companies are run and managed, the role of the Board of Directors and the framework of internal controls. The Board of Bank of Africa Kenya Limited is keen on ensuring the adoption of good corporate governance.

The Board

The Board is made up of the Chairman, the Managing Director, and seven Non-Executive Directors. All Directors are subject to periodic re-appointment in accordance with the Company's Articles of Association. On appointment, each Director receives information about the Bank and is advised of the legal, regulatory and other obligations of a director.

The full Board meetings were held as shown in the table below. In the event that a Director cannot attend a Board Meeting, an acceptable apology with a valid reason is sent to the Chairman in advance of the meeting. Directors are given appropriate information that guides their control over strategic, financial, operational, compliance and governance matters. The Managing Director is in charge of the day to day operations while the Board oversees the performance of the executive management.

The following table shows the number of Board meetings held during the year and the attendance of individual Directors.

Board meeting membership and attendance in 2015

	19 Feb. 2015	29 May 2015	11 June 2015	7 Oct. 2015	8 Dec. 2015
Ambassador Dennis Awori	AP	A	A	A	A
Amine Bouabid	A	A	A	A	A
Mohamed Bennani	A	AP	A	N/A	N/A
Alexandre Randrianasolo	AP	AP	A	AP	AP
Vincent de Brouwer	A	A	A	A	A
Bernardus A.M. Zwinkels	AP	AP	A	A	A
Abdelkabir Bennani	A	A	A	A	A
Susan Kasinga	A	A	A	AP	A
Eunice Mbogo	A	A	A	A	A
Dr. Monica J. Kerretts-Makau	A	N/A	N/A	N/A	N/A
Anis Kaddouri	A	A	A	AP	N/A
Ronald Marambii	N/A	N/A	N/A	N/A	A

A – Attended

AP – Absent with apology

N/A- Not Applicable, as the individual was not a Director of the Company at the time the meeting was held.

*The Board Meeting held on the 29 May 2015 was a special Board Meeting, convened to receive the Central Bank of Kenya Inspection Report.

Board Committees

To increase efficiency and allow deeper focus on the management of key functions of the Bank, the Board has established the following four main Committees:-

i) The Board Audit Committee

The main role of the Board Audit Committee is to provide independent oversight of the Bank's financial reporting and internal control systems to ensure that checks and balances within the Bank are in place. The Committee also reviews the performance and findings of the internal and external auditors, findings of the regulatory authorities, and recommends appropriate remedial action. The Committee has direct access to the Company's internal and external auditors. The Members of this Committee are Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani and Ms. Eunice Mbogo.

ii) The Board Credit Committee

The overall responsibility of the Board Credit Committee is to approve and review the credit risk strategy and credit risk policies of the Bank. The Committee sets the acceptable risk appetite and tolerance the Bank is willing to engage and the level of profitability the Bank expects to achieve for incurring the various credit risks. The Members of this Committee are Ms. Susan Kasinga (Chairperson), Mr. Vincent de Brouwer and Mr. Abdelkabir Bennani.

iii) The Board Risk Management Committee

This Committee's main responsibility is to assist the Directors in discharging their responsibility of ensuring quality, integrity and reliability of the Bank's enterprise wide risk management and corporate accountability and associated risks in terms of management, assurance and reporting. The Committee also assists in fostering an effective risk management culture throughout the Bank as well as assisting the Board in fulfilling its oversight responsibility relating to compliance with legal and regulatory requirements and the Bank's policies. The Members of this Committee are Ms. Eunice Mbogo (Chairperson), Mr. Vincent de Brouwer, Mr. Abdelkabir Bennani and Ms. Susan Kasinga.

iv) The Board Nomination, Compensation and Human Resources Committee:

The purpose of this Committee is to enable the Board to discharge its responsibilities in relation to the nomination of appropriate directors to the Board and its committees, the assessment of the performance of the Board, Directors (including the Executive Directors) and Senior Management, succession planning for Directors and Senior Management, remuneration, welfare, retention and human capital development policies and programs for the Directors and all staff of the Bank. The Members of this Committee are Ms. Eunice Mbogo (Chairperson), Ms. Susan Kasinga and Mr. Abdelkabir Bennani.

There also exists a Board Head Office Project Committee which, acting with the accordance with the authority delegated by the Board, has assisted Management of the Bank in locating a suitable Head Office premises for the Company.

At each ordinary Board Meeting, the Chairpersons of the various Board Committees report to the Board on the highlights of the Committees' deliberations and escalate to the Board all matters requiring its consideration and approval.

Directors' remuneration

The remuneration of all Directors is subject to regular review to ensure that levels of remuneration and compensation are appropriate. Information on the aggregate amount of emoluments and fees paid to directors is disclosed in Note 30 of the financial statements.

Board performance evaluation

Under the Prudential Guidelines issued by the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance, that of its Committees and individual Directors is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

In a process led by the Chairperson of the Board Nomination, Compensation and Human Resources Committee and supported by the Company Secretary, a comprehensive evaluation of the performance of the Board the Board Committees and the Board Chairman for the year 2015 was conducted in March 2016, with the aim of assessing capacity and effectiveness relative to the mandates, and identifying any challenges that could form a basis for action in the coming year.

The Directors, following the evaluation exercise, agreed that the Board continues to operate effectively, and there is a high level of meaningful interaction amongst the Directors, and also between the Board and Management. Areas requiring further attention and action by the Board as a whole and individual Directors were noted and shall be acted upon in the course of the year 2016.

Regarding the Company's performance, it was agreed that while the recommendation by Management to increase the provisions was prudent, it is important that debt recovery efforts are significantly enhanced in order to recover all amounts due and outstanding from its customers. In addition to the debt recovery efforts, the Directors agreed that Management should also focus on boosting its involvement in financing the economy, enhancing the Company's risk management mechanisms, enhancing staff productivity and motivation, controlling its operating expenses and pursuing the development of synergies with BMCE Bank, the majority shareholder of BOA Group. The Board shall be monitoring keenly the performance of the Bank against each of these parameters.

Going concern

The Board ensures that the Bank has adequate resources to continue in business into the foreseeable future. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

Internal controls

The Board has the responsibility of ensuring that adequate systems of internal control that provide reasonable assurance of effective and efficient operations are in place.

The Board strives to achieve a strong control environment including the evaluation of non-financial risks guided by written policies and procedures to identify and manage risk.

The Bank's Internal Audit department which is independent, reports to the Board Audit Committee and provides an independent confirmation that Group business standards, policies and procedures are being complied with.

Statement of Directors' Responsibilities

The Directors are responsible for the preparation and presentation of the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 8 to 67 which comprise the statement of financial position at 31 December 2015, statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act the directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the operating results of the company for that period. It also requires the directors to ensure the company keeps proper accounting records which disclose with reasonable accuracy the financial position of the company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results.

The Directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

The Directors have made an assessment of the Company's ability to continue as a going concern and have no reason to believe the Company will not be a going concern for at least the next twelve months from the date of this statement.

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 23 February 2016 and were signed on its behalf by:

Director
Dennis Awori

Director
Suzanne Kasinge

Director
Monica Kerrets-Makau

Company Secretary
Anne Guitau

Report of the Independent Auditors

To the members of BANK OF AFRICA - KENYA limited

Report on the financial statements

We have audited the financial statements of BANK OF AFRICA - KENYA Limited set out on pages 8 to 67 which comprise the statement of financial position at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and a 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

As stated on page 5, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of Kenya, and for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls 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 management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on other legal requirements

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

(i) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit;

(ii) In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books; and

(iii) The statement of profit or loss and other comprehensive income and statement of financial position of the Company are in agreement with the books of account.

The Engagement Partner responsible for the audit resulting in this independent auditors' report is FCPA Eric Aholi - P/1471

Financial Statements

For the year ended 31 december 2015

Statement of profit or loss and other comprehensive income

	NOTE	2015 KSHS 000	2014 KSHS 000
IINTEREST INCOME	5	6,914,635	5,635,385
INTEREST EXPENSE	6	(3,764,295)	(3,157,464)
NET INTEREST INCOME		3,150,340	2,477,921
FEE AND COMMISSION INCOME	7	813,443	704,731
FEE AND COMMISSION EXPENSE	7	(9,538)	(23,932)
NET FEE AND COMMISSION INCOME		803,905	680,799
NET FOREIGN EXCHANGE INCOME		317,864	198,815
OTHER OPERATING INCOME	8	-	8,751
TOTAL INCOME		4,272,109	3,366,286
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	17	(2,777,945)	(561,825)
NET OPERATING INCOME		1,494,164	2,804,461
STAFF COSTS	9	(1,295,499)	(1,170,331)
DEPRECIATION AND AMORTISATION	10	(216,766)	(187,534)
OTHER OPERATING COSTS	11	(1,399,381)	(1,281,208)
TOTAL OPERATING EXPENSES		(2,911,646)	(2,639,073)
(LOSS)/PROFIT FROM OPERATIONS		(1,417,482)	165,388
SHARE OF PROFIT OF ASSOCIATES	31	3,558	47,218
LOSS ON LOSS OF CONTROL	31	(20,264)	(8,940)
(LOSS)/PROFIT BEFORE INCOME TAX		(1,434,188)	203,666
INCOME TAX CREDIT/ (EXPENSE)	12	410,827	(59,555)
(LOSS)/PROFIT FOR THE YEAR		(1,023,361)	144,111
OTHER COMPREHENSIVE INCOME			
ITEMS THAT MAY SUBSEQUENTLY BE RECLASSIFIED TO PROFIT OR LOSS			
NET CHANGES IN FAIR VALUE OF AVAILABLE FOR SALE INVESTMENTS	16(A)	(37,678)	-
DEFERRED TAX ON FAIR VALUE ON AVAILABE FOR SALE INVESTMENTS	18	1,884	-
FOREIGN CURRENCY TRANSLATION DIFFERENCES FOR FOREIGN OPERATIONS	31	(58,528)	-
OTHER COMPREHENSIVE INCOME, NET OF TAX		(94,322)	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		(1,117,683)	144,111

Statement of financial position

	NOTE	2015 KSHS 000	2014 KSHS 000
ASSETS			
CASH AND BALANCES WITH CENTRAL BANK	14	5,953,628	5,941,665
DUE FROM OTHER BANKING INSTITUTIONS	15	7,986,755	2,948,045
DUE FROM GROUP BANKS	30 (A)	5,245,893	3,849,117
INVESTMENT SECURITIES- AVAILABLE FOR SALE	16(A)	610,488	83,884
INVESTMENT SECURITIES- HELD TO MATURITY	16(B)	6,487,110	7,142,239
LOANS AND ADVANCES TO CUSTOMERS	17	37,798,691	38,463,876
CURRENT INCOME TAX RECOVERABLE	12	-	141,197
DEFERRED INCOME TAX	18	768,899	158,689
OTHER ASSETS	19	955,848	943,719
PROPERTY AND EQUIPMENT	20	2,332,484	854,791
INTANGIBLE ASSETS	21	60,659	74,131
INVESTMENT IN ASSOCIATE	31	1,079,812	600,822
INVESTMENT IN SUBSIDIARY	32	-	1,009,466
TOTAL ASSETS		69,280,267	62,211,641
LIABILITIES			
CUSTOMER DEPOSITS	23	47,487,589	41,670,812
DUE TO OTHER BANKING INSTITUTIONS	24	15,870	626,453
DUE TO GROUP BANKS	30(B)	5,663,228	7,402,067
CURRENT INCOME TAX PAYABLE	12	17,206	-
OTHER LIABILITIES	25	806,213	449,087
LONG TERM LIABILITIES	33	6,794,425	4,150,013
TOTAL LIABILITIES		60,784,531	54,298,432
SHAREHOLDERS' EQUITY (PAGE 10)			
SHARE CAPITAL	26	6,404,949	5,275,991
SHARE PREMIUM	26	1,980,356	1,409,104
STATUTORY CREDIT RISK RESERVE	27	49,729	347,356
FAIR VALUE RESERVE	16(A)	(35,794)	-
FOREIGN CURRENCY TRANSLATION RESERVE	31	(58,528)	-
RETAINED EARNINGS		155,024	880,758
TOTAL SHAREHOLDERS' EQUITY		8,495,736	7,913,209
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		69,280,267	62,211,641

The financial statements on pages 8 to 67 were approved for issue by the Board of Directors on 23 February 2016 and signed on its behalf by:

Director
Dennis Awori

Director
Suzanne Kasinge

Director
Monica Kerrets-Makau

Company Secretary
Anne Guitau

The notes on pages 12 to 67 are an integral part of these financial statements.

Statement of changes in equity

	NOTES	SHARE CAPITAL KSHS 000	SHARE PREMIUM KSHS 000	STATUTORY CREDIT RISK RESERVE KSHS 000	FAIR VALUE RESERVE KSHS 000	FOREIGN CURRENCY RESERVE KSHS 000	TRANSLATION EARNINGS KSHS 000	RETAINED DIVIDEND KSHS 000	PROPOSED EQUITY KSHS 000
AT 1 JANUARY 2015		5,275,991	1,409,104	347,356	-	-	880,758	-	7,913,209
TOTAL COMPREHENSIVE INCOME									
LOSS FOR THE YEAR		-	-	-	-		(1,023,361)	-	(1,023,361)
TRANSFER TO RETAINED EARNINGS	27	-	-	(297,627)	-	-	297,627	-	-
NET CHANGE IN FAIR VALUE ON AFS FINANCIAL ASSETS, NET OF DEFERRED TAX	-	-	-	(35,794)	-	-	-	(35,794)	
FOREIGN CURRENCY TRANSLATION DIFFERENCES ON FOREIGN OPERATIONS	31	-	-	-	-	(58,528)	-	-	(58,528)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	(297,627)	(35,794)	(58,528)	(725,734)	-	(1,117,683)
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
ISSUE OF SHARES	26	1,128,958	571,252	-	-	-	-	-	1,700,210
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		1,128,958	571,252	-	-	-	-	-	1,700,210
AT 31 DECEMBER 2015		6,404,949	1,980,356	49,729	(35,794)	(58,528)	155,024	-	8,495,736
AT 1 JANUARY 2014		4,167,663	758,515	91,932	-	-	992,071	528,979	6,539,160
TOTAL COMPREHENSIVE INCOME									
PROFIT FOR THE YEAR		-	-	-	-	-	144,111	-	144,111
TRANSFER TO STATUTORY CREDIT RISK RESERVE	27	-	-	255,424	-	-	(255,424)	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		-	-	255,424	-	-	(111,313)	-	144,111
TRANSACTIONS WITH OWNERS, RECORDED DIRECTLY IN EQUITY									
ISSUE OF SHARES	26	1,108,328	650,589	-	-	-	-	-	1,758,917
DIVIDENDS:									
PAID (FINAL FOR 2013)	13	-	-	-	-	-	-	(528,979)	(528,979)
TOTAL CONTRIBUTIONS BY AND DISTRIBUTIONS TO OWNERS		1,108,328	650,589	-	-	-	-	(528,979)	1,229,938
AT 31 DECEMBER 2014		5,275,991	1,409,104	347,356	-	-	880,758	-	7,913,209

Statement of cash flows

	NOTE	2015 KSHS 000	2014 KSHS 000
CASH FLOWS FROM OPERATING ACTIVITIES			
INTEREST RECEIPTS		7,008,828	5,478,390
INTEREST PAYMENTS		(3,622,177)	(3,200,335)
NET FEE AND COMMISSION RECEIPTS		803,905	680,799
NET FOREIGN CURRENCY INCOME		317,864	198,815
OTHER INCOME RECEIVED		-	8,751
RECOVERIES FROM LOANS PREVIOUSLY WRITTEN OFF		23,483	24,233
PAYMENTS TO EMPLOYEES AND SUPPLIERS		(2,677,164)	(2,451,539)
INCOME TAX PAID	12	(39,096)	(389,072)
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		1,815,643	350,042
CHANGES IN OPERATING ASSETS AND LIABILITIES:			
LOANS AND ADVANCES		(2,059,104)	(7,372,529)
CASH RESERVE REQUIREMENT		(112,258)	(259,725)
OTHER ASSETS		(12,129)	(261,754)
CUSTOMER DEPOSITS		5,816,777	4,930,727
DEPOSITS (TO)/ FROM OTHER BANKS		312,463	(924,180)
AMOUNTS DUE (TO)/ FROM GROUP COMPANIES		(1,335,343)	(2,015,736)
OTHER LIABILITIES		357,126	873
NET CASH FROM / (USED IN) OPERATING ACTIVITIES		4,783,175	(5,552,282)
CASH FLOWS FROM INVESTING ACTIVITIES			
INVESTMENT IN SUBSIDIARY	32	-	(209,054)
INVESTMENT IN ASSOCIATE	31	(109,040)	(136,426)
PURCHASE OF PROPERTY AND EQUIPMENT	20	(1,681,663)	(346,529)
PURCHASE OF INTANGIBLE ASSETS	21	(17,051)	(27,983)
PROCEEDS FROM SALE OF PROPERTY AND EQUIPMENT		-	2,925
MATURING OF INVESTMENT SECURITIES		1,449,567	527,079
NET CASH USED IN INVESTING ACTIVITIES		(358,187)	(189,988)
CASH FLOWS FROM FINANCING ACTIVITIES			
ISSUE OF ORDINARY SHARES	26	1,700,210	1,758,917
PROCEEDS FROM BORROWINGS	33	2,914,125	1,355,578
REPAYMENT OF BORROWINGS	33	(583,151)	(338,192)
DIVIDENDS PAID		-	(528,979)
NET CASH GENERATED FROM FINANCING ACTIVITIES		4,031,184	2,247,324
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS		8,456,172	(3,494,946)
AT START OF YEAR		3,422,652	6,917,598
AT YEAR END	29	11,878,824	3,422,652

Notes to the Financial Statements

For the year ended 31 December 2015

1. General information

BANK OF AFRICA - KENYA Limited is incorporated in Kenya under the Kenyan Companies Act as a limited liability company, and is domiciled in Kenya. The company is regulated by the Central Bank of Kenya. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. The address of its registered office is:

RE-INSURANCE PLAZA
TAIFA ROAD
P.O.BOX 69562
00400 NAIROBI

2. Summary of significant accounting policies

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

2.1. Basis of preparation

(a) Statement of Compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and the Kenyan Companies Act. For Kenyan Companies Act reporting purposes in these financial statements, the balance sheet is represented by the statement of financial position, and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

(b) Basis of measurement

The measurement basis used is the historical cost basis except for fair valuation of certain assets as disclosed in the accounting policies below.

(c) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical

accounting estimates. It also requires management to exercise its judgment in the process of applying the bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

(d) Changes in accounting policy and disclosures

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Bank's interests in other entities.

IFRS 15 Revenue from Contracts with Customers

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services.

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption is permitted.

The Bank is assessing the potential impact on its financial statements resulting from the application of IFRS 15.

IFRS 9: Financial Instruments (2014)

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement.

This standard introduces changes in the measurement bases of the financial assets to amortised cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model.

The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

The adoption of this standard is expected to have a significant impact the financial statements of the Bank.

(i) New standards, amendments and interpretations effective and adopted by the Bank

There are new tandards, amendments and interpretations effective for periods beginning or after 1 January 2015 that affect the Bank.

(ii) New and amended standards and interpretations in issue but not yet effective for the year/period ended 31 December 2015.

New standard or amendments	Effective for annual periods beginning on or after
Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)	1 January 2016
Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)	1 January 2016
Amendments to IAS 41 - Bearer Plants (Amendments to IAS 16 and IAS 41)	1 January 2016
Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciations and Amortisation	1 January 2016
Equity Method in Separate Financial Statements (Amendments to IAS 27)	1 January 2016
IFRS 14 Regulatory Deferral Accounts	1 January 2016
Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)	1 January 2016
Disclosure Initiative (Amendments to IAS 1)	1 January 2016
IFRS 15 Revenue from Contracts with Customers	1 January 2018
IFRS 9 Financial Instruments (2014)	1 January 2018
IFRS 16 Leases	1 January 2019

All Standards and Interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the entity).The following are expected to affect the Bank's financial statements;

Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised

The amendments will be effective from annual periods commencing on or after 1 January 2016.

The adoption of these changes will not affect the amounts and disclosures of the Bank's transactions with associates or joint ventures

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

The amendments to IAS 16 Property, Plant and Equipment explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Bank's property, plant and equipment and intangible assets.

Equity Method in Separate Financial Statements (Amendments to IAS 27)

The amendments allow the use of the equity method in separate financial statements, and apply to the accounting not only for associates and joint ventures but also for subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016 with early adoption permitted.

The adoption of these changes will not affect the amounts and disclosures of the Bank's interests in other entities.

Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)

The amendment to IFRS 10 Consolidated Financial Statements clarifies which subsidiaries of an investment entity are consolidated instead of being measured at fair value through profit and loss. The amendment also modifies the condition in the general consolidation exemption that requires an entity's parent or ultimate parent to prepare consolidated financial statements. The amendment clarifies that this condition is also met where the ultimate parent or any intermediary parent of a parent entity measures subsidiaries at fair value through profit or loss in accordance with IFRS 10 and not only where the ultimate parent or intermediate parent consolidates its subsidiaries.

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities.

The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.

The adoption of these changes will not affect the amounts and disclosures of the Bank's interests in other entities.

Disclosure Initiative (Amendments to IAS 1)

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements.

IFRS 16: Leases

On 13 January 2016 the IASB issued IFRS 16 Leases, completing the IASB's project to improve the financial reporting of leases. IFRS 16 replaces the previous leases standard, IAS 17 Leases, and related interpretations.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The standard defines a lease as a contract that conveys to the customer ('lessee') the right to use an asset for a period of time in exchange for consideration. A company assesses whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time.

The standard eliminates the classification of leases as either operating leases or finance leases for a lessee and introduces a single lessee accounting model. All leases are treated in a similar way to finance leases. Applying that model significantly affects the accounting and presentation of leases and consequently, the lessee is required to recognise:

a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.

b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. However, compared to IAS 17, IFRS 16 requires a lessor to disclose additional information about how it manages the risks related to its residual interest in assets subject to leases.

The standard does not require a company to recognise assets and liabilities for:

a) short-term leases (i.e. leases of 12 months or less) and;

b) leases of low-value assets

The new Standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted insofar as the recently issued revenue Standard, IFRS 15 Revenue from Contracts with Customers is also applied).

The adoption of this standard is expected to have a significant impact the financial statements of the Bank.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Bank has control. The Bank controls an entity when the Bank is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Bank. They are deconsolidated from the date that control ceases.

The Bank applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the bank. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying of the acquirer's previously held equity interest in the acquiree is re-measured value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the bank is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss (note 2.6).

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

(b) Disposal of subsidiaries

When the Bank ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.

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

(c) Associates

Associates are all entities over which the Bank has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Bank's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Bank's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the Bank's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Bank.

2.3 Foreign currency translation

2.3.1 Functional and presentation currency

Items included in the financial statements of the Bank's entities are measured using the currency of the primary economic environment in which entity operates ('the functional currency') which is in Kenya shillings. Except as otherwise indicated, financial information presented in Kenya shillings (Kshs) has been rounded to the nearest thousand.

2.3.2 Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. All other foreign exchange gains and losses (including those that relate to borrowings and cash and cash equivalents) are presented in profit or loss for the year within "other gains / losses".

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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

2.3.3 Interests in foreign operations

The results and financial position of all interests in foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2.5 Financial assets and liabilities

2.5.1 Financial assets

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

2.5.1.1 Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively. Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss'.

2.5.1.2 Loans and receivables

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

- those that the group intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;

- those that the group upon initial recognition designates as available-for-sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

2.5.1.4 Available-for-sale financial assets

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

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and cumulated in a separate reserve in equity, fair value reserve, until the financial asset is derecognised. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in profit or loss.

2.5.2 Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers, long term liabilities and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

2.5.3 Determination of fair value

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

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

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at the reporting dates.

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market-observable.

For more complex instruments, the Bank uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models such as present value techniques are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions. The impact on net profit of financial instrument valuations reflecting non-market observable inputs (level 3 valuations) is disclosed in Note 4.

The Bank uses its own credit risk spreads in determining the current value for its derivative liabilities and all other liabilities for which it has elected the fair value option. When the group's credit spreads widen, the group recognises a gain on these liabilities because the value of the liabilities has decreased. When the group's credit spreads narrow, the group recognises a loss on these liabilities because the value of the liabilities has increased.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the group holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, related controls and procedures applied, the directors believe that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of the current market developments.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

2.5.4 De-recognition

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

2.5.5 Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading 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 other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the group 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 group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

2.5.6 Classes of financial instruments

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

Category (as defined by IAS 39)		Class (as determined by the Bank)	Subclasses
Financial assets available for sale		Unlisted equity securities	
Loans and receivables		Loans and advances to banks	
		Loans and advances to customers	SMEs Corporates Retail
		Investment securities - debt instruments	Listed Unlisted
Held-to-maturity Investments		Investment securities - debt securities	Listed Unlisted
		Investment securities - equity securities	Listed Unlisted
Financial liabilities	Financial liabilities at armortised cost	Deposits from banks Deposits from customers	
Off-balance sheet financial Instruments		Loan commitments Guarantees, acceptances and other financial facilities	

2.6 Impairment of financial assets

2.6.1 Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

a. significant financial difficulty of the issuer or obligor;

b. a breach of contract, such as a default or delinquency in interest or principal payments;

c. the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

d. it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

e. the disappearance of an active market for that financial asset because of financial difficulties; or

f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

    i. adverse changes in the payment status of borrowers in the portfolio; and

    ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 months; in exceptional cases, longer periods are warranted.

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

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in 'Net gains/(losses) on investment securities'.

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

2.6.2 Assets classified as available-for-sale

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

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

2.8 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.9 Property and equipment

Land and buildings comprise mainly branches and offices. All equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of the replaced part is de-recognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation of other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

2.10. Intangible assets

2.10.1. Computer software

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.11 Impairment of non-financial assets

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

2.12 Employee benefits

2.12.1 Pension obligations

The Bank operates a defined contribution retirement scheme, the assets of which are held in a separate trustee-administered fund. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

2.12.2 Other entitlements

The estimated monetary liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

2.13 Provisions for liabilities

Provisions for restructuring costs and legal claims 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 will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.14 Income tax

2.14.1 Current income tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2.14.2 Deferred income tax

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.15 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

2.16 Acceptances and letters of credit

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

2.17 Share capital

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

2.18 Leases

Leases are divided into finance leases and operating leases.

(i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. 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.

(ii) Finance lease

Leases of assets where the Bank has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in deposits from banks or deposits from customers depending on the counter party. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

The leases entered into by the Bank are primarily operating leases.

2.19 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

2.20 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognised as revenue when the syndication has been completed and the group has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants. Commission and fees arising from negotiating, or participating in the negotiation of, a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

2.21 Dividend income

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

2.22 Fiduciary activities

Assets held for clients in an agency or fiduciary capacity by the Bank are not assets of the Bank and are not included in the statement of financial position.

3. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Impairment losses on loans and advances

The Bank's loan impairment provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables. Impairment losses for specific loan assets are assessed either on an individual or on a portfolio basis. Individual impairment losses are determined as the difference between the loan carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate. Impairment losses determined on a portfolio basis are assessed based on the probability of default inherent within the portfolio of impaired loans or receivables.

Estimating the amount and timing of future recoveries involves significant judgment, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market. Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

3.2. Held-to-maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the group evaluates its intention and ability to hold such investments to maturity. If the group were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the group is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost.

3.3. Fair value

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

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

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

Level 2 – fair value measurements are derived from iputs other than quoted prices used in Level 1 that are observable for the assets or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs). Transfers between levels of the fair value hierarchy are recognised by the bank at the end of the reporting period during which the change occurred.

3.4 Taxes

Determining income tax liability involves judgment on the tax treatment of certain transactions. Deferred tax is recognised on temporary differences where it is probable that there will be taxable revenue against which these can be offset.

3.5 Depreciation of property and equipment

Critical estimates are made by the Directors in determining the useful lives of property and equipment.

4. Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally.The effective management of risk within the stated risk appetite is fundamental to the banking activities of the Bank.

Risk management is at the core of the operating and management structures of the Bank and this involves managing and controlling of risks and in particular avoiding undue concentration of exposures, limiting potential loses from stress events and constraining profit or loss volatility. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

The overall responsibility for risk management within the Bank rests with the Board of Directors. Through the risk management structure, the Bank seeks to manage efficiently the core risks i.e credit, liquidity and market risks which arise directly through the Bank's commercial activities. Accountability for risk management resides at all levels within the Bank, from the Executive down through the organisation to each business manager and risk owner.

On a day to day basis, risks are managed through a number of management committees. Through this process the Bank's monitors compliance with overall risk management policies. The Bank's risk management policies are approved by the Board and they identify,analyse the risks faced by the Bank as well as the appropriate risk limits and controls.

The Bank's Risk Management 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 group. Risk Management information is provided on a regular basis to the Board Risk Management & Compliance Committe.

The Board Audit Committe is responsible for monitoring compliance with the Bank's risk management policies and procedures and for reviewing the robustness of the risk management framework in relation to the risks faced by the Bank.

4.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfil their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances.

4.1.1 Credit risk management

Credit risk is the single largest risk for the group's business; the Directors therefore carefully manage the exposure to credit risk. It is managed in accordance with the Groups risk management control framework approved by the Board.

The Group's Credit Policy/Framework reflects the Groups' tolerance for risk i.e. credit risk appetite. This, as a minimum, reflects the Groups' strategy to grant credit based on various products, economic sectors, client segments, target markets giving due consideration to risks specific to each target market.

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 against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees.

4.1.2 Credit risk measurement

The Bank establishes, through charges against profit, impairment allowances and other credit provisions for the incurred loss inherent in the lending book. Under IFRS, impairment allowances are recognized where there is objective evidence of impairement as a result of one or more loss events that have occurred after initial recognition, and where these events have had an impact on the estimated cashflows of the financial asset or portfolio of financial assets.

Impairment of loans and receivables is measured as the difference between the carrying amount of present value of estimated cashflows discounted at the financial assets original effective interest rate. If the carrying amount is less than the discounted cash flows, then no further allowance is necessary.

4.1.3 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, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. 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 sublimits 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) 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 advances, which is common practice. The Bank implements guidelines

on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises, inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

(b) Lending limits (for derivative and loan books)

The Bank maintains strict control limits on net open derivative positions (that is, the difference between purchase and sale contracts) by both amount and term. The amount subject to credit risk is limited to expected future net cash inflows of instruments, which in relation to derivatives are only a fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not always obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the Bank's market transactions on any single day.

(c) 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 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 loan.

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 (often referred to as financial covenants).

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.

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

All financial instruments' carrying amounts as per the statement of financial position represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements.

Off balancesheet items carrying amounts represents the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements as disclosed in note 27.

67% of the total maximum exposure is derived from loans and advances to banks and customers (2014: 60%); 12% represents investments in securities (2014: 11%).

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:

- 78% of the loans and advances portfolio are considered to be neither past due nor impaired (normal grade), (2014: 88%) and;
- More than 99% of the Investments securities are in Government securities which are deemed low risk.

(i) Other financial assets

	2015 KSHS'000	2014 KSHS'000
NEITHER PAST DUE NOR IMPAIRED		
CASH AND BANK BALANCES WITH CENTRAL BANK	5,953,628	5,941,665
DUE FROM OTHER BANKING INSTITUTIONS	7,986,755	2,948,045
DUE FROM GROUP BANKS	5,245,893	3,849,117
INVESTMENT SECURITIES – AVAILABLE FOR SALE	610,488	83,884
INVESTMENT SECURITIES - HELD TO MATURITY	6,487,110	7,142,239
OTHER ASSETS	112,097	192,867
TOTAL	26,395,971	20,157,817

In the assessment of management, no credit exposure is expected on other financial assets.

(ii) Loans and advances analysis

Loans and advances are summarised as follows:

	2015 KSHS'000	2014 KSHS'000
NEITHER PAST DUE NOR IMPAIRED	31,006,191	34,600,297
PAST DUE BUT NOT IMPAIRED	614,066	2,292,365
INDIVIDUALLY IMPAIRED	9,743,665	2,412,156
GROSS	41,363,922	39,304,818
LESS: IMPAIRMENT OF LOANS AND ADVANCES (NOTE 17)	(3,565,231)	(840,942)
NET LOANS AND ADVANCES	37,798,691	38,463,876

No other financial assets are either past due or impaired.

Loans and advances neither past due nor impaired

	2015 KSHS'000	2014 KSHS'000
STANDARD (NORMAL GRADE)	31,006,191	34,600,297

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2015 KSHS'000	2014 KSHS'000
PAST DUE UP TO 30 DAYS	286,479	308,196
PAST DUE 31-60 DAYS	228,912	39,549
PAST DUE 61-90 DAYS	98,675	26,095
PAST DUE > 90 DAYS	-	1,918,525
TOTAL PAST DUE LOANS AND ADVANCES	614,066	2,292,365

Individually assessed impaired loans and advances comprising:

	2015 KSHS'000	2014 KSHS'000
- CORPORATE	6,640,631	1,373,624
- RETAIL	1,122,916	214,982
- SME	1,980,118	823,550
IMPAIRED LOANS AND ADVANCES	9,743,665	2,412,156

The bank's policy is to dispose of any repossessed collateral on the open market at market value.

Collateral repossessed

As at the reporting date, the Bank had possession of the following collateral:

	2015 KSHS'000	2014 KSHS'000
RESIDENTIAL PROPERTY	21,166	28,410
MOTOR VEHICLES	13,130	26,925
TOTAL COLLATERAL REPOSSESSED	34,296	55,335

Concentrations of risk

Economic sector risk concentrations within the customer loan portfolio were as follows:

BY ECONOMIC SECTOR	2015 KSHS'000	2014 KSHS'000
WHOLESALE/RETAIL	7,971,327	7,543,642
MANUFACTURING	6,780,888	8,815,667
AGRICULTURE	1,069,319	1,111,470
CONSTRUCTION	3,864,303	6,224,048
TRANSPORT	3,981,565	3,198,966
INDIVIDUAL/PERSONAL	8,822,812	3,552,898
SERVICES	2,348,846	2,473,705
FINANCIAL INSTITUTIONS	1,123,055	631,512
TOURISM	343,822	369,518
COMMUNICATION	1,180,034	1,122,718
HOSPITALITY	398,071	271,320
OTHERS	3,479,880	3,989,354
TOTAL ON BALANCE SHEET EXPOSURE	41,363,922	39,304,818
ACCEPTANCES AND LETTERS OF CREDIT	3,781,511	1,595,440
GUARANTEE AND PERFORMANCE BONDS	9,811,666	12,154,508
COMMITMENTS TO LEND	2,996,829	2,583,490
TOTAL NON-FUNDED EXPOSURE	16,590,006	16,333,438
TOTAL	57,953,928	55,638,256

4.2 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives.

Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

4.2.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Assets & Liabilities Committee (ALCO) includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The group maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

A key measure of liquidity risk is the ratio of net liquid assets to deposit liabilities. The Central Bank of Kenya requires banks to maintain a statutory minimum ratio of 20% of liquid assets to all its deposit liabilities. For this purpose, liquid assets comprise cash and balances with Central Bank of Kenya, net loans and advances with banks, treasury bonds and bills and net balances with banks abroad. Deposit liabilities comprise deposits from customers and other liabilities that have matured or maturing within 91 days.

The Bank also monitors on a regular basis the advances to deposits ratio. This is defined as the ratio of total loans and advances to customers relative to total customer deposits. A low advances to deposits ratio demonstrates that customer deposits exceed customer loans resulting from the emphasis placed on generating a high level of stable funding from customers.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

4.2.2 Non-derivative financial liabilities and assets held for managing liquidity risk

AT 31 DECEMBER 2015

	UP TO 1 MONTH KSHS'000	1-3 MONTHS KSHS'000	3-12 MONTHS KSHS'000	1-5 YEARS KSHS'000	>5 YEARS KSHS'000	TOTAL KSHS'000
CUSTOMER DEPOSITS	24,473,453	12,949,269	10,542,543	1,843	20,067	47,987,175
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	15,870	-	-	-	-	15,870
AMOUNTS DUE TO GROUP BANKS	2,454,630	1,354,232	1,871,699			5,680,561
LONG TERM LIABILITIES	-	-	478,021	6,169,372	1,087,475	7,734,868
OTHER LIABILITIES	362,977	-	-	-	-	362,977
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	27,306,930	14,303,501	12,892,263	6,171,215	1,107,542	61,781,451
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	27,116,175	5,210,984	4,823,126	14,473,517	12,888,007	64,511,809

AT 31 DECEMBER 2014

	UP TO 1 MONTH KSHS'000	1-3 MONTHS KSHS'000	3-12 MONTHS KSHS'000	1-5 YEARS KSHS'000	>5 YEARS KSHS'000	TOTAL KSHS'000
CUSTOMER DEPOSITS	14,455,793	15,715,876	8,424,022	3,629,767	-	42,225,458
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	544,620	-	82,432	-	-	627,052
AMOUNTS DUE TO GROUP BANKS	2,609,103	2,026,489	2,799,802	-	-	7,435,394
LONG TERM LIABILITIES	-	115,320	442,781	2,638,882	2,207,209	5,404,192
OTHER LIABILITIES	197,544	-	-	-	-	197,544
TOTAL FINANCIAL LIABILITIES (CONTRACTUAL MATURITY DATES)	17,807,060	17,857,685	11,749,037	6,268,649	2,207,209	55,889,640
ASSETS HELD FOR MANAGING LIQUIDITY (CONTRACTUAL MATURITY DATES)	29,621,250	5,021,827	2,167,090	12,354,097	10,208,279	59,372,543

Assets held for managing liquidity risk

The Bank has access to a diverse funding base. Funds are raised using a broad range of instruments including deposits, other liabilities evidenced by paper and share capital. This enhances funding flexibility, limits dependence on any one source of funds. The Bank strives to maintain a balance between continuity of funding and flexibility through the use of liabilities with a range of maturities. The Bank continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Bank strategy. In addition, the Bank holds a portfolio of liquid assets as part of its liquidity risk management strategy.

4.3 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are concentrated in Bank Treasury and monitored by two teams separately. Regular reports are submitted to the Assets and Liabilities Committee (ALCO), Heads of each business unit and the Board of Directors.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market.

Non-trading portfolios primarily arise from the interest rate management of the entity's Retail and Enterprise banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's held-to-maturity and available-for-sale financial assets.

Overall authority for market risk for both trading and non-trading portfolios is vested in Assets and Liabilities Committee (ALCO). The bank's Risk department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

4.3.1 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.The table below summarises the Group's and the Company's exposure to foreign currency exchange rate risk as at 31 December 2015. Included in the table are the Group's and the Bank's financial instruments categorised by currency:

AT 31 DECEMBER 2015

	USD KSHS'000	GBP KSHS'000	EUR KSHS'000	OTHERS KSHS'000	TOTAL KSHS'000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	753,741	63,569	183,553	1,725	1,002,588
PLACEMENTS WITH BANKS	4,268,189	90,399	862,199	54,877	5,275,664
AMOUNTS DUE FROM GROUP COMPANIES	4,216,005	-	583,862	186,329	4,986,196
LOANS AND ADVANCES	14,863,716	26,311	859,721	36,498	15,786,246
OTHER ASSETS	41,116	-	9,308	10,472	60,896
TOTAL FINANCIAL ASSETS	24,142,767	180,279	2,498,643	289,901	27,111,590
LIABILITIES					
CUSTOMER DEPOSITS	13,333,913	187,209	854,062	7,559	14,382,743
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	15,777	-	-	93	15,870
AMOUNTS DUE TO GROUP BANKS	5,364,185	-	57,549	236,829	5,658,563
LONG TERM LIABILITIES	5,425,759	-	1,368,666	-	6,794,425
OTHER LIABILITIES	12,319	140	43,304	627	56,390
TOTAL FINANCIAL LIABILITIES	24,151,953	187,349	2,323,581	245,108	26,907,991
NET ON-BALANCE SHEET POSITION	(9,186)	(7,070)	175,062	44,793	203,599
NET OFF-BALANCE SHEET POSITION	32,859	5,266	(173,444)	(92,072)	(227,390)
NET OVERALL POSITION	23,673	(1,804)	1,618	(47,279)	(23,791)

AS AT 31 DECEMBER 2014

	USD KSHS'000	GBP KSHS'000	EUR KSHS'000	OTHERS KSHS'000	TOTAL KSHS'000
ASSETS					
CASH AND BALANCES WITH CENTRAL BANK	556,141	31,066	73,227	6,770	667,204
PLACEMENTS WITH BANKS	2,164,337	77,868	157,677	148,014	2,547,896
AMOUNTS DUE FROM GROUP COMPANIES	2,877,062	-	670,879	197,843	3,745,784
LOANS AND ADVANCES	12,462,466	38,753	720,234	21,629	13,243,082
OTHER ASSETS	66,265	523	12,008	41	78,837
TOTAL FINANCIAL ASSETS	18,126,271	148,210	1,634,025	374,297	20,282,803
LIABILITIES					
CUSTOMER DEPOSITS	8,215,244	105,298	573,075	5,741	8,899,358
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	588,644	-	37,765	46	626,455
AMOUNTS DUE TO GROUP BANKS	6,969,136	-	421,488	8,777	7,399,401
LONG TERM LIABILITIES	2,733,482	-	1,416,531	-	4,150,013
OTHER LIABILITIES	8,763	132	3,264	170	12,329
TOTAL FINANCIAL LIABILITIES	18,515,269	105,430	2,452,123	14,734	21,087,556
NET ON-BALANCE SHEET POSITION	(388,998)	42,780	(818,098)	359,563	(804,753)
NET OFF-BALANCE SHEET POSITION	134,736	(42,385)	786,120	(157,217)	721,254
NET OVERALL POSITION	(254,262)	395	(31,978)	202,346	(83,499)

Foreign exchange risk sensitivity analysis

At 31 December 2015 if the shilling had strengthened or weakened by 5% against major trading currencies, with other variables held constant, the impact on after tax profit / equity would have been as shown below. This analysis is performed on the same basis for 2014.

	2015	2014
	KSHS'000	KSHS'000
+ 5% MOVEMENT	(7,126)	(28,166)
5% MOVEMENT	7,126	28,166

4.3.2 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

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

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

AT 31 DECEMBER 2015

	EFFECTIVE BALANCE RATE	UP TO 1 KSHS'000	MONTHS 1-3 KSHS'000	3-12 KSHS'000	> 12 KSHS'000	NON INTEREST BEARING KSHS'000	TOTAL KSHS'000
CASH AND BALANCES WITH CENTRAL BANK	-	-	-	-	-	5,953,628	5,953,628
INVESTMENT SECURITIES-HTM	7.46%	1,517,520	105,977	261,795	4,601,818	-	6,487,110
PLACEMENTS WITH BANKS	5.51%	7,986,755	-	-	-		7,986,755
AMOUNTS DUE FROM GROUP COMPANIES	2.74%	1,878,563	1,245,885	2,121,445	-	-	5,245,893
OTHER ASSETS	-	-	-	-	-	112,097	112,097
INVESTMENT SECURITIES	-	-	-	-	-	610,488	610,488
LOANS AND ADVANCES	14.45%	8,823,861	3,859,122	25,115,708	-	-	37,798,691
TOTAL FINANCIAL ASSETS		20,206,699	5,210,984	27,498,948	4,601,818	6,676,213	64,194,662
CUSTOMER DEPOSITS	7.40%	14,654,304	12,653,820	10,403,630	14,728	9,761,107	47,487,589
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	-	15,870	-	-	-	-	15,870
AMOUNTS DUE TO GROUP BANKS	3.20%	2,452,997	1,348,350	1,861,881	-	-	5,663,228
LONG TERM LIABILITIES	4.55%	-	-	469,097	6,325,328	-	6,794,425
OTHER LIABILITIES	-	-	-	-	-	362,977	362,977
TOTAL FINANCIAL LIABILITIES		17,123,171	14,002,170	12,734,608	6,340,056	10,124,084	60,324,089
INTEREST SENSITIVITY GAP		3,083,528	(8,791,186)	14,764,340	(1,738,238)	(3,447,871)	3,870,573

4.4 Fair value of financial instruments

(a) Account classification and fair values

The table below sets out the Bank's classification of each class of financial assets and liabilities, and their fair values (excluding accrued interest):

		CARRYIING VALUES					FAIR VALUES HIERARCHY			
	NOTES	AVAILABLE FOR SALE KSHS 000	HELD TO MATURITY KSHS 000	LOAN AND RECEIVABLE KSHS 000	OTHER FINANCIAL LIABILITIES KSHS 000	TOTAL KSHS 000	LEVEL 1 KSHS 000	LEVEL 2 KSHS 000	LEVEL 3 KSHS 000	TOTAL
AT 31 DECEMBER 2015										
FINANCIAL ASSETS MEASURED AT FAIR VALUE										
INVESTMENT SECURITIES AVAILABLE FOR SALE	16 (A)	610,488	-	-	-	610,488	-	610,488	-	610,488
		610,488	-	-	-	610,488	-	610,488	-	610,488
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE										
CASH AND BALANCES WITH CENTRAL BANK	14	-	-	5,953,628	-	5,953,628	-	5,953,628	-	5,953,628
DUE FROM OTHER BANKING INSTITUTIONS	15	-	-	7,986,755	-	7,986,755	-	7,986,755	-	7,986,755
INVESTMENTS IN GOVERNMENT SECURITIES	16 (B)	-	6,487,110	-	-	6,487,110	-	6,443,225	-	6,443,225
LOANS AND ADVANCES TO CUSTOMERS	17	-	-	37,798,691	-	37,798,691	-	37,798,691	-	37,798,691
OTHER ASSETS- UNCLEARED EFFECTS	19	-	-	112,097	-	112,097	-	112,097	-	112,097
DUE FROM GROUP BANKS	30 (A)	-	-	5,245,893	-	5,245,893	-	5,245,893	-	5,245,893
		-	6,487,110	57,097,064	-	63,584,174	-	63,540,289	-	63,540,289
TOTAL FINANCIAL ASSETS		610,488	6,487,110	57,097,064	-	64,194,662	-	64,150,777	-	64,150,777
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE										
CUSTOMER DEPOSIT	23	-	-	-	47,487,589	47,487,589	-	47,487,589	-	47,487,589
DUE TO OTHER BANKING INSTITUTIONS	24	-	-	-	15,870	15,870	-	15,870	-	15,870
DUE TO GROUP BANKS	30 (B)	-	-	-	5,663,228	5,663,228	-	5,663,228	-	5,663,228
LONG TERM LIABILITIES	33	-	-	-	6,794,425	6,794,425	-	6,769,538	-	6,769,538
OTHER LIABILITIES – BILLS PAYABLE	25	-	-	-	362,977	362,977	-	362,977	-	362,977
TOTAL FINANCIAL LIABILITIES		-	-	-	60,324,089	60,324,089	-	60,299,202	-	60,299,202

	CARRYIING VALUES						FAIR VALUES HIERARCHY			
	NOTES	AVAILABLE FOR SALE KSHS 000	HELD TO MATURITY KSHS 000	LOAN AND RECEIVABLE KSHS 000	OTHER FINANCIAL LIABILITIES KSHS 000	TOTAL KSHS 000	LEVEL 1 KSHS 000	LEVEL 2 KSHS 000	LEVEL 3 KSHS 000	TOTAL
AT 31 DECEMBER 2014										
FINANCIAL ASSETS MEASURED AT FAIR VALUE										
INVESTMENT SECURITIES AVAILABLE FOR SALE	16 (A)	83,884	-	-	-	83,884	-	83,884	-	83,884
		83,884	-	-	-	83,884	-	83,884	-	83,884
FINANCIAL ASSETS NOT MEASURED AT FAIR VALUE										
CASH AND BALANCES WITH CENTRAL BANK	14	-	-	5,941,665	-	5,941,665	-	5,941,665	-	5,941,665
DUE FROM OTHER BANKING INSTITUTIONS	15	-	-	2,948,045	-	2,948,045	-	2,948,045	-	2,948,045
INVESTMENTS IN GOVERNMENT SECURITIES	16 (B)	-	7,142,239	-	-	7,142,239	-	6,094,274	-	6,094,274
LOANS AND ADVANCES TO CUSTOMERS	17	-	-	38,463,876	-	38,463,876	-	38,463,876	-	8,463,876
OTHER ASSETS- UNCLEARED EFFECTS	19	-	-	192,867	-	192,867	-	192,867	-	192,867
DUE FROM GROUP BANKS	30 (A)	-	-	3,849,117	-	3,849,117	-	3,849,117	-	3,849,117
		-	7,142,239	51,395,570	-	58,537,809	-	57,489,844	-	57,489,844
TOTAL FINANCIAL ASSETS		83,884	7,142,239	51,395,570	-	58,621,693	-	57,573,728	-	57,573,728
FINANCIAL LIABILITIES NOT MEASURED AT FAIR VALUE										
CUSTOMER DEPOSIT	23	-	-	-	41,670,812	41,670,812	-	41,670,812	-	41,670,812
DUE TO OTHER BANKING INSTITUTIONS	24	-	-	-	626,453	626,453	-	626,453	-	626,453
DUE TO GROUP BANKS	30 (B)	-	-	-	7,402,067	7,402,067	-	7,402,067	-	7,402,067
LONG TERM LIABILITIES	33	-	-	-	4,150,013	4,150,013	-	4,117,165	-	4,117,165
OTHER LIABILITIES – BILLS PAYABLE	25	-	-	-	197,544	197,544	-	197,544	-	197,544
TOTAL FINANCIAL LIABILITIES		-	-	-	54,046,889	54,046,889	-	54,014,041	-	54,014,041

AT 31 DECEMBER 2014

	EFFECTIVE BALANCE RATE	UP TO 1 KSHS'000	MONTHS 1-3 KSHS'000	3-12 KSHS'000	> 12 KSHS'000	NON INTEREST BEARING KSHS'000	TOTAL KSHS'000
CASH AND BALANCES WITH CENTRAL BANK	-	-	-	-	-	5,941,665	5,941,665
INVESTMENT SECURITIES-HTM	7.01%	-	-	837,307	6,304,933	-	7,142,240
PLACEMENTS WITH BANKS	5.31%	2,553,552	394,493	-	-	-	2,948,045
AMOUNTS DUE FROM GROUP COMPANIES	3.32%	1,150,829	2,698,287	-	-	-	3,849,116
OTHER ASSETS	-	-	-	-	-	192,867	192,867
INVESTMENT SECURITIES	-	-	-	-	-	83,884	83,884
LOANS AND ADVANCES	13.10%	19,031,485	1,929,047	17,503,344	-	-	38,463,876
TOTAL FINANCIAL ASSETS		22,735,866	5,021,827	18,340,651	6,304,933	6,218,416	58,621,693
CUSTOMER DEPOSITS	7.26%	11,174,284	14,650,331	6,547,649	1,185,618	8,112,930	41,670,812
DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS	5.25%	544,423	-	82,030	-	-	626,453
AMOUNTS DUE TO GROUP BANKS	2.58%	2,607,480	2,018,137	2,776,449	-	-	7,402,066
LONG TERM LIABILITIES	5.10%	-	91,196	334,317	3,724,500	-	4,150,013
OTHER LIABILITIES	-	-	-	-	-	197,544	197,544
TOTAL FINANCIAL LIABILITIES		14,326,187	16,759,664	9,740,445	4,910,118	8,310,474	54,046,888
INTEREST SENSITIVITY GAP		8,409,679	(1,737,837)	8,600,206	1,394,815	(2,092,058)	4,574,805

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

Interest rate risk sensitivity analysis

At 31 December 2015 if interest rates were to increase or decrease by 2.5%, with other variables held constant, the impact on after tax profit / equity would have been as shown below. This analysis is performed on the same basis for 2014.

	2015 KSHS'000	2014 KSHS'000
+ 2.5% MOVEMENT	128,073	23,838
2.5% MOVEMENT	(128,073)	(23,838)

(b) Measurement of fair values

The following table shows the valuation techniques used in measuring Level 2 fair values as well as the significant unobservable inputs used.

Financial instruments measured at fair value

TYPE	GOVERNMENT SECURITIES
VALUATION TECHNIQUE	MARKET COMPARISON TECHNIQUE: THE FAIR VALUES OF THE GOVERNMENT SECURITIES ARE BASED ON THE PRICE OF THE SECURITIES IN THE STOCK EXCHANGES.
SIGNIFICANT UNOBSERVABLE INPUTS	NOT APPLICABLE
INTER-RELATIONSHIP BETWEEN SIGNIFICANT UNOBSERVABLE INPUTS AND FAIR VALUE MEASUREMENT	NOT APPLICABLE

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry company, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The following sets out the Bank's basis of establishing fair value of the financial instruments:

Cash and balances with Central Bank of Kenya

The fair value of cash and bank balances with the Central Bank of Kenya approximates their carrying amount.

Deposits and advances to banks

The fair value of floating rate placements and overnight deposits approximates their carrying amounts.

Loans and advances to customers

Loans and advances to customers are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received, including assumptions relating to prepayment rates. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances reprice within 12 months and hence the carrying amount is a good proxy of the fair value.

Investments in government securities

Investments in government securities are measured at amortised cost using the effective interest method. The estimated fair value represents the discounted amount of future cash flows expected to be received.

Deposits from banks and customers

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. The estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market.

A substantial proportion of deposits mature within 6 months and hence the carrying amount is a good proxy of the fair value.

4.5 Capital management

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

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

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs 1 Billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

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

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

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

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December 2015 and 2014. During those two years, the Bank complied with all of the externally imposed capital requirements to which it is subject.

	2015 KSHS '000	2014 KSHS '000
TIER 1 CAPITAL		
SHARE CAPITAL	6,404,949	5,275,991
SHARE PREMIUM	1,980,356	1,409,104
RETAINED EARNINGS	155,024	880,758
INVESTMENT IN SUBSIDIARY AND ASSOCIATE	(1,570,179)	(1,461,139)
TOTAL	6,970,150	6,104,714
TIER 2 CAPITAL		
SUBORDINATED DEBT	1,631,044	1,792,105
STATUTORY RESERVES	49,729	347,356
TOTAL REGULATORY CAPITAL	8,650,923	8,244,175
RISK WEIGHTED ASSETS		
ON BALANCE SHEET- CREDIT RISK	41,863,958	40,181,023
OFF BALANCE SHEET- CREDIT RISK	5,411,056	6,780,616
MARKET AND OPERATIONAL RISK	5,503,164	4,819,845
TOTAL RISK WEIGHTED ASSETS	52,778,178	51,781,484
DEPOSIT LIABILITIES	53,166,635	49,690,554
CAPITAL RATIOS		
CORE CAPITAL/TOTAL DEPOSIT LIABILITIES (CBK MINIMUM 8%) (2014: 8%)	13.1%	12.3%
CORE CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 10.5%) (2014: 10.5%)	13.2%	11.8%
TOTAL REGULATORY CAPITAL/TOTAL RISK WEIGHTED ASSETS (CBK MINIMUM 14.5%) (2014: 14.5%)	16.4%	15.9%

The increase of the regulatory capital in 2015 is mainly due to new additional share capital. The increase of the risk-weighted assets reflects the expansion of the business in 2015.

5. Interest income

	2015 KSHS '000	2014 KSHS '000
LOANS AND ADVANCES	5,945,696	4,689,582
GOVERNMENT AND OTHER SECURITIES	610,217	639,699
BALANCES WITH OTHER BANKING INSTITUTIONS	294,567	264,728
OTHER	64,155	41,376
TOTAL	6,914,635	5,635,385

Included in interest income on loans and advances is KShs 659 million (2014: KShs 173 million) interest accrued on impaired loans and advances.

6. Interest expense

	2015 KSHS '000	2014 KSHS '000
CUSTOMER DEPOSITS	3,110,671	2,711,330
DEPOSITS BY BANKS	223,238	250,555
LONG TERM LIABILITIES	219,509	152,429
OTHER	210,877	43,150
TOTAL	3,764,295	3,157,464

7. Fees and commission income

	2015 KSHS '000	2014 KSHS '000
CREDIT RELATED FEES AND COMMISSIONS	486,780	433,091
SERVICE RELATED FEES & COMMISSIONS	326,663	271,640
FEE AND COMMISSION INCOME	813,443	704,731
FEES & COMMISSION PAID	(9,538)	(23,932)
NET FEE AND COMMISSION INCOME	803,905	680,799

8. Other operating income

	2015 KSHS '000	2014 KSHS '000
GAIN ON SALE OF PROPERTY AND EQUIPMENT	-	2,913
OTHER	-	5,838
TOTAL	-	8,751

9. Staff costs

	2015 KSHS '000	2014 KSHS '000
SALARIES AND WAGES	1,002,004	891,692
RETIREMENT BENEFIT COSTS		
– DEFINED CONTRIBUTION PENSION SCHEME	64,342	59,955
-NATIONAL SOCIAL SECURITY FUND	1,034	1,363
STAFF MEDICAL COSTS	55,266	50,034
STAFF TRAINING COSTS	31,285	40,228
OTHER STAFF COSTS	141,568	127,059
TOTAL	1,295,499	1,170,331

The number of employees of the Bank as at 31 December 2015 was 513 (2014: 479)

10. Depreciation and amortisation

	2015 KSHS '000	2014 KSHS '000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 20)	186,243	161,317
AMORTISATION OF INTANGIBLE ASSETS (NOTE 21)	30,523	26,217
TOTAL	216,766	187,534

11. Other operating costs

DIRECTORS' EXPENSES	39,304	43,751
AUDITORS' REMUNERATION	5,250	5,720
MARKETING AND ADVERTISEMENT COSTS	136,897	181,865
PROPERTY OCCUPANCY COSTS	368,431	310,878
SOFTWARE SUBSCRIPTIONS AND LICENCE FEES	96,703	97,696
COMPUTER HARDWARE MAINTENANCE	13,317	12,043
DEPOSITORS' PROTECTION FUND PREMIUMS	67,665	61,461
COMMUNICATION COSTS	75,144	88,213
OPERATING LEASE RENTALS	16,708	17,467
OTHER ADMINISTRATIVE COSTS	579,962	462,114
TOTAL	1,399,381	1,281,208

12. Taxation

	2015 KSHS '000	2014 KSHS '000
DEPRECIATION OF PROPERTY AND EQUIPMENT (NOTE 20)	186,243	161,317
CURRENT INCOME TAX:		
CURRENT INCOME TAX	197,496	163,896
PRIOR YEAR UNDERPROVISION CURRENT INCOME TAX	3	-
DEFERRED TAX:		
DEFERRED TAX (NOTE 18)	(608,326)	(104,341)
TOTAL	(410,827)	59,555

CURRENT INCOME TAX PAYABLE / (RECOVERABLE)		
AT 1 JANUARY	141,197	(83,979)
CHARGE FOR THE YEAR	(197,496)	(163,896)
PRIOR YEAR UNDERPROVISION CURRENT INCOME TAX	(3)	-
TAX PAID	39,096	389,072
AT 31 DECEMBER	17,206	(141,197)

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

(LOSS) / PROFIT BEFORE INCOME TAX	(1,434,188)	203,666
TAX CALCULATED AT THE STATUTORY INCOME TAX RATE OF 30% (2014: 30%)	(430,256)	61,100
TAX EFFECT OF:		
INCOME NOT SUBJECT TO TAX	(31,810)	(39,852)
EXPENSES NOT DEDUCTIBLE FOR TAX PURPOSES	51,236	38,307
PRIOR YEAR UNDERPROVISION CURRENT INCOME TAX	3	-
INCOME TAX (CREDIT) / EXPENSE	(410,827)	59,555

13. Dividends

At the next Annual General Meeting, no dividend in respect of the year ended 31 December 2015 is to be proposed (2014: Nil) .Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

14. Cash and balances with Central Bank

	2015 KSHS '000	2014 KSHS '000
BALANCES WITH CENTRAL BANK:		
CASH RESERVE RATIO	2,173,046	2,060,788
OTHER CURRENT ACCOUNTS	2,923,751	3,090,892
TOTAL	5,953,628	5,941,665

The cash reserve ratio with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. At 31 December 2015, the cash reserve ratio requirement was 5.25% of eligible deposits (2014: 5.25%). The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

15. Due from other banking institutions

	2015 KSHS '000	2014 KSHS '000
PLACEMENTS	4,749,170	1,827,882
CURRENT ACCOUNT BALANCES DUE FROM OTHER BANKS	3,237,585	1,120,163
TOTAL	7,986,755	2,948,045
MATURING WITHIN 90 DAYS	7,986,755	2,553,552
MATURING AFTER 90 DAYS	-	394,493
	7,986,755	2,948,045

16. Investment securities

(a) Unlisted equity securities

Available for sale

	2015 KSHS '000	2014 KSHS '000
AT START OF THE YEAR	83,884	83,889
ADDITIONS	-	1,578,380
DISPOSALS	-	(1,578,385)
DERECOGNITION OF ASSOCIATE AND RECOGNITION OF INVESTMENT SECURITIES (NOTE 31)	564,282	-
LOSS ON FAIR VALUE OF INVESTMENT SECURITIES	(37,678)	-
AT YEAR END	610,488	83,884

Comprising:

BANK OF AFRICA - TANZANIA	565,855	-
BOA FRANCE	42,445	81,696
SWIFT SHARES	2,188	2,188
TOTAL	610,488	83,884

(b) Bills and bonds

Held to maturity

	2015 KSHS '000	2014 KSHS '000
CORPORATE BONDS	143,924	141,565
TREASURY BILLS	794,438	-
TREASURY BONDS	5,548,748	7,000,674
TOTAL	6,487,110	7,142,239
MATURING WITHIN 91 DAYS OF ACQUISITION	794,438	-
MATURING AFTER 91 DAYS OF ACQUISITION	5,692,672	7,142,239
TOTAL	6,487,110	7,142,239
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE:		
CORPORATE BONDS	12.82%	12.82%
TREASURY BILLS	19.90%	-
TREASURY BONDS	7.55%	6.36%

The unamortised premium on treasury bonds as at 31 December 2015 was KShs 579 million (2014: KShs 722 million).

17. Loans and advances to customers

	2015 KSHS '000	2014 KSHS '000
OVERDRAFTS	10,827,347	14,713,727
PERSONAL LOANS	7,356,433	4,496,588
MORTGAGES	3,292,601	2,621,988
COMMERCIAL LOANS	18,775,689	15,347,520
DISCOUNTED BILLS	1,111,852	2,124,995
GROSS LOANS AND ADVANCES	41,363,922	39,304,818
LESS: PROVISION FOR IMPAIRMENT		
INDIVIDUALLY ASSESSED	(3,526,265)	(824,880)
COLLECTIVELY ASSESSED	(38,966)	(16,062)
NET LOANS AND ADVANCES	37,798,691	38,463,876
WEIGHTED AVERAGE EFFECTIVE INTEREST RATE	14.45%	13.10%

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

	SPECIFIC IMPAIRMENT KSHS '000	PORTFOLIO IMPAIRMENT KSHS '000	TOTAL KSHS '000
31 DECEMBER 2015			
AT 1 JANUARY 2015	824,880	16,062	840,942
PROVISION RECOGNISED DURING THE YEAR	2,778,524	22,904	2,801,428
AMOUNTS WRITTEN OFF DURING THE YEAR	(77,139)	-	(77,139)
AT 31 DECEMBER 2015	3,526,265	38,966	3,565,231
31 DECEMBER 2014			
AT 1 JANUARY 2014	262,942	16,175	279,117
PROVISION RECOGNISED DURING THE YEAR	586,171	(113)	586,058
AMOUNTS WRITTEN OFF DURING THE YEAR	(24,233)	-	(24,233)
AT 31 DECEMBER 2014	824,880	16,062	840,942

Charge to profit or loss

	2015 KSHS '000	2014 KSHS '000
PROVISIONS RECOGNISED DURING THE YEAR	2,801,428	586,058
RECOVERIES	(23,483)	(24,233)
NET PROVISIONS CHARGED TO PROFIT OR LOSS	2,777,945	561,825

All impaired loans have been written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2015 was KShs 9,744 million (2014: KShs 2,412 million).

18. Deferred income tax

The deferred income tax assets, deferred income tax charge / (credit) in the statement of profit or loss and deferred income tax charge / (credit) in equity are attributable to the following items:

	1/01/2015 KSHS'000	RECOGNISED IN PROFIT OR LOSS KSHS'000	RECOGNISED IN OTHER COMPREHENSIVE KSHS'000	31/12/2015 KSHS'000
DEFERRED INCOME TAX ASSET				
PROVISIONS	(132,578)	(600,131)	-	(732,709)
PROPERTY AND EQUIPMENT	(26,111)	(8,195)	-	(34,306)
FAIR VALUE ON AVAILABLE FOR SALE INVESTMENTS	-	-	(1,884)	(1,884)
NET DEFERRED INCOME TAX ASSET	(158,689)	(608,326)	(1,884)	(768,899)
DEFERRED INCOME TAX ASSET				
PROVISIONS	(43,423)	(89,155)	-	(132,578)
PROPERTY AND EQUIPMENT	(10,925)	(15,186)	-	(26,111)
NET DEFERRED INCOME TAX ASSET	(54,348)	(104,341)	-	(158,689)

19. Other assets

	2015 KSHS '000	2014 KSHS '000
UNCLEARED EFFECTS	112,097	192,867
PREPAYMENTS	385,225	135,239
MOBILE BANKING AND MONEY TRANSFER RECEIVABLES	142,800	178,001
SECURITY DEPOSIT REFUNDABLE	55,250	49,283
GUARANTEE FEES RECEIVABLE	38,219	13,628
FINANCIAL DERIVATIVES	40,719	55,834
OTHER RECEIVABLES	181,538	318,867
	955,848	943,719

20. Property and equipment

2015:	MOTO VEHICLES KSHS'000	FIXTURES, FITTINGS AND EQUIPEMENT KSHS'000	WORK IN PROGRESS KSHS'000	TOTAL KSHS'000
COST:				
AT 1 JANUARY 2015	28,548	1,454,291	36,222	1,519,061
ADDITIONS	14,053	95,552	1,572,058	1,681,663
TRANSFERS	-	62,896	(62,896)	-
DISPOSALS	-	(14)	-	(14)
WRITE OFFS	-	-	(17,716)	(17,716)
AT 31 DECEMBER 2015	42,601	1,612,725	1,527,668	3,182,994
DEPRECIATION:				
AT 1 JANUARY 2015	17,350	646,920	-	664,270
CHARGE FOR THE YEAR	9,889	176,354	-	186,243
DISPOSALS	-	(3)	-	(3)
AT 31 DECEMBER 2015	27,239	823,271	-	850,510
NET CARRYING AMOUNT AT 31 DECEMBER 2015	15,362	789,454	1,527,668	2,332,484

2014:				
COST:				
AT 1 JANUARY 2014	34,663	1,120,964	23,896	1,179,523
ADDITIONS	-	241,125	105,404	346,529
TRANSFERS	-	93,078	(93,078)	-
DISPOSALS	(6,115)	(876)	-	(6,991)
AT 31 DECEMBER 2014	28,548	1,454,291	36,222	1,519,061
DEPRECIATION:				
AT 1 JANUARY 2014	13,880	496,064	-	509,944
DISPOSALS	(6,115)	(876)	-	(6,991)
CHARGE FOR THE YEAR	9,585	151,732	-	161,317
AT 31 DECEMBER 2014	17,350	646,920	-	664,270
NET CARRYING AMOUNT AT 31 DECEMBER 2014	11,198	807,371	36,222	854,791

21. Intangible assets

SOFTWARE

	2015 KSHS '000	2014 KSHS '000
COST		
AT 1 JANUARY	260,389	232,406
ADDITIONS	17,051	27,983
AT 31 DECEMBER	277,440	260,389
AMORTISATION:		
AT 1 JANUARY	186,258	160,041
CHARGE FOR THE YEAR	30,523	26,217
AT 31 DECEMBER	216,781	186,258
NET CARRYING AMOUNT		
AT 31 DECEMBER	60,659	74,131

22. Prepaid operating lease rentals

During the year, the Bank acquired a new Head office property. The property cost of Shs 1,395 million is booked under ''work in progress'' in property and equipment (Note 20) awaiting completion of fit out works then occupation by the Bank. The property comprises a building and leasehold land.

23. Customer deposits

	2015 KSHS '000	2014 KSHS '000
CURRENT AND DEMAND DEPOSITS	13,011,296	11,035,629
SAVINGS ACCOUNTS	1,363,432	1,284,052
FIXED DEPOSIT ACCOUNTS	33,048,516	29,303,309
MARGIN DEPOSITS	64,345	47,822
	47,487,589	41,670,812

24. Due to other banking institutions

MATURING WITHIN 90 DAYS	15,870	544,423
MATURING AFTER 90 DAYS	-	82,030
TOTAL	15,870	626,453

25. Other liabilities

	2015 KSHS '000	2014 KSHS '000
DEFERRED INCOME	212,657	117,408
OUTSTANDING BANKERS CHEQUES	78,148	73,489
ACCRUED EXPENSES	246,245	124,055
TAXES PAYABLE	46,842	66,109
INSURANCE PREMIUMS PAYABLE	15,089	6,402
PROVISIONS	130,182	8,500
OTHER PAYABLES	77,050	53,124
TOTAL	806,213	449,087

26. Share capital and share premium

	2015 KSHS '000	2014 KSHS '000
AUTHORISED, ISSUED AND FULLY PAID UP:		
6,404,949 (2014: 5,275,991) ORDINARY SHARES OF KSHS 1,000 EACH	6,404,949	5,275,991

The movement in authorised, issued and fully paid up share capital during the year was as follows;

AT 1 JANUARY	5,275,991	4,167,663
ISSUE OF SHARES	1,128,958	1,108,328
AT 31 DECEMBER	6,404,949	5,275,991

Share premium

AT 1 JANUARY	1,409,104	758,515
ISSUE OF SHARES	571,252	650,589
AT 31 DECEMBER	1,980,356	1,409,104

Share premium arises from issue of shares at a price higher than the par value of the shares. These are being applied in business expansion of the Bank.

27. Statutory credit risk reserve

	2015 KSHS '000	2014 KSHS '000
AT 1 JANUARY	347,356	91,932
TRANSFER (TO) / FROM RETAINED EARNINGS	(297,627)	255,424
AT 31 DECEMBER	49,729	347,356

The statutory credit risk reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya Prudential Guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with Central Bank Guidelines over the impairment provisions recognized in accordance with the International Financial Reporting Standards.

28. Off balance sheet financial instruments, contingent liabilities and commitments

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

Contingent liabilities

	2015 KSHS '000	2014 KSHS '000
ACCEPTANCES AND LETTERS OF CREDIT	3,781,511	1,595,440
GUARANTEES AND PERFORMANCE BONDS	9,811,666	12,154,508
TOTAL	13,593,177	13,749,948

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

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

Guarantees are generally written by a bank to support performance by a customer to third parties.

The Group will only be required to meet these obligations in the event of the customer's default.

Commitments

	2015 KSHS '000	2014 KSHS '000
UNUTILIZED CREDIT LINES AND OTHER FACILITIES	2,996,829	2,583,490
CURRENCY FORWARDS	8,082	25,765
FOREIGN EXCHANGE SPOTS	14,484	34,360
TOTAL	3,019,395	2,643,615

Nature of commitments

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

Forward foreign exchange contracts are commitments to either purchase or sell a specified quantity of foreign currency at a specified future date at an agreed rate. The fair values of the respective currency forwards are carried under other assets or other liabilities as appropriate.

29. Analysis of cash and cash equivalents as shown in the cash flow statement

	2015 KSHS '000	2014 KSHS '000
CASH AND BALANCES WITH CENTRAL BANK (NOTE 14)	5,953,628	5,941,665
LESS: CASH RESERVE REQUIREMENT	(2,173,046)	(2,060,788)
INVESTMENT AND OTHER SECURITIES	794,438	-
DEPOSITS DUE FROM OTHER BANKS	7,986,755	2,553,552
DUE TO BANKS AND NON-BANK FINANCIAL INSTITUTIONS (NOTE 24)	(15,870)	(544,423)
AMOUNTS DUE FROM GROUP BANKS (NET)	(667,081)	(2,467,354)

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 90 days maturity from the date of acquisition including: cash and balances with Central Bank, Treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya

30. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exrcise significant influence over the other party in making financial or operation decisions, or one party controls both. The Bank is controlled by BOA Group S.A. incorporated in Luxembourg with its ultimate parent being BMCE Bank incorporated in Morocco. There are other companies which are related to Bank of Africa Kenya Limited through common shareholdings or common directorships.

In the normal course of business, current accounts are operated and placement of foreign currency balances are made with the parent company and other group companies at interest rates in line with the market. The relevant balances are shown below:

(a) Amounts due from group banks

	2015 KSHS '000	2014 KSHS '000
BANK OF AFRICA - UGANDA	185,911	197,741
BANK OF AFRICA - TANZANIA	1,402,755	1,289,544
BOA FRANCE	583,796	670,879
BANK OF AFRICA - MER ROUGE	128	101
BANK OF AFRICA - GHANA	2,813,554	1,587,946
BANK OF AFRICA - MADAGASCAR	259,682	102,906
BMCE INTERNATIONAL	67	-
TOTAL	5,245,893	3,849,117
MATURING WITHIN 90 DAYS	3,124,448	2,158,265
MATURING AFTER 90 DAYS	2,121,445	1,690,852
TOTAL	5,245,893	3,849,117
INTEREST INCOME EARNED ON THE ABOVE	84,524	86,368
LEDGER FEES EARNED ON THE ABOVE	832	1,322

(b) Amounts due to group banks

	2015 KSHS '000	2014 KSHS '000
BANK OF AFRICA - TANZANIA (NOTE 16 (A)	565,855	600,822
BANK OF AFRICA - UGANDA (NOTE 31)	1,079,812	1,009,466
BOA FRANCE (NOTE 16 (A)	42,445	81,696
TOTAL	1,688,112	1,691,984

(d) Expenses incurred within the group

	2015 KSHS '000	2014 KSHS '000
TECHNICAL ASSISTANCE FEES PAID TO AFRICAN FINANCIAL HOLDINGS (AFH)	124,126	129,067
INFORMATION TECHNOLOGY FEES PAID TO AFRICAN INFORMATION SERVICES AND SOFTWARE ASSOCIATED (AISSA)	24,804	18,726
TOTAL	148,930	147,793

(e) Loans to key management and directors

Advances to customers as at 31 December 2015 includes loans to key management amounting to Shs 80 million (2014: Shs 90 million).

Total loans to directors amounted to Shs 13 million as at 31 December 2015 (2014: Nil).

	2015 KSHS '000	2014 KSHS '000
INTEREST INCOME EARNED ON LOANS TO KEY MANAGEMENT	3,211	3,726

(f) Key management compensation

	2015 KSHS '000	2014 KSHS '000
INTEREST INCOME EARNED ON LOANS TO KEY MANAGEMENT	153,715	211,652

(g) Directors' remuneration

	2015 KSHS '000	2014 KSHS '000
SALARIES TO EXECUTIVE DIRECTORS (INCLUDED IN KEY MANAGEMENT COMPENSATION ABOVE)	36,323	48,395
OTHER COMPENSATION TO NON-EXECUTIVE DIRECTORS	19,642	19,040
	55,965	67,435

(h) Subordinated debt and borrowings

The disclosures on the subordinated debt from BoA Group S.A. and borrowings from BOA Mer Rouge are included in Note 33.

31. Investment in associate companies

BANK OF AFRICA - TANZANIA

In September 2015, BANK OF AFRICA - KENYA Limited's (BOA Kenya) shareholding in BANK OF AFRICA - TANZANIA Limited (BOAT) was diluted following a rights issue by BOAT that BOA-KENYA did not participate in. Consequently, BOA-TANZANIA ceased being an Associate of BOA-KENYA and became an investment security held as available for sale.

2015

	BOAU KSHS'000	BOAT KSHS'000	TOTAL KSHS'000
AT 1 JANUARY	-	600,822	600,822
RECOGNITION OF BANK OF AFRICA - UGANDA (BOAU)	1,020,879	-	1,020,879
ISSUE OF NEW SHARES	109,040	-	109,040
SHARE OF (LOSS) / PROFIT	(27,425)	30,983	3,558
EFFECT OF SHAREHOLDING DILUTION IN ASSOCIATES	35,846	-	35,846
DERECOGNITION OF ASSOCIATE	-	(631,805)	(631,805)
EXCHANGE DIFFERENCE	(58,528)	-	(58,528)
TOTAL	1,079,812	-	1,079,812

2014

	BOAU KSHS'000	BOAT KSHS'000	TOTAL KSHS'000
AT START OF THE YEAR	-	426,118	426,118
ISSUE OF NEW SHARES	-	136,426	136,426
SHARE OF PROFIT	-	47,218	47,218
EFFECT OF SHAREHOLDING DILUTION IN ASSOCIATES	-	(8,940)	(8,940)
TOTAL	-	600,822	600,822

(LOSS) / GAIN ON SHAREHOLDING CHANGE TO PROFIT OR LOSS

	2015 KSHS '000	2014 KSHS '000
BOA TANZANIA- AS AN ASSOCIATE	(67,523)	(8,940)
BOA UGANDA - AS AN ASSOCIATE	35,846	-
- AS A SUBSIDIARY (NOTE 32)	11,413	-
	(20,264)	(8,940)
BOA-TANZANIA:		
DERECOGNITION OF ASSOCIATE	(631,805)	
RECOGNITION OF INVESTMENT SECURITIES AT FAIR VALUE (NOTE 16A)	564,282	
LOSS ARISING ON LOSS OF CONTROL	(67,523)	

Set out below are the Associates of the Bank, which in the opinion of the Directors, are material to the Bank. The Associates have share capital consisting solely of ordinary shares, which are held directly by the Bank; the country of incorporation or registration is also their principal place of business.

(i) BANK OF AFRICA - UGANDA (BOAU)

NAME OF ENTITY	PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	% OF OWNERSHIP OWNERSHIP INTEREST	NATURE OF THE RELATIONSHIP	MEASUREMENT METHOD
BANK OF AFRICA- UGANDA	UGANDA	2015:43.24%	BANKING SERVICES	EQUITY
		(2014: NIL)		

Summarised balance sheet

	2015
ASSETS	KSHS'000
CASH AND BALANCES WITH BANKS	2,032,211
GOVERNMENT SECURITIES - HELD TO MATURITY	2,468,176
LOANS AND ADVANCES TO CUSTOMERS	7,982,920
OTHER ASSETS	6,503,613
TOTAL ASSETS	18,986,920
LIABILITIES	
CUSTOMER DEPOSITS	13,071,350
DEPOSITS FROM OTHER BANKS	2,291,878
OTHER LIABILITIES	1,126,439
TOTAL LIABILITES	16,489,667
NET ASSETS	2,497,253

Summarised income statement

	2015
ASSETS	KSHS'000
TOTAL OPERATING INCOME	1,562,916
TOTAL OPERATING EXPENSES	(1,694,338)
LOSS BEFORE INCOME TAX	(131,422)
INCOME TAX CREDIT	83,943
LOSS FOR THE YEAR	(47,479)

Reconciliation of summarised financial information

OPENING NET ASSETS	2,087,559
ISSUE OF NEW SHARES	639,771
LOSS FOR THE PERIOD	(47,479)
EXCHANGE DIFFERENCES	(182,598)
CLOSING NET ASSETS	2,497,253
INTEREST IN ASSOCIATE (43.24%; 2014: NIL)	1,079,812
CARRYING VALUE IN ASSOCIATES	1,079,812
DIFFERENCE	-

(ii) BANK OF AFRICA - TANZANIA (BOAT)

NAME OF ENTITY	PLACE OF BUSINESS/ COUNTRY OF INCORPORATION	% OF OWNERSHIP OWNERSHIP INTEREST	NATURE OF THE RELATIONSHIP	MEASUREMENT METHOD
BANK OF AFRICA- TANZANIA	TANZANIA	2015: NIL	BANKING SERVICES	EQUITY
		(2014: 24,6%)		

Summarised balance sheet

ASSETS	2014 KSHS'000
CASH AND BALANCES WITH BANKS	7,738,363
GOVERNMENT SECURITIES - HELD TO MATURITY	3,016,731
LOANS AND ADVANCES TO CUSTOMERS	14,312,378
OTHER ASSETS	875,776
TOTAL ASSETS	25,943,248
LIABILITIES	
CUSTOMER DEPOSITS	16,368,701
DEPOSITS FROM OTHER BANKS	5,442,428
OTHER LIABILITIES	1,350,534
TOTAL LIABILITIES	23,161,663
NET ASSETS	2,781,585

Summary of income statement

	2014 KSHS'000
TOTAL OPERATING INCOME	2,129,295
TOTAL OPERATING EXPENSES	(1,825,056)
PROFIT BEFORE INCOME TAX	304,239
INCOME TAX EXPENSE	(94,892)
PROFIT FOR THE YEAR	209,347

RECONCILIATION OF SUMMARISED FINANCIAL INFORMATION	
OPENING NET ASSETS	1,771,798
ISSUE OF NEW SHARES	848,346
PROFIT FOR THE PERIOD	209,347
EXCHANGE DIFFERENCES	(47,906)
CLOSING NET ASSETS	2,781,585
INTEREST IN ASSOCIATE (2015: NIL; 2014: 21.6%)	600,822
CARRYING VALUE IN ASSOCIATES	(600,822)
DIFFERENCE	-

32. Investment in subsidiary

	2015 KSHS '000	2014 KSHS '000
AT START OF THE YEAR	1,009,466	800,412
RIGHTS ISSUE	-	209,054
DERECOGNITION OF SUBSIDIARY	(1,009,466)	-
AT END OF THE YEAR	-	1,009,466

Investment in subsidiary comprises the Bank's investment in BANK OF AFRICA - UGANDA Limited (BOAU). BOAU is incorporated in Uganda. The Bank owned 51.7% of the total shareholding in BOAU as at 31 December 2014. In January 2015, BANK OF AFRICA - KENYA Limited's (BOA Kenya) shareholding in BANK OF AFRICA - UGANDA Limited was diluted following a rights issue by BOAU that BOA-KENYA did not participate in. Consequently, BOAU ceased being a subsidiary of BOA Kenya and became an associate. BOA-UGANDA has thus been deconsolidated from the BOA-KENYA effective 31 January 2015 and accounted for as an associate.

	2015 KSHS '000	2014 KSHS '000
DERECOGINITION OF SUBSIDIARY	1,009,466	-
RECOGNITION OF ASSOCIATE (NOTE 31)	1,020,879	-
GAIN ON LOSS OF CONTROL	11,413	-

There were no transactions with non-controlling interests during the year.

Significant restrictions

There are restrictions on exporting capital in the Uganda (where BANK OF AFRICA - UGANDA is incorporated), other than through normal dividends.

Summarised financial information on subsidiaries with material non-controlling interests

Set out below is the prior year summarised financial information for the subsidiary, BOA-UGANDA.

Summarised balance sheet

ASSETS	2014 KSHS'000
CASH AND BALANCES WITH BANKS	3,772,993
GOVERNMENT SECURITIES - HELD TO MATURITY	3,326,058
LOANS AND ADVANCES TO CUSTOMERS	7,908,430
OTHER ASSETS	1,257,229
TOTAL ASSETS	16,264,710
LIABILITIES	
CUSTOMER DEPOSITS	11,170,033
DEPOSITS FROM OTHER BANKS	1,428,236
OTHER LIABILITIES	1,578,882
TOTAL LIABILITES	14,177,151
NET ASSETS	2,087,559

Summarised income statement

	2014 KSHS'000
TOTAL OPERATING INCOME	1,546,356
TOTAL OPERATING EXPENSES	(1,535,685)
PROFIT BEFORE INCOME TAX	10,671
INCOME TAX CREDIT	30,054
PROFIT FOR THE YEAR	40,725

Summarised cashflow statement

	2014 KSHS'000
NET CASH FLOW FROM OPERATING ACTIVITIES	1,242,684
NET CASH FLOW USED IN INVESTING ACTIVITIES	(115,345)
NET CASH FLOW USED IN FINANCING ACTIVITIES	(117,666)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,009,673
CASH AND CASH EQUIVALENTS AT START OF YEAR	2,808,025
EXCHANGE DIFFERENCES	(123,998)
CASH AND CASH EQUIVALENTS AT END OF YEAR	3,693,700

33. Long term liabilities

Borrowings

	2015 KSHS'000	2014 KSHS'000
FMO	1,830,665	2,006,310
BOA-MER ROUGE	2,939,150	-
PROPARCO	-	60,728
	4,769,815	2,067,038
SUBORDINATED DEBT		
INTERNATIONAL FINANCE CORPORATION	655,944	727,172
BOA GROUP S.A	1,368,666	1,355,803
	2,024,610	2,082,975
TOTAL	6,794,425	4,150,013
AT 1 JANUARY	4,150,013	2,999,840
ADDITIONS	2,914,125	1,355,578
REPAYMENTS	(583,151)	(338,192)
NET ACCRUED INTEREST	22,340	6,190
EXCHANGE DIFFERENCES	291,098	126,597
AT 31 DECEMBER	6,794,425	4,150,013

The fair values of the long term liabilities are disclosed in Note 4.4. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the Directors expect would be available to the Bank at the year end date.

Long term borrowings by BANK OF AFRICA - KENYA Limited are;

• An unsecured 7 year term loan of USD 17.7 million from FMO for the development of bank's lending business in foreign currency. It bears an interest rate referenced to the Libor. The effective interest rate on the loan at 31 December 2015 was 5.23%. (2014 : 5.23%). During the year, the Bank did not comply with the cost to income ratio financial covenant on the FMO borrowing.

• Three unsecured 1 year and 5 days term loans of USD 28.5 million from BOA-MER ROUGE for the development of the Bank's lending business in foreign currecy. The effective interest rate on the loans at 31 December 2015 was 4.20%.

The subordinated debt is made up of of two facilities as below;

• An unsecured 7 year loan of USD 8 million issued by International Finance Corporation (IFC) to enhance the Banks capital base. The debt has an initial five year principal repayment moratorium. The debt obligation of the Bank ranks ahead of the interest of holders of equity and is redeemable on maturity. It bears an interest rate referenced to the Libor. The effective interest rate on the subordinated debt as at 31 December 2015 was 4.84% (2014: 5.46%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines.

• A subordinated convertible loan as an unsecured 7 year loan of EUR 12.3 million issued by BOA Group S.A to enhance the Banks capital base. The debt has an initial five year principal repayment moratorium. It bears an interest rate referenced to the Euribor. The effective interest rate on the subordinated debt as at 31 December 2015 was 5.88% (2014: 5.29%). The subordinated debt is treated as Tier 2 capital in line with Central Bank of Kenya Prudential Guidelines.

None of the borrowings were in default during the year.

34. Fiduciary activities

The Bank holds asset security documents on behalf of customers with a value of KShs 779 million (2014: KShs 331 million). These securities are held by the Custody Services department of the Bank. The assets held comprise of deposits, government securities, debentures, title deeds, quoted and unquoted shares.

35. Reclassification adjustment

In accordance with IAS 39: Financial Instruments: Recognition and Measurement, for loans and advances written down as a result of an impairment loss, the interest income is recognised using the rate of interest used to discount the future cashflows for the purpose of measuring the impairment loss. It is therefore inappropriate to suspend recognition of interest on non-performing loans. The Directors have therefore recognised the suspended interest in the profit or loss in 2015 and made appropriate reclassification adjustments in the prior year financial statements. Previously the interest income had been suspended in line with Central Bank of Kenya Prudential Guidelines. The following table summarises the impact on the Bank's financial statements;

Statement of profit or loss and other comprehensive income

	IMPACT OF ADJUSTEMENT		
	AS PREVIOUSLY REPORTED KSHS'000	ADJUSTMENT KSHS'000	AS RESTATED KSHS'000
INTEREST INCOME	5,462,685	172,700	5,635,385
IMPAIRMENT LOSSES ON LOANS AND ADVANCES	(389,125)	(172,700)	(561,825)

The net impact on the prior year profit or loss is nil.