TECHNICAL RELEASE

PSC/TR-002/2016

XYZ BANK LIMITED
ILLUSTRATIVE FINANCIAL STATEMENTS
31 DECEMBER 2015

Issued: 11 January 2016

Kenya Bank Limited
Annual report and financial statements
For the year ended 31 December 2015

INTRODUCTION

This publication provides an illustrative set of financial statements prepared in accordance with International Financial Reporting Standards and the reporting requirements of the Kenya Companies Act for accounting periods beginning on or after 1 January 2015 for a fictitious Kenyan Bank with subsidiaries. The presentation format in the illustrative financial statements is not the only acceptable form of presentation. The form and content of a reporting entity's financial statements are the responsibility of the entity's management, and other forms of presentation which are equally acceptable may be preferred and adopted, provided they include the specific disclosures prescribed in International Financial Reporting Standards.

These illustrative financial statements are not a substitute for reading the Standards themselves or for professional judgement as to fairness of presentation. They do not cover all possible disclosures required by International Financial Reporting Standards. Depending on the circumstances, further specific information may be required in order to ensure fair presentation under International Financial Reporting Standards.

The specimen does not cover the following standards:

- IAS 2 Inventories
- IAS 8 Accounting policies, changes in accounting estimates and errors
- IAS 11 Construction contracts
- IAS 20 Accounting for government grants and disclosures of government assistance
- IAS 26 Accounting and reporting by retirement benefits plans
- IAS 28 Investments in associates and joint ventures
- IAS 29 Financial reporting in hyperinflationary economies.
- IAS 33 Earnings per share
- IAS 41 Agriculture
- I FRS 1 First time adoption of international financial reporting standards
- IFRS 2 Share-based payment
- IFRS 3 Business combinations
- IFRS 4 Insurance contracts
- IFRS 5 Non- current assets held for sale and discontinued operations.
- IFRS 6 Exploration for and evaluation for mineral resources
- IFRS 9 Financial instruments (*effective 1 January 2018 with early application permitted)*
- IFRS 11 Joint arrangements

The references in the left margin of the financial statements represent the paragraph of the Standards in which the disclosure requirements appear- for example '1p17' or IAS 1.17 indicates IAS 1 Paragraph 17. Additional notes and explanations are shown in italics.

This illustrative financial statements does not reflect the additional disclosures that will be required by the Companies Act, 2015 once it is brought into operation.

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*** Not illustrated – would need to be tailored to describe individual circumstances**

IAS1.138(b) The directors submit their report together with the audited financial statements for the year ended 31 December 2015 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses the state of affairs of the Group and Company.

Principal activities

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

Results and dividends

The profit for the year of KShsXXX (2014: KShsXXX) has been added to retained earnings.

During the year, an interim dividend of KShsXXX (2014: KShsXXX) per share amounting to KShsXXX (2014: KShsXXX) was paid. The directors recommend the approval of a final dividend for the year ended 31 December 2015 of KShsXXX (2014: KShsXXX) per share amounting to KShsXXX (2014: KShsXXX). The total dividend for the year, therefore, is KShsXXX (2014: KShs XXX) per shareamounting to KShsXXX (2014: KShsXXX).
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Directors

The directors who served during the year and to the date of this report are set out on page xx.

Auditor

The company's auditor, XXX, has indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

Company Secretary

---------------------------- 2016

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of its profit or loss for that year. It is also requires the directors to ensure that the company maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the company. The directors are also responsible for safeguarding the assets of the company.

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

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

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

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

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

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Director **Director**

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KENYA BANK LIMITED

Report on the financial statements

We have audited the accompanying consolidated financial statements of Kenya Bank Limited (the company) and its subsidiaries (together, the group) as set out on pages 7 to 84. These financial statements comprise the consolidated statement of financial position at 31 December 2015 and the consolidated statements of profit or loss, and comprehensive income, changes in equity and cashflows for the years then ended, together with the statement of financial position of the company standing alone at 31 December 2015 and the statement of changes in equity of the company for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of 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 misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal 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 the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

CA **REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF KENYA BANK LIMITED (Continued)**

Report on other legal requirements

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

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

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

iii) the company's statement of financial position is in agreement with the books of account

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA ***[name of engagement partner]*** – P/No……

[*Signature of the firm]*
Certified Public Accountants
Nairobi

...2016

Consolidated statement of profit or loss

For the year ended 31 December

Reference		Note	2015 Shs'millions	2014 Shs'million
IAS 1.10(b), 81 (a)				
IFRS 7.20(b)	Interest income	9		
IFRS 7.20(b),	Interest expense	9		
	Net interest income			
IFRS 7.20(c)	Fee and commission income	10		
IFRS 7.20(c)	Fee and commission expense	10		
	Net fee and commission income			
IFRS 7.20(a)	Trading income	11		
IFRS 7.20(a)	Net income from financial instruments carried at fair value through profit or loss	12		
IFRS 7.20(a)	Other operating income	13		
IFRS 7.20(e)	Provision for impairment of loans and advances to customers	23		
IAS 1.85	**Net operating income**			
IAS 1.99	Personnel costs	14		
IAS 17.35(c)	Operating lease expenses			
IAS 1.99	Depreciation of property, plant, and equipment	25		
IAS 1.99, 38.118(d)	Amortisation of intangible assets	26		
IAS 1.99	Other operating expenses	15		
IAS 1.85	**Profit before income tax**			
IAS 1.82(d), 12.77	Income tax expense	16		
IAS 1.81 A(a)	**Profit for the year**			
	Profit attributable to:			
IAS 1.81 B(a)(ii)	Equity holders of the Bank			
IAS 1.81 B(a)(i)	Non-controlling interest			
IFRS12.12 (e)				
	Earnings per share (KShs per share):	17		
IAS 33.66)	Basic and diluted			
	Dividends (KShs millions):	18		
CA	Interim paid			
	Proposed final			

Reference	Consolidated statement of comprehensive income			
IAS 1.10(b), 81 (a)	**For the year ended 31 December**			
		Notes	**2015**	**2014**
			Shs'millions	Shs'millions
IAS 1.82(f)	**Profit for the year**			
	Other comprehensive income, net of income tax			
IAS 1.82A	***Items that will not be reclassified to profit or loss***			
IAS19.93B	Remeasurements of post-employment benefit obligations	33		
IAS 1.82A	***Items that may be subsequently reclassified to profit or loss***			
IFRS7.20 (a) ii	Fair value changes on available-for-sale instruments			
IAS 21.52(b)	Foreign currency translation differences			
IAS 1.85	Net gain (loss) on hedges of net investments in foreign operations			
	Other comprehensive income for the year, net of income tax			
	Total comprehensive income for the year			
	Attributable to:			
IAS 1.81 B(b)(ii)	Equity holders of the Bank			
IAS 1.81(b)(i)	Non-controlling interest			
	Total comprehensive income for the year			

Consolidated statement of financial position

At 31 December

Reference		*Note*	2015	2014
38, 113	**Assets**		Shs'million	Shs'millions
IAS 1.54(i)	Cash and balances with central bank	19		
IAS 1.54(d), IAS1.54(d)	Financial assets held for trading	20		
IAS1.54(d)	Financial assets available for sale	21		
IAS1.54(d)	Financial assets held to maturity	22		
IAS 1.54(d),	Loans and advances to banks			
IAS1.54(d),	Loans and advances to customers	23		
IAS 1.54(i)	Other assets and prepayments	24		
IAS 1.54(a)	Property and equipment	25		
IAS 1.54(c)	Intangible assets	26		
IAS 1.54 (n))	Deferred income tax	27		
	Total assets			
	Liabilities			
IAS 1.54(m)	Deposits from banks	28		
IAS 1.54(m)	Deposits from customers	29		
IAS 1.54(m)	Financial liabilities held for trading	20		
IAS 1.54(k)	Other liabilities and accrued expenses	30		
IAS 1.54(m)	Borrowings	31		
IAS 1.54(l)	Provisions for liabilities	32		
IAS 1.54(n)	Current income tax			
IAS 1.78(d)	Retirement benefits obligations	33		
	Total liabilities			
IAS 1.54(r)	**Equity**			
IAS 1.78 (e)	Share capital	34		
IAS 1. 55	Share premium	34		
IAS 1. 55	Regulatory reserve	35		
IAS 1. 55	Other reserves	36		
IAS 1. 55	Retained earnings			
CA	Proposed dividends	18		
IAS 1. 54(r)	Total equity attributable to equity holders of the Bank			
IAS 1.54(q)	Non-controlling interest			
	Total equity			
	Total liabilities and equity			

The financial statements on pages 7 to 84 were approved for issue by the board of directors on __________ 2016 and were signed on its behalf by:

______________ Director

______________ Director

______________ Director

______________ Secretary

Company statement of financial position

At 31 December

Reference		Note	2015	2014
IAS 1.39				
38, 113	**Assets**		Shs'million	Shs'million
IAS 1.54(i)	Cash and balances with central bank	19		
IAS 1.54(d), IAS1.54(d)	Financial assets held for trading	20		
IAS1.54(d)	Financial assets available for sale	21		
IAS1.54(d)	Financial assets held to maturity	22		
IAS 1.54(d),	Loans and advances to banks			
IAS1.54(d,	Loans and advances to customers	23		
IAS 1.54(i)	Other assets and prepayments	24		
IAS 1.54(a)	Property and equipment	25		
IAS 1.54(c)	Intangible assets	26		
IAS 1.54 (n))	Deferred income tax	27		
	Investment in subsidiaries	39		
	Total assets			
	Liabilities			
IAS 1.54(m)	Deposits from banks	28		
IAS 1.54(m)	Deposits from customers	29		
IAS 1.54(m)	Financial liabilities held for trading	20		
IAS 1.54(k)	Other liabilities and accrued expenses	30		
IAS 1.54(m)	Borrowings	31		
IAS 1.54(l)	Provisions for liabilities	32		
IAS 1.54(n)	Current income tax			
IAS 1.78(d)	Retirement benefits obligations	*33*		
	Total liabilities			
IAS 1.54(r)	**Equity**			
IAS 1.78 (e)	Share capital	34		
IAS 1. 55	Share premium	34		
IAS 1. 55	Regulatory reserves	35		
IAS 1. 55	Other reserves	36		
IAS 1. 55	Retained earnings			
C A	Proposed dividends	18		
IAS 1. 54(r)	**Total equity**			
	Total liabilities and equity			

The financial statements on pages 7 to 84 were approved for issue by the board of directors on _________ 2016 and were signed on its behalf by:

____________	____________	____________	____________
Director	Director	Director	Secretary

Reference	**Consolidated statement of changes in equity**									
	For the year ended 31 December 2015									
	In millions of Kenya Shillings									
		Attributable to equity holders of the Bank								
		Share capital	**Share premium**	**Other reserves**	**Regulatory reserve**	**Retained earnings**	**Proposed dividends**	**Total**	**Non-controlling interest**	**Total equity**
	At 1 January 2014									
	Total comprehensive income for the year									
IAS 1.106(d)(i)	Profit for the year									
IAS 1.106(d)(ii, 106A	Other comprehensive income, net of tax									
IAS 1.06(a)	Total comprehensive income for the year									
IAS 1.106(d)(iii)	**Transactions with owners, recorded directly in equity**									
	Dividends to equity holders									
	Dividends to non-controlling interests									
	Issue of bonus shares									
	Total transactions with owners									
	At 31 December 2014									
	At 1 January 2015									
	Total comprehensive income for the year									
IAS 1.106(d)(i)	Profit for the year									
IAS 1.106(d)(ii, 106A	Other comprehensive income, net of tax									
IAS 1.06(a)	Total comprehensive income for the year									
IAS 1.106(d)(iii)	**Transactions with owners, recorded directly in equity**									
	Dividends to equity holders									
	Dividends to non-contolling interests									
	Proceeds from shares issued									
	Total transactions with owners									
	Balance at 31 December 2015									

Company statement of changes in equity

For the year ended 31 December 2015
In millions of Kenya Shillings

Reference		Share capital	Share premium	Other reserves	Regulatory reserve	Retained earnings	Proposed dividends	Total
	At 1 January 2014							
	Total comprehensive income for the year							
IAS 1.106(d)(i)	Profit for the year							
IAS 1.106(d)(ii, 106A	Other comprehensive income, net of tax							
IAS 1.06(a)	Total comprehensive income for the year							
IAS 1.106(d)(iii)	**Transactions with owners, recorded directly in equity**							
	Dividends to equity holders							
	Issue of bonus shares							
	Total transactions with owners							
	At 31 December 2014							
	At 1 January 2015							
	Total comprehensive income for the year							
IAS 1.106(d)(i)	Profit for the year							
IAS 1.106(d)(ii, 106A	Other comprehensive income, net of tax							
IAS 1.06(a)	Total comprehensive income for the year							
IAS 1.106(d)(iii)	**Transactions with owners, recorded directly in equity**							
	Dividends to equity holders							
	Proceeds from shares issued							
	Total transactions with owners							
	At 31 December 2015							

Reference	Consolidated statement of cash flows			
IAS 1.10(d),38, 113	**For the year ended 31 December**			
	In millions of Kenya Shillings	***Note***	**2015**	**2014**
IAS7.18(b)	**Cash flows from operating activities**			
IAS 7.31,33	Interest income			
IFRS 7.31,33	Fee and commission income	11		
IAS 7.31,33	Interest paid	10		
	Foreign exchange income			
IAS7.16 (f)	Recoveries on loans previously written off			
IAS7.16 (f)	Cash payments to employees and suppliers			
IAS 7.31,33	Dividends received			
IAS 7.35	Income tax paid			
	Cash flows from operating profits before changes in operating assets and liabilities.			
	Changes in operating assets and liabilities:			
	- trading assets			
	– loans and advances to banks			
	– loans and advances to customers			
	– other assets and prepayments			
o	– Deposits from customers			
	– deposits from banks			
	– trading liabilities			
	– other liabilities and accrued expenses			
IAS 7.10	**Net Cash flows generated from operating activities**			
IAS 7.21	**Cash flows from investing activities**			
IAS 7.16(c)	Purchase of investment securities	21,22		
IAS 7.16(d)	Proceeds from sale of investment securities	21,22		
IAS 7.16(a)	Purchase of property, plant and equipment (PPE)	25		
IAS 7.16 (b)	Proceeds from the sale of property and equipment			
IAS 7.16(a)	Purchase of intangible assets	26		
	Net cash used in investing activities			
IAS 7.21	**Cash flows from financing activities**			
IFRS 7.17(a)	Proceeds from issuance of shares	34		
IAS 7.17(c)	Proceeds from borrowings			
IAS 7.17(d)	Repayments of borrowings			
IAS 7.31, 34	Dividends paid to company's shareholders	18		
IAS 7.31, 34	Dividends paid to non-controlling interest			
	Net cash from financing activities			
	Net increase / (decrease) in cash and cash equivalents			
	Cash and cash equivalents at start of year	40		
IAS 7.28	Effect of exchange rate fluctuations on cash held			
	Cash and cash equivalents at 31 December	40		

NOTES

1 General information

IAS 1.51 (a) (b))
IAS 1.138 b- (c)

XYZ2015 Bank Limited (The "Bank") is a company domiciled in Kenya. The registered address of the company is [address]. The bank's shares are listed on the Nairobi Securities Exchange. The ultimate holding company of the Bank is XXX Limited, which is a limited liability company incorporated and domiciled in XXX. The consolidated financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group"). The Group primarily is involved in corporate and retail banking.

2 Summary of significant accounting policies

IAS1.112(a)
IAS1.117(b)

The principal accounting policies applied in the preparation of these consolidated 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

IAS1.116
IAS1.117(a)

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

(a) Basis of measurement

The measurement basis used is the historical cost basis except where otherwise stated in the accounting policies below.

IFRS13.9
IFRS13.61-67

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.

IFRS13.72
IFRS13.76
IFRS13.81-86

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.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the group'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 4

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

(c) Changes in accounting policies and disclosures

IAS8.28 ***New standards, amendments and interpretations adopted by the Group***

A number of amendements to standards arising from the annual improvement to IFRSs became effective for the first time in the financial year commencing 1 January 2015 and have been adopted by the group. None of them has had an effect on the group financial statements.

[*This section should only disclose the new standards, amendments and interpretations that have had a significant effect on the financial statements of the entity].*

IAS8.30,31 ***New and revised standards and interpretations not yet adopted***

A number of new standards and interpretations have been published that are not mandatory for annual periods commencing 1 January 2015 and have not been early adopted by the group. The group's assessment of the impact of these new standards and interpretations is as follows:

- IFRS 9, '*Financial instruments*', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adopton is permitted. The group is yet to assess the full impact of IFRS 9.

- IFRS 15, '*Revenue from contracts with customers',* which replaces IAS 11, IAS 18 and their interpretations (SIC 13 and IFRIC 13, 15,and 18). It establishes a single and comphensive framework for revenue recognition to apply consistently across transactions, industries and markets. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing concept of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benfits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2018. The group is currently assessing the impact of the amendment on its financial statements.

- Amemndments to IAS 19, applicable to annual periods beginning on or after 1 January 2016 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- Amendment to IFRS 5, applicable prospectively to annual periods beginning on or after 1 January 2016 giving specific guidance when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held for distribution accounting is discontinued.

2 Summary of significant accounting policies (continued)

IAS 8.30,31 ***New and revised standards and interpretations not yet adopted (continued)***

- o Amendments to IFRS 7, applicable to annual periods beginning on or after 1 January 2106 provides guidance to clarify whether a servicing contract is continuing involvement in a transferred asset

- o Amendments to IFRS 10 and IAS 28 titled "sale or contribution of assets between an investor and its associate or joint ventrure", applicable prospectively to annual periods beginning on or after 1 January 2016, which addresses the current conflict between the two standards and clarify that a gain or loss should be recognised fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- o Amendments to IFRS 10, IFRS 12 and IAS 28 titled "Investment entities: Applying consolidation exception" applicable to annual periods beginning on or after 1 January 2016, which clarifies the application of the consolidation exception for investment entities and their subsidiaries.

- o Amendments to IAS 1 titled "Disclosure inititiative" applicable to annual periods beginning on or after 1 January 2016 which clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

[The above list of revised standards and interpretations was drafted in September 2015. It should be extended to include all such changes up to the date of approval of the financial statements.]

1p119 **2.2 Consolidation**

(a) Subsidiaries

IFRS10.7
IFRS10.20
IFRS10.25

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group 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 group. They are deconsolidated from the date that control ceases.

IFRS3.5
IFRS3.37
IFRS3.39
IFRS3.18
IFRS3.19

The group 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 group. 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. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

IFRS3.53

Acquisition-related costs are expensed as incurred.

IFRS3.42

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.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

IFRS3.58 Any contingent consideration to be transferred by the group 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.

IFRS3.32
IFRS3B63(a)
36p80

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 to the group's accounting policies.

(b) Changes in ownership interests

IFRS10.23 Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

IFRS10.25
IFRS10B98
IFRS10B99

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

1p119

2.3 Foreign currency translation

(a) *Functional and presentation currency*

21p17
21p9,18
1p51(d)

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which entity operates ('the functional currency'). The consolidated financial statements are presented in Kenya shillings, which is the group's presentation currency.

(b) Transactions and balances

21p21,28
21p32
39p95(a)
39p102(a)

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 the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the statement of profit or loss for the year within "other gains/losses-net".

39AG83 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.

2 Summary of significant accounting policies (continued)

21p30 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

(c) Group companies

21p39 The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each statement of comprehensive income 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. On
21p48 foreign operations disposal, such exchange differences are recognised in profit or loss (reclassified) when the gain or loss on disposal is recognised.

21p47 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.

1p119 **2.4 Sale and repurchase agreements**

39AG51
39p37 Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

1p119 **2.5 Financial assets and liabilities**

2.5.1 Financial assets

39p9
39p38 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.

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

39p9

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.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

39p9 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
- 39p12 the financial assets consist of host contract and an embedded derivative that cannot be measured reliably.

Financial assets included in this category are recognised initially at fair value; transaction costs
39p43 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',
IFRS7p20 respectively1. 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'

(b) Loans and receivables

39p9

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:
(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank upon initial recognition designates as available-for-sale; or
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

39p43
39p46(a) Loans and receivables are initially recognised at fair value – which is the fair value of the consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-downs for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and any premiums or discount to maturity amount using the effective interest method.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument.

1p119 *(c) Held-to-maturity investments*

39p9

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the positive intention and ability to hold to
39p43 maturity, other than:
(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank designates as available-for-sale; and
(c) those that meet the definition of loans and receivables.

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

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NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

1p119
39p9
39p46

(d) Available-for-sale financial assets

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

Available-for-sale financial assets are initial recognised at fair value of the consideration given plus the transaction costs.Subequent changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cos and the current fair value, less any impairment loss on that asset previsouly recognised in profit or loss), which are recognised in the profit and loss account. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is reclassified to the profit or loss account.

2.5.2 Financial liabilities

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

2.5.3 Determination of fair value

IFRS13p76

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 Bloomberg and Reuters.

IFRS13p78-80

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

IFRS13p81-86

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 3

NOTES (CONTINUED)

2 Summary of significant accounting polcies (continued)

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 Bank's credit spreads widen, the Bank recognises a gain on these liabilities because the value of the liabilities has decreased. When the Bank's credit spreads narrow, the Bank 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 Bank 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.

39p46 In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

2.5.4 Derecognition

39p17 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 Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished

2.5.5 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 Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

39p50(c)
39p50B
39p50F
39p50F

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.

IFRIC9p7 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.

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

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:

IFRS7AppxB1

<table>
<tr><th colspan="2">Category
(as defined by IAS 39)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="26">Financial Instruments</td><td rowspan="7">Financial assets at fair value through profit or loss</td><td rowspan="3">Financial assets held for trading</td><td>Debt securities</td><td></td></tr>
<tr><td>Equity securities</td><td></td></tr>
<tr><td>Derivatives – non-hedging</td><td></td></tr>
<tr><td rowspan="4">Financial assets designated at fair value through profit or loss</td><td>Debt securities</td><td></td></tr>
<tr><td>Equity securities</td><td></td></tr>
<tr><td>Loans and advances to banks</td><td></td></tr>
<tr><td>Loans and advances to customers</td><td></td></tr>
<tr><td rowspan="10">Loans and receivables</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="7">Loans and advances to customers</td><td rowspan="4">Loans to individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Credit cards</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Large corporate customers</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Others</td></tr>
<tr><td rowspan="2">Investment securities - debt instruments</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="2">Held-to-maturity Investments</td><td rowspan="2">Investment securities - debt securities</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="3">Available-for-sale financial assets</td><td>Investment securities - debt securities</td><td></td><td>Listed</td></tr>
<tr><td rowspan="2">Investment securities - equity securities</td><td rowspan="2"></td><td>Listed</td></tr>
<tr><td>Unlisted</td></tr>
<tr><td rowspan="4">Financial liabilities at armortised cost</td><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td rowspan="3">Deposits from customers</td><td>Retail customers</td><td></td></tr>
<tr><td>Large corporate customers</td><td></td></tr>
<tr><td>SMEs</td><td></td></tr>
<tr><td rowspan="3">Off-balance sheet financial Instruments</td><td colspan="3">Loan commitments</td><td></td></tr>
<tr><td colspan="3"></td><td></td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

2. Summary of significant accounting policies (continued)

2.5.7 Impairment of financial assets

(a) Assets carried at amortised cost

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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.

IFRS7 AppxB5(f)

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.

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

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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 Bank may measure impairment on the basis of an instrument's fair value using an observable market price.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

39AG84 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.

39AG87 For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (that is, on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

39AG89 Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

39AG89 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.

IFRS7AppxB5(d) 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.

(b) 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
39p58 resulting in the recognition of an impairment loss. If any such evidence exists for available-for-
39p67
39p68 sale financial assets, the cumulative loss – measured as the difference between the acquisition
39p69 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
39p70 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.

NOTES (Continued)

2. Summary of significant accounting policies (continued)

2.5.8 Offsetting financial instruments

32p42 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.

1p119 **2.6 Cash and cash equivalents**

7p45 7p46 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. Funds restricted for a period of more than three months on origination and cash reserve deposits with the Central Bank of Kenya are excluded from cash and cash equivalents. Cash and cash equivalents are carried at amortised cost.

1p119 **2.7 Property and equipment**

16p15 16p30 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.

16p12 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 Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

16p73(b) 16p50 16p73(c) Land is not depreciated. 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:

– Buildings	25-40 years
– Leasehold improvements	25 years, or over the period of the lease if less than 25 years
– Equipment and motor vehicles	3-8 years

16p51 36p59 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.

16p71 16p68 Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in 'other operating expenses' in profit or loss.

1p119 2.9 Intangible assets

38p57 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.

2 Summary of significant accounting policies (continued)

38p66 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.

38p68,71 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.

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38p118(a)(b) Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed three years.

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38p118(a)(b) 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.

1p119 **2.8 Impairment of non-financial assets**

36p9
36p10 Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

1p119 **2.9 Employee benefits**

(a) Post employment benefit obligations

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19p120A(b) The Bank operates various retirement benefit schemes. The schemes are generally funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Bank has both defined benefit and defined contribution plans.

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

A defined benefit plan is a retirement benefit plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

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19Rp83 The liability recognised in the statement of the financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the Kenya shillings or the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. In the event that there is no deep market in such bonds, the market rates on government bonds are used.

19Rp57(d) Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income

NOTES (CONTINUED)

2 Summary of significant accounting policies (continued)

19Rp103 Past-service costs are recognised immediately in income

19Rp51 For defined contribution plans, the Bank pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. 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.

(b) Other post-employment obligations

19Rp155

The Bank provides post-retirement healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans.
Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

1p119 **2.10 Provisions for liabilities**

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37p63 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.

37p24 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.

37p45 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.

1p119 **2.11 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.

(a) Current income tax

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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.

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NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

(b) Deferred income tax

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12p15
12p47
Deferred income tax is recognised, using the liability method, 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.

12p24
12p34
12p34
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 liabiltites 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.

1p119
2.12 Dividend payable

10p12
Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are reported as a component of equity at the year end.

2.13 Share capital

IFRS7p21
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.

1p119
2.14 Leases

17p8
Leases are divided into finance leases and operating leases.

(a) The Bank is the lessee

(i) Operating lease

17p4
17p33
17p15A
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.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

Finance lease

17p4
17p20

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.

17p25

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

(b) The Bank is the lessor

When assets are held subject to a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income. Lease income is recognised over the term of the lease using the net investment method (before tax), which reflects a constant periodic rate of return.

(c) Fees paid in connection with arranging leases

17p52 The Bank makes payments to agents for services in connection with negotiating lease contracts with the Bank's lessees. For operating leases, the letting fees are capitalised within the carrying amount of the related asset, and depreciated over the life of the lease.

2.15 Interest income and expense

18p30(a)
IFRS7AppxB5(e) Interest income and expense for all interest-bearing financial instruments are recognised in profit or loss using the effective interest method.

39p9 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.

39AG93 Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES (CONTINUED)

2. Summary of significant accounting policies (continued)

2.16 Fee and commission income

18IE14 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 Bank 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.

2.17 Dividend income

18p30(c) Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

1p119 2.19 Acceptances and letters of credit

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

NOTES (CONTINUED)

3. Financial risk management

[Tailor as appropriate – the disclosures should provide the an overview of the Group's and Bank's exposure to risks based on the information provided to key management personnel]

IFRS7p31 The Bank's business involves taking on risks in a targeted manner and managing them professionally. 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 Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

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

Risk management is carried out by a central treasury department (Bank Treasury) under policies approved by the Board of Directors. Bank Treasury identifies, evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk and market risk.

3.1 Credit risk

IFRS7p33(a) 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.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ('trading exposures'), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties and reverse repurchase loans.

Credit risk is the single largest risk for the Bank's business; the directors therefore carefully manage the exposure to credit risk. The credit risk management and control are centralised in a credit risk management team, which reports to the Board of Directors and head of each business unit regularly.

3.1.1 Credit risk measurement

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

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

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.1 Credit risk measurement (continued)

The Bank has developed models to support the quantification of the credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Bank considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Bank derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

These credit risk measurements, which reflect expected loss (the 'expected loss model'), are required by the Basel Committee on Banking Regulations and the Supervisory Practices (the Basel Committee) and are embedded in the Bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39, which are based on losses that have been incurred at the reporting date (the 'incurred loss model') rather than expected losses (Note 3.1.3).

IFRS7IG23,25 (b)

(i) Probability of default

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. They have been developed internally and combine statistical analysis with credit officer judgement. They are validated, where appropriate, by comparison with externally available data. The Bank's rating method comprises 4 rating levels for loans. The rating methods are subject to an annual validation and recalibration so that they reflect the latest projection in the light of all actually observed defaults.

The Bank's internal ratings scale and mapping of external ratings as supplemented by the Bank's own assessment through the use of internal rating tools are as follows:

Bank's rating	S&P	Description of the grade
1	AAA, AA+, AA, AA-, A+, A, A-	Investment grade
2	BBB+, BBB, BBB-, BB+, BB, BB-, B+, B, B-	Standard monitoring
3	CCC+, CCC to CC-	Special monitoring
4	C, D-I, D-II	Default

3. Financial risk management (continued)

3.1.1 Credit risk measurement (continued)

(ii) Exposure at default ("EAD")

EAD is based on the amounts the Bank expects to be owed at the time of default. For example, for a loan this is the face value. For a commitment, the Bank includes any amount already drawn plus the further amount that may have been drawn by the time of default, should it occur.

(iii) Loss given default/loss severity

Loss given default or loss severity represents the Bank's expectation of the extent of loss on a claim should default occur. It is expressed as percentage loss per unit of exposure. It typically varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support.

The measurement of exposure at default and loss given default is based on the risk parameters standard under Basel II.

(b) Debt securities

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

3.1.2 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. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved quarterly by the Board of Directors.

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

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:

3. Financial risk management (continued)

IFRS7p36(b)

(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.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument.

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.

IFRS7AppxB10 (b)

(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.

IFRS7p36(b)

(c) Master netting arrangements

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

3. Financial risk management (continued)

IFRS7AppxB10 (c)(d)

(d) 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.

3.1.3 Impairment and provisioning policies

The internal and external rating systems described in Note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment. Due to the different methodologies applied, the amount of incurred credit losses provided for in the financial statements is usually lower than the amount determined from the expected loss model that is used for internal operational management and banking regulation purposes.

The impairment allowance shown in the statement of financial position at year-end is derived from each of the four internal rating grades. However, the largest component of the impairment allowance comes from the default grade. The table below shows the percentage of the Bank's on- and off-balance sheet items, like financial guarantees, loan commitments and other credit related obligations, relating to loans and advances and the associated impairment allowance for each of the Bank's internal rating categories.

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.3 Impairment and provisioning policies (continued)

[Present the analysis for both Group and Bank]

IFRS7IG25(b) Bank's rating

	2015		2014	
	Credit risk exposure (%)	Impairment allowance (%)	Credit risk exposure (%)	Impairment allowance (%)
1. Investment grade	24	0.2	26	0.1
2. Standard monitoring	52	0.7	59	0.6
3. Special monitoring	21	7.1	14	6.9
4. Default	3	42.0	1	36.1
	100		100	

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

IFRS7p36(a) Financial instruments whose carrying amounts do not represent the maximum exposure to credit risk without taking account of any collateral held or other credit enhancements are disclosed in Note XX.

75% of the total maximum exposure is derived from loans and advances to banks and customers (2014: 76%); 6% represents investments in debt securities (2014: 4%).

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:

76% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2014: 85%);

Mortgage loans, which represents the biggest group in the portfolio, are backed by collateral;

81% of the loans and advances portfolio are considered to be neither past due nor impaired (2014: 76%);

The Bank has introduced a more stringent selection process upon granting loans and advances; and

More than 90% of the investments in debt securities and other bills have at least an A- credit rating.

IFRS7p31-33 All credit exposures arise in Kenya. The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

NOTES (CONTINUED)

3. Financial risk management (continued)

Concentration of risks of financial assets with credit risk exposure

[Present the analysis for both Group and Bank]

At 31 December 2015 *In millions of Kenya Shillings*	Financial institutions	Manu-facturing	Real estate	Whole-sale and retail trade	Public sector	Other	Individuals	Total Shs
Balances with the Central Bank and other money-market placements								
Loans and advances to Banks								
Loans and advances to customers:								
Loans to individuals:								
− Overdrafts								
− Credit cards								
− Term loans								
− Mortgages								
Loans to corporate entities:								
− Large corporate Customers								
− SMEs								
− Other								
Financial assets held for trading								
– Debt securities								
– Derivative financial instruments								
Investment securities:								
– Debt securities								
Other assets[2]								
As at 31 December 2015								

Credit risk exposures relating to off-balance sheet items are as follows:

– Debt securities								
-– Derivative financial instruments								
Investment securities								
– Debt securities								
Other assets								
At 31 December 2015								

[2] Other assets exclude prepayments as they are not financial assets.

NOTES (CONTINUED)

3. Financial risk management (continued)

Concentration of risks of financial assets with credit risk exposure

31 December 2014 *In millions of Kenya Shillings*	Financial institutions	Manu-facturing	Real estate	Whole-sale and retail trade	Public sector	Other	Individuals	Total
Balances with the Central Bank and other money-market placements								
Loans and advances to Banks								
Loans and advances to customers:								
Loans to individuals:								
− Overdrafts								
− Credit cards								
− Term loans								
− Mortgages								
Loans to corporate entities:								
− Large corporate Customers								
− SMEs								
− Other								
Financial assets held for trading								
– Debt securities								
– Derivative financial instruments								
Investment securities:								
– Debt securities								
Other assets[3]								
As at 31 December 2014								

Credit risk exposures relating to off-balance sheet items are as follows:

	Financial institutions Shs	Manu-facturing Shs	Real estate Shs	Whole-sale and retail trade Shs	Public sector Shs	Other ind-ustries Shs	Individuals Shs	Total Shs
Financial guarantees								
Loan commitments and other credit related obligations								
At 31 December 2014								

[3] Other assets exclude prepayments as they are not financial assets.

NOTES (CONTINUED)

3. Financial risk management (continued)

Concentration of risks of financial assets with credit risk exposure

In millions of Kenya Shillings	Loans and advances to customers	Loans and advances to banks	Loans and advances to customers	Loans and advances to banks
Neither past due nor impaired				
Past due but not impaired				
Individually impaired				
Gross				
Less: allowance for impairment				
Net				
Portfolio allowance				
Individually impaired				
Total				

(a) Loans and advances neither past due nor impaired

IFRS7p36(c)
IFRS7 IG25(b)

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

[Present the analysis for both Group and Bank]

Loans and advances to customers

	Individual (retail customers)				Corporate entities			Total loans and advances to customers	Loans and advances to banks
In millions of Kenya Shillings	Over-drafts	Credit cards	Term loans	Mort-gages	Large corporate customers	SMEs	Other		
31 December 2015									
Grades:									
Investment grade									
Standard monitoring									
Special monitoring									
Total									
31 December 2014									
Grades:									
Investment grade									
Standard monitoring									
Special monitoring									
Total									

NOTES (CONTINUED)

3. Financial risk management (continued)

IFRS7p38

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

31 December 2015

	Individual (retail customers)				
In millions of Kenya Shillings	Overdrafts	Credit cards	Term loans	Mortgages	Total
Past due up to 30 days					
Past due 30 - 60 days					
Past due 60-90 days					
Total					

	Corporate entities			
In millions of Kenya Shillings	Large corporate customers	SMEs	Other	Total
Past due up to 30 days				
Past due 30-60 days				
Past due 60-90 days				
Total				

31 December 2014

	Individual (retail customers)				
In millions of Kenya Shillings	Overdrafts	Credit cards	Term loans	Mortgages	Total
Past due up to 30 days					
Past due 30-60 days					
Past due 60-90 days					
Total					

	Corporate entities			
In Shs millions	Large corporate customers	SMEs	Other	Total
Past due up to 30 days				
Past due 30-60 days				
Past due 60-90 days				
Total				

IFRS7p37(b), IFRS7p38

(c) Loans and advances individually impaired

(i) Loans and advances to customers

NOTES (CONTINUED)

3. Financial risk management (continued)

The individually group impaired loans and advances to customers before taking into consideration the cash flows from collateral held is KShsXXX (2014: KShsXXX). The individually company impaired loans and advances to customers before taking into consideration the cash flows from collateral held is KShsXXX (2014: KShsXXX).

The breakdown of the gross amount of individually impaired loans and advances by class are as follows:

[Present the analysis for both Group and Bank]

		Individual				Corporate entities			Total
		Overdrafts	Credit cards	Term loans	Mortgages	Large corporate customers	SMEs	Others	
	In millions of Kenya Shillings								
	31 December 2015								
IFRS7.37(b) IFRS7.20(e)	Gross amount Individually impaired loans								
	31 December 2014							-	
IFRS7.37(b) IFRS7.20(e)	Gross amount Individually impaired loans								

(ii) Loans and advances to banks

IFRS7.37(b), IFRS7p38 The total amount of individually Group impaired loans and advances to banks as at 31 December 2015 was KShsXXX (2014: KShsXXX).

3.1.6 Debt securities

IFRS7p36(c) The tables below present an analysis of debt securities by rating agency designation at 31 December 2015 and at 31 December 2014, based on Standard & Poor's ratings or their equivalent: ***[Present the analysis for Group and Bank]***

In millions of Kenya Shillings	Trading securities	Investment securities	Total
At 31 December 2015			
AAA			
AA- to AA+			
A- to A+			
Lower than A-			
Total			
At 31 December 2014			
AAA			
AA- to AA+			
A- to A+			
Lower than A-			
Total			

NOTES (CONTINUED)

3. Financial risk management (continued)

3.1.7 Repossessed Collateral

IFRS7IG22
IFRS7p38(a)

The Bank obtained assets by taking possession of collateral held as security for non-performing loans. The fair value of repossessed assets at the reporting date are as follows:
[Present the analysis for Group and Bank]

	Fair value	
In millions of Kenya Shillings	.**2015**	**2014**
Nature of assets		
Residential property		

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

3.2 Market risk

IFRS7p31
IFRS7p33(a)

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 Board of Directors and heads of each business unit.

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 commercial 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.

IFRS7p33(b)

3.2.1 Market risk measurement techniques

The objective of market risk measurement is to manage and control market risk exposures within acceptable limits while optimising the return on risk. The Bank Treasury is responsible for the development of detailed risk management policies and for day-to-day implementation of those policies.

(a) Value at risk

IFRS7p41

The Bank applies a 'value at risk' (VAR) methodology to its trading and non-trading portfolios to estimate the market risk of positions held and the maximum losses expected, based upon a number of assumptions for various changes in market conditions. The Board sets limits on the value of risk that may be accepted for the Bank, which are monitored on a daily basis by Bank Treasury. Interest rate risk in the non-trading book is measured through the use of interest rate repricing gap analysis (Note 3.2.4).

3. Financial risk management (continued)

VAR is a statistically based estimate of the potential loss on the current portfolio from adverse market movements. It expresses the ‘maximum’ amount the Bank might lose, but only to a certain level of confidence (98%). There is therefore a specified statistical probability (2%) that actual loss could be greater than the VAR estimate. The VAR model assumes a certain ‘holding period’ until positions can be closed (10 days). It also assumes that market moves occurring over this holding period will follow a similar pattern to those that have occurred over 10-day periods in the past. The Bank’s assessment of past movements is based on data for the past five years. The Bank applies these historical changes in rates, prices, indices, etc. directly to its current positions − a method known as historical simulation. Actual outcomes are monitored regularly to test the validity of the assumptions and parameters/factors used in the VAR calculation. The use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

As VAR constitutes an integral part of the Bank’s market risk control regime, VAR limits are established by the Board annually for all trading portfolio operations and allocated to business units. Actual exposure against limits, together with a Bank-wide VAR, is reviewed daily by Bank Treasury. Average daily VAR for the Bank was KShsXXX in 2015 (2014: KShsXXX). The quality of the VAR model is continuously monitored by back-testing the VAR results for trading books. All back-testing exceptions and any exceptional revenues on the profit side of the VAR distribution are investigated, and all back-testing results are reported to the Board of Directors.

(b) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions − for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management in each business unit and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.2 VAR summary

[Present the analysis for both Group and Bank]

(a) VAR by risk type

	12 months to 31 December 2015			12 months to 31 December 2014		
In millions of Kenya Shillings	Average	High	Low	Average	High	Low
Foreign exchange risk						
Interest rate risk						
Equity risk						
Total VAR						

(b) Trading portfolio VAR by risk type

	12 months to 31 December 2015			12 months to 31 December 2014		
In Shs millions	Average	High	Low	Average	High	Low
Foreign exchange risk						
Interest rate risk						
Equity risk						
Total VAR						

The increase in VAR in 2015, especially the interest rate risk, relates mainly to the increased volatility of market interest rates in global principal financial markets.

3.2.3 Foreign exchange risk

IFRS7ApxB23 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 aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2015. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.3 Foreign exchange risk

[Present the analysis for both Group and Bank]

At 31 December 2015 *In millions of Kenya Shillings*	Currency	USD	EUR	GBP	Other	Total
Assets						
Cash and balances with the Central Bank						
Loans and advances to banks						
Loans and advances to customers						
Financial assets held for trading						
Investment securities:						
– Available-for-sale						
– Loans and receivables						
– Held-to-maturity						
Other assets						
Total financial assets						
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total financial liabilities						
Net on-balance sheet financial position						
Credit commitments						

NOTES (CONTINUED)

3. Financial risk management (continued)

At 31 December 2014	Currency	USD	EUR	GBP	Other	Tota
Assets						
Cash and balances with the Central Bank						
Loans and advances to banks						
Loans and advances to customers						
Financial assets held for trading						
Investment securities:						
– Available-for-sale						
– Loans and receivables						
– Held-to-maturity						
Other assets						
Total financial assets						
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total financial liabilities						
Net on-balance sheet financial position						
Credit commitments						

The following table presents sensitivities of profit or loss and equity to reasonably possible changes in exchange rates applied at the end of the reporting period relative to functional currency of the Group, with all variables held constant:

	At 31 December 2015		At 31 December 2014	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
USD strengthens by 5%				
USD weakens by 5%				
GBP strengthens by 5%				
GBP weakens by 5%				
Euro strengthens by 5%				
Euro weakens by 5%				

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.4 Interest rate risk

IFRS7p31
IFRS7p33

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 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.

IFRS7p34
(a)(b)

The tables below summarise the Bank's non-trading book fair value exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the earlier of contractual repricing (for example for floating rate notes).

3.2.4 Interest rate risk

[Present the analysis for both Group and Bank]

In millions of Kenya Shillings	**Up to 1 month**	**1-3 months**	**3-12 months**	**1-5 years**	**Over 5 years**	**Non-interest bearing**	**Total**
As at 31 December 2015							
Assets							
Cash and balances with the Central Bank							
Loans and advances to banks							
Loans and advances to customers							
Financial assets held for trading							
Investment securities:							
– Available-for-sale							
– Loans and receivables							
– Held-to-maturity							
Other assets							
Total financial assets							
Liabilities							
Deposits from banks							
Deposits from customers							
Other liabilities							
Dividend payable							
Total financial liabilities							
Total interest repricing gap							

NOTES (CONTINUED)

3. Financial risk management (continued)

3.2.4 Interest rate risk (continued)

As at 31 December 2014	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non- interest bearing	Total
Assets							
Cash and balances with the Central Bank							
Loans and advances to banks							
Loans and advances to customers							
Financial assets held for trading							
Investment securities:							
– Available-for-sale							
– Loans and receivables							
– Held-to-maturity							
Other assets							
Total financial assets							
Liabilities							
Deposits from banks							
Deposits from customers							
Other liabilities							
Dividend payable							
Total financial liabilities							
Total interest repricing gap							

NOTES (CONTINUED)

3. Financial risk management (continued)

3.3 Liquidity risk

IFRS7p31 IFRS7p33 IFRS7p39 (c)

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 Bank 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.

IFRS7p39(c)

3.3.1 Liquidity risk management process

IFRS7AppxB11F

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, 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 Bank 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.

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 (Notes 3.3.3-3.3.4).

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

3.3.2 Funding approach

IFRS7p39(c)

Sources of liquidity are regularly reviewed by a separate team in Bank Treasury to maintain a wide diversification by currency, provider, product and term.

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

IFRS7p39(a)

IFRS7AppxB11, B14 IFRS7Appx B10A

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flow, whereas the Bank manages the liquidity risk based on a different basis (see Note 3.3.1 for details), not resulting in a significantly different analysis.

NOTES (CONTINUED)

3. Financial risk management (continued)

IFRS7p39(a)

3.3 Liquidity risk (continued)

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

[Where the liquidity gap is negative, please provide detailed narrative on plans to bridge the funding gap]

At 31 December 2015	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total liabilities (contractual maturity dates)						
IFRS7 AppxB11E **Assets held for managing liquidity risk (contractual maturity dates)**						
Liquidity gap						
As at 31 December 2014						
Liabilities						
Deposits from banks						
Deposits from customers						
Other liabilities						
Dividend payable						
Total liabilities (contractual maturity dates)						
IFRS7 AppxB11E **Assets held for managing liquidity risk (contractual maturity dates)**						
Liquidity gap						

3.3.4 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Certificates of deposit;
- Government bonds and other securities that are readily acceptable in repurchase agreements with central banks; and
- Secondary sources of liquidity in the form of highly liquid instruments in the Bank's trading portfolios.

3.3.5 Derivative liabilities

IFRS7p39 (b), AppxB11D (d)

The Bank's derivatives that are settled on a gross basis include:
Foreign exchange derivatives: currency forward, currency swaps; and
Interest rate derivatives: interest rate swaps for which cash flows are exchanged on a gross basis, cross currency interest rate swaps.

The table below analyses the Bank's derivative financial instruments that are settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. Contractual maturities are assessed to be essential for an understanding of the timing of the cash flows on all derivatives. Some of the Bank's derivatives are subject to collateral requirements. The amounts disclosed in the table are the contractual undiscounted cash flows.

NOTES (CONTINUED)

3. Financial risk management (continued)

3.3 Liquidity risk (continued)

3.3.5 Derivative liabilities (continued)

[Present the analysis for both Group and Bank]

In millions of Kenya Shillings	Up to 1 month	1 -3 months	3 -12 months	1-5 years	Over 5 years	Total
At 31 December 2015						
Derivatives held for trading						
Foreign exchange derivatives:						
− Outflow						
− Inflow						
Interest rate derivatives:						
− Outflow						
− Inflow						
Total outflow						
Total inflow						
At 31 December 2014						
Derivatives held for trading						
Foreign exchange derivatives:						
− Outflow						
− Inflow						
Interest rate derivatives:						
− Outflow						
− Inflow						
Total outflow						
Total inflow						

3.3.6 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank’s off-balance sheet financial instruments that it commits to extend credit to customers and other facilities (Note 35) are summarised in the table below.

(b) Other financial facilities

Other financial facilities (Note 35) are also included in the table below, based on the earliest contractual maturity date.

(c) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases, as disclosed in Note 35, are summarised in the table below.

NOTES (CONTINUED)

3. Financial risk management (continued)

(d) Capital commitments

Capital commitments for the acquisition of buildings and equipment (Note 35) are summarised in the table below.

[Present the analysis for both Group and Bank]

	At 31 December 2015	**No later than 1 year**	**1-5 years**	**Over 5 years**	**Total**
IFRS7AppxB11B(b)	Loan commitments				
IFRS7p39	Acceptances and other financial facilities				
17p35	Operating lease commitments				
16p74	Capital commitments				
	Total				
	At 31 December 2014				
	Loan commitments				
IFRS7p39	Acceptances and other financial facilities				
17p35	Operating lease commitments				
16p74	Capital commitments				
	Total				

NOTES (CONTINUED)

4. Fair value of financial instruments

4.1 Financial instruments not measured at fair value

IFRS7p25, AppxB2(a)

The following table summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's statement of financial position at their fair value:

[Present the analysis for both Group and Bank]

	Carrying value		Fair value	
	2015	**2014**	**2015**	**2014**
Financial assets				
Loans and advances to banks				
Loans and advances to customers				
Financial assets held for trading				
Financial assets available-for-sale				
Financial assets held-to-maturity				
Financial liabilities				
Deposits from banks				
Deposits from customers				
Other liabilities				
Off-balance sheet instruments				
Loan commitments				
Guarantees, acceptances and other liabilities				

IFRS7p27

(i) Loans and advances to banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.
The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity. All loans and advances to banks are classified as level 2 under the fair value hierarchy table.

IFRS7p27

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

IFRS7p27

(iii) Investment securities

The fair value for loans and receivables and held-to-maturity financial assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Investment securities (available-for-sale) disclosed in the table above comprises only those equity securities held at cost less impairment. The fair value for these assets is estimated using market prices and earning multiples of quoted securities with similar characteristics. All other available-for-sale financial assets are already measured and carried at fair value.

NOTES (CONTINUED)

4.1 Financial instruments not measured at fair value (continued)

IFRS7p29(a) (iv) Deposits from banks and customers
The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

IFRS7p27 The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

IFRS7p27 (v) Off-balance sheet financial instruments
The estimated fair values of the off-balance sheet financial instruments are based on markets prices for similar facilities. When this information is not available, fair value is estimated using discounted cash flow analysis.

4.2 Fair value hierarchy

IFRS13p72-86 IFRS 13 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

IFRS13p76 Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Nairobi Stock Exchange) and exchanges traded derivatives like futures (for example, Nasdaq).

IFRS13p81 Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

IFRS13p86 Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

NOTES (CONTINUED)

4.2.1 Assets and liabilities measured at fair value

[Present the analysis for both Group and Bank]

IFRS13p93(b)

31 December 2015	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
Equity securities				
Derivatives				
Available-for-sale financial assets:				
· Investment securities – debt				
· Investment securities – equity				
Total assets				

31 December 2014	Level 1	Level 2	Level 3	Total
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Debt securities				
Equity securities				
Derivatives				
Available-for-sale financial assets:				
· Investment securities – debt				
· Investment securities – equity				
Total assets				

IFRS13p93(e)

Reconciliation of Level 3 items

	Financial assets held for trading	
In millions of Kenya Shillings	**Debt securities**	**Equity securities**
At 1 January 2015		
Total losses		
- Profit or loss		
Purchases		
Settlements		
Transfers into or out of level 3		
At 31 December 2015		
Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2015		

Reconciliation of Level 3 items

	Financial assets held for trading	
In millions of Kenya Shillings	**Debt securities**	**Equity securities**
At 1 January 2014		
Total losses		
- Profit or loss		
Purchases		
Settlements		
Transfers into or out of level 3		
At 31 December 2014		
Total losses for the year included in profit or loss for assets/liabilities held at 31 December 2014		

5. Management of capital

1p134 The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position, are:

(i) To comply with the capital requirements set by the Central Bank;
(ii) To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
1p135(a)(iii)
(iii) To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by the [name of country's authority] (the Authority), for supervisory purposes. The required information is filed with the Authority on a quarterly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel ratio') above a minimum level agreed with the Central Bank which takes into account the risk profile of the Bank.
The regulatory capital requirements are strictly observed when managing economic capital. The Bank's regulatory capital is managed by its Bank Treasury and comprises two tiers:

Tier 1 capital: share capital, general banking reserve, retained earnings and reserves created by appropriations of retained earnings; and
Tier 2 capital: qualifying subordinated loan capital, collective impairment allowances and unrealised gains arising on the fair valuation of equity instruments held as available-for-sale.

The risk weighted assets are measured by means of a hierarchy of 4 risk weights. Risk weights are assigned to assets and off balance sheet items according to the Bank's own estimates of probabilities of default (PD), loss given default (LGD) and credit fonversion factors (CCF) for retail business and claims to central governments, institutions and corporates. Own estimates of risk parameters are in accordance to the minimum requirements set out by Basel II.

1p135(b)
1p135(d) 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 they are subject.

	2015	2014
In millions of Kenya Shillings		
Tier 1 capital		
Share capital		
Share premium		
General banking reserve		
Retained earnings		
Less: Intangible assets		
Total qualifying Tier 1 capital		
Tier 2 capital		
Revaluation reserve – available-for-sale investments		
Collective impairment allowance		
Total qualifying Tier 2 capital		
Total regulatory capital		
Risk-weighted assets:		
On-balance sheet		
Off-balance sheet		
Total risk-weighted assets		
Basel ratio		

NOTES (CONTINUED)

5. Management of capital (continued)

1p135(c) The increase of the Tier 1 qualifying capital in the year of 2015 is mainly due to the contribution of the current-year profit. The increase of the risk-weighted assets reflects the expansion of the business in SMEs in 2015.

1p122
1p125
1p129 The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

NOTES (CONTINUED)

6. Critical accounting estimates and judgements

1p122
1p125
1p129

Accounting policies and directors' judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and directors' judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality. The following is a summary of significant areas of management judgment and estimates.

(a) Impairment losses on loans and advances

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

(b) Impairment of available-for-sale equity investments

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

Had all the declines in fair value below cost been considered significant or prolonged, the Bank would have recognised an additional KShsXXX loss in its 2015 financial statements.

(c) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments. For example, to the extent that the directors used a tightening of 20 basis points in the credit spread, the fair values would be estimated at Shs xxxx as compared to their reported fair value of Shs xxxcx at 31 December 2015.

NOTES (CONTINUED)

6. Critical accounting estimates and judgements

(d) 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 Bank evaluates its intention and ability to hold such investments to maturity. If the Bank 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 Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be so reclassified, the carrying value would increase by KShsXXX, with a corresponding entry in the fair value reserve in shareholders' equity.

(e) Retirement benefits

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in these assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based in part on current market conditions.

Were the discount rate used to differ by 10% from directors' estimates, the defined benefit obligation for pension benefits would be an estimated KShsXXX lower or KShsXXX higher.

NOTES (CONTINUED)

7. Segment information

[Segment information is only required if debt or equity securities are publicly traded or the entity is in the process of filing its financial statements with securities regulator. Please note that the disclosures below are illustrative only and segment reporting has to be tailored to follow internal reporting to CODM]

IFRS 8.20, 27(a)

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the Chief Operating Decision Maker (CODM), and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources and assesses the performance of the entity. The functions of the CODM are performed by the *[Board of Directors or management committee]* of the Group.

Operating segments pay and receive interest to and from the Central Treasury on an arm's length basis to reflect the allocation of capital and funding costs.

Segment capital expenditure is the total cost incurred during the period to acquire property and equipment, and intangible assets other than goodwill.

Operating segments

The Group comprises the following main operating segments:

(i) **Corporate Banking** - includes loans, deposits and other transactions and balances with corporate customers

(ii) **Retail Banking** - includes loans, deposits and other transactions and balances with retail customers

(iii) **Central Treasury** - undertakes the Group's funding and centralised risk management activities through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

The Group also has a central Shared Services operation that manages the Group's premises and certain corporate costs. Cost-sharing agreements are used to allocate central costs to operating segments on a reasonable basis.

The group segments are strategic business units that focus on different customers. They are managed separately because each business unit requires different marketing strategies and service levels.

The CODM evaluates performance of each segment based on profit before tax (segment results).

Reference **NOTES (CONTINUED)**

7. Segment information (continued)

Operating segments - 2015

	In millions of Kenya Shillings	Corporate banking	Retail banking	Central treasury[3]	Shared services	Unallocated	Consolidated
IFRS 8.23(a)	External revenue						
IFRS 8.23(c)-(d)	Interest income						
	Interest expense						
IFRS 8.23 (f)	Net fee and commission income						
IFRS 8.23 (f)	Net trading income						
IFRS 8.23 (f)	Net income from other financial Instruments carried at fair value						
IFRS 8.23 (f)	Other operating income						
IFRS 8.23 (b)	Inter segment revenue						
IFRS 8.32	Total segment revenue						
IFRS 8.21(b) (f)	Profit before tax						
	Income tax expense						
IFRS 8.21 (b)	Profit for the period						
IFRS 8.21 (b	Segment assets						
	Unallocated assets						
IFRS 8.21 (b	Total assets						
IFRS 8.21 (b	Segment liabilities						
	Unallocated liabilities						
IFRS 8.21 (b	Total liabilities						
IFRS 8.23 (i	Impairment losses on financial assets						
	Depreciation and amortisation						
	Restructuring costs						
IFRS 8.23 (i	Capital expenditure						

[Note that IFRS8p33 requires certain mandatory disclosure of geograpgical information in addition to the information on reportable segments]

Reference **NOTES (CONTINUED)**

7. Segment information (continued)

IFRS 8.20, 27(a) **Operating segments - 2014**

Reference	*In millions of Kenya Shillings*	Corporate banking	Retail banking	Central treasury	Shared services	Unallocated	Consolidated
IFRS 8.23(a)	External revenue						
IFRS 8.23(c)-(d)	Net interest income						
	Interest expense						
IFRS 8.23(f)	Net fee and commission income						
IFRS 8.23(f)	Net trading income						
IFRS 8.23(f)	Net income from other financial Instruments carried at fair value						
IFRS 8.23(f)	Other operating income						
IFRS 8.23(b)	Intersegment revenue						
IFRS 8.21(b)	Total segment revenue						
IFRS 8.21(b)	Segment result						
	Income tax expense						
IFRS 8.21(b)	Profit for the period						
IFRS 8.21(b)	Segment assets						
	Unallocated assets						
IFRS 8.21(b)	Total assets						
IFRS 8.21(b)	Segment liabilities						
	Unallocated liabilities						
IFRS 8.21(b)	Total liabilities						
IFRS 8.23(i)	Impairment losses on financial assets						
	Depreciation and amortisation						
	Restructuring costs						
IFRS 8.23(i)	Capital expenditure						

Reference **NOTES (CONTINUED)**

8. Financial assets and liabilities

Accounting classifications and fair values

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

In millions of Kenya Shillings	Trading	Designated at fair value	Held-to-maturity	Loans and receivables	Available-for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2015								
Cash and cash equivalents								
Trading assets								
Pledged assets								
Loans and advances to customers								
Investment securities								
Trading liabilities								
Deposits from banks								
Deposits from customers								
Debt securities issued								
Subordinated liabilities								
31 December 2014								
Cash and cash equivalents								
Trading assets								
Pledged assets								
Loans and advances to customers								
Investment securities								
Trading liabilities								
Deposits from banks								
Deposits from customers								
Debt securities issued								
Subordinated liabilities								

Reference **NOTES (CONTINUED)**

9. Net interest income

In millions of Kenya Shillings	2015	2014
Interest income		
Cash and cash equivalents		
Loans and advances to customers		
Financial assets held-to-maturity		
Financial assets available for sale		
Other		
Total interest income		
Interest expense		
Deposits from banks		
Deposits from customers		
Debt securities issued		
Other		
Total interest expense		
Net interest income		

IFRS7p20(d) Included within various captions under interest income for the year ended 31 December 2015 is a total of KShsXXX (2014: KShsXXX) accrued on impaired financial assets.

10. Net fee and commission income

In millions of Kenya Shillings	2015	2014
Fee and commission income		
Retail banking customer fees		
Corporate banking credit related fees		
Other		
Total fee and commission income		
Fee and commission expense		
Brokerage		
Inter bank transaction fees		
Other		
Total fee and commission expense		
Net fee and commission income		

Asset management fees relate to fees earned by the Group on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers

11. Trading income

In millions of Kenya Shillings	2015	2014
Foreign currency trading		
Other		
Total trading income		

Reference **NOTES (CONTINUED)**

12. Net income from financial instruments carried at fair value through profit or loss

In millions of Kenya Shillings	**2015**	**2014**
Derivatives held for risk management purposes:		
Interest rate		
Credit		
Foreign exchange		
OTC structured derivatives		
Investment securities – Bonds		
Loans and advances		

At 31 December 2015, the accumulated amount of the change in fair value attributable to changes in credit risk on financial liabilities designated at fair value through profit or loss was KShsXXX (2014: KShsXXX).

13. Other operating income

In millions of Kenya Shillings	**2015**	**2014**
Gain on sale of available-for-sale securities:		
Government bonds		
Corporate bonds		
Other		

14. Personnel costs

In millions of Kenya Shillings

The following items are included within personnel costs:

Reference		**2015**	**2014**
	Salaries and wages		
IAS19p46	Contributions to defined contribution plans		
	Cash-settled share-based payments		
	Defined benefit retirement plans (Note 33)		
	Post employment medical benefits (Note 33)		

15. Other operating expenses

In millions of Kenya Shillings	**2015**	**2014**
Software licensing and other information technology costs		
Impairment loss on property and equipment		
Branch closure cost provisions		
Redundancy provisions		
Auditors' remuneration		
Depreciation		
Amortisation of prepaid operating lease rentals		
Other		

Reference	**NOTES (CONTINUED)**		
16.	**Income tax expense**		
IAS 12.79	**Recognised in the income statement**		
	In millions of Kenya Shillings	**2015**	**2014**
	Current tax expense		
IAS 12.80(a)	Current year		
IAS 12.80(b)	Adjustments for prior years		
	Deferred income tax expense (Note 28)		
IAS 12.80(c)	Origination and reversal of temporary differences		
IAS 12.80(f)	Recognition of previously unrecognised tax losses		
	Total income tax expense		
IAS 12.81(c)	**Reconciliation of effective tax rate**		
	In millions of Kenya Shillings		
	Profit before income tax		
	Income tax using the enacted tax rate		
	Non-deductible expenses		
	Tax exempt income		
	Recognition of previously unrecognised tax losses		
	(Over) provided in prior years		
	Total income tax expense in income statement		

17. Earnings per share

Basic earnings per share

The calculation of basic earnings per share at 31 December 2015 is based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding, calculated as follows:

IAS 33.70(a)	**Profit attributable to ordinary shareholders**		
	In millions of Kenya Shillings	**2015**	**2014**
	Net profit for the period attributable to equity holders of the Bank		
IAS 33.70(b)	**Weighted average number of ordinary shares**		
	In millions of shares		
	Issued ordinary shares at 1 January		
	Effect of share options exercised		
	Weighted average number of ordinary shares at 31 December		
	Basic earnings per share *(in Kenya Shillings)*		

Reference **NOTES (CONTINUED)**

17. Earnings per share (continued)

Diluted earnings per share

The calculation of diluted earnings per share at 31 December 2015 was based on the profit attributable to ordinary shareholders and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares, calculated as follows:

IAS 33.70(a)

Profit attributable to ordinary shareholders (diluted)

In millions of Kenya Shillings	**2015**	**2014**
Profit for the period attributable to ordinary shareholders		

IAS 33.70(b)

Weighted average number of ordinary shares (diluted)

In millions of shares		
Weighted average number of ordinary shares (basic)		
Effect of share options in issue		
Weighted average number of ordinary shares (diluted) at 31 December		
Diluted earnings per share *(in Kenya Shillings)*		

18. Dividend per share

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

At the Annual General Meeting to be held on XXXXXX2015, a final dividend in respect of the year ended 31 December 2015 of KShsXXX (2014 – KShsXXX) will be proposed. An interim dividend of KShsXXX (2014 – KShsXXXX) was paid during the year. This will bring the total dividend for the year to KShsXXX (20XX – KShsXXX).

Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

19. Cash and balances with Central Bank

		Group		**Bank**	
		2015	**2014**	**2015**	**2014**
IFRS7.45	Cash on hand				
	Balances with Central Bank				
	Cash reserve balance				
	Other current accounts				

Reference **NOTES (CONTINUED)**

20 Financial assets and liabilities held for trading

IFRS7.8

	Group 2015	Group 2014	Bank 2015	Bank 2014
Financial assets held for trading				
Government treasury bills and bonds				
Corporate bonds				
Derivative financial instruments				
Financial liabilities held for trading				
Derivative financial instruments				
Over the counter structured derivatives				

21 Financial assets available for sale

IFRS7.8

	Group	Bank
Government securities – at fair value:		
- Maturing within 90 days of the date of acquisition		
- Maturing after 90 days after the date of acquisition		
Debt securities – at fair value		

22 Financial assets held to maturity

IFRS7.8

	Group	Bank
Government securities - at amortised cost:		
- Maturing within 90 days of date of acquisition		
- Maturing after 90 days of the date of acquisition		
Debt securities – at amortised cost		

23 Loans and advances to customers

IFRS7.8(a)

Group	2015 Gross	2015 Impairment allowance	2015 Carrying amount	2014 Gross	2014 Impairment allowance	2014 Carrying amount
Retail customers:						
Mortgage lending						
Personal unsecured loans						
Credit cards						
Corporate customers:						
Commercial term loans						
Overdraft facilities						
Asset finance leases						

Reference **NOTES (CONTINUED)**

23. Loans and advances (continued)

Reference	**Bank**	**2015**	**2014**
IFRS7.8(a)			
	Retail customers:		
	Mortgage lending		
	Personal unsecured loans		
	Credit cards		
	Corporate customers:		
	Commercial term loans		
	Overdratfts facilities		
	Asset finance leases		

Provision for impairment

Reference	**Group**	**Retail** 2015	2014	**Corporate** 2015	2014	**Total** 2015	2014
IFRS7.16 IFRS7.20(e)							
	Individually assessed:						
	At start of year						
	Impairment loss for the year						
	- Charge for the year						
	- Recoveries in the year						
	- Effects of currency translation						
	Write-offs						
	At end of year						
	Collectivelly assessed:						
	At start of year						
	Charge for the year						
	At end of year						
	Total provision for impairment						

Reference **NOTES (CONTINUED)**

23 Loans and advances to customers (continued)

Provision for impairment

Reference	**Bank**	Retail 2015	Retail 2014	Corporate 2015	Corporate 2014	Total 2015	Total 2014
IFRS7.16 IFRS7.20(e)	Individually assessed:						
	At start of year						
	Impairment loss for the year						
	- Charge for the year						
	- Recoveries in the year						
	- Effects of currency translation						
	Write-offs						
	At end of year						
	Collectivelly assessed:						
	At start of year						
	Charge for the year						
	At end of year						

24. Other assets and prepayments

Reference		Group 2015	Group 2014	Bank 2015	Bank 2014
IAS1.77 IAS1.54(h)	Other receivables and prepayments				
	Accrued income				
	Derivative financial instruments				
	Items in course of collection				

Reference **NOTES (CONTINUED)**

25. Property and equipment *[Present the analysis for both Group and Bank]*

Reference	*In millions of Kenya Shillings*	Land and buildings	IT equipment	Fixtures and fittings	Total
IAS 16.73(d), (e)	**Cost**				
	At 1 January 2014				
	Additions				
	Disposals				
	At 31 December 201				
	Balance at 1 January 2015				
	Additions				
	Disposals				
	At 31 December 2015				
	Depreciation and impairment losses				
	At 1 January 2014				
	Depreciation charge				
IAS 16.73(e)(vii)	Impairment loss				
	At 31 December 2014				
	At 1 January 2015				
	Depreciation charge				
IAS 16.73(e)(vii)	Impairment loss				
	At 31 December 2015				
IAS 1.78(a), 16.73(e)	**Net book amounts**				
	At 1 January 2014				
	At 31 December 2014				
	At 31 December 2015				

IAS 23.26 There were no capitalised borrowing costs related to the acquisition of plant and equipment during the year (XXX: nil)

Reference **NOTES (CONTINUED)**

26. Intangible assets *[Present the analysis for both Group and Bank]*

Reference	*In millions of Kenya Shillings*	Purchased software	Developed software	Total
IAS 38.118(c), (e)	**Cost**			
	At 1 January 2014			
	Additions			
	Internal development			
	At 31 December 2014			
	At 1 January 2015			
	Additions			
	Internal development			
	At 31 December 2015			
	Amortisation and impairment			
	At 1 January 2014			
	Amortisation charge			
IAS 36.126(a)	Impairment loss			
	Balance at 31 December 2014			
	At 1 January 2015			
	Amortisation charge			
IAS 36.126(a)	Impairment loss			
	At 31 December 2015			
IAS 38.118(c)	**Carrying amounts**			
	At 1 January 2014			
	At 31 December 2014			
	At 31 December 2015			

IAS 36.129(a), 131 During 2014 and 2015, the retail banking operations reconsidered their future requirements in relation to customer information software and have recognised an impairment in line with its planned replacement in the near term.

27. Deferred income tax *[Present the analysis for both Group and Bank]*

Recognised deferred tax assets and liabilities

IAS 12.81(g)(i) Deferred tax assets and liabilities are attributable to the following:

In millions of Kenya Shillings	Assets	Liabilities 2015	Net	Assets	Liabilities 2014	Net
Property and equipment, and software						
Available-for-sale securities						
Allowances for loan losses						
Tax losses carry-forward						
Other temporary differences						
Net tax assets/(liabilities)						

The deferred tax asset has been recognised based on the projected future taxable profits that will be available against which the deductible temporay differences and tax losses carried forward can be utilised. All the recognised tax losses relate to subsidiaries and are not subject to expiry before utilisation.

Reference **NOTES (CONTINUED)**

27. Deferred income tax (continued)

IAS 12.82A
IAS 12.81(e)

Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following items:

In millions of Kenya Shillings	**2015**	**2014**
Tax losses		

The unrecognised tax losses relate to an overseas investment banking subsidiary and expire in 2016. Deferred tax assets have not been recognised in respect of these losses because it is not probable that future taxable profit will be available against which the Group can utilise the benefits therefrom.

Movements in temporary differences during the year

IAS12p74

In millions of Kenya Shillings	**At start of year**	**Recognised in profit or loss**	**Other comprehensive income**	**At end of year**
2015				
Property and equipment, and software				
Available-for-sale securities				
Allowances for loan losses				
Tax losses carry-forwards				
Other temporary differences				
2014				
Property and equipment, and software				
Available-for-sale securities				
Allowances for loan losses				
Tax loss carry-forwards				
Other temporary differences				

IAS 12.81a)

In millions of Kenya Shillings	**2015**	**2014**
The (credit)/charge to other comprehensive income relates to:		
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of net defined benefit asset/liability		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Changes in fair value of available for sale financial assets		

IAS 12.82A If all the retained earnings of the group at 31 December 2015 were to be distributed, an additional income (compensating) tax of KShsXXX (2014: KShsXXX) would be payable. This liability has not been recognised.

Reference **NOTES (CONTINUED)**

28 Deposits from banks

	Group		Bank	
	2015	**2014**	**2015**	**2014**
Money market deposits				
Other deposits from banks				
Items in the course of collection				

29 Deposits from customers

Retail customers:				
Term deposits				
Current deposits				
Corporate customers:				
Term deposits				
Current deposits				
Others				

30 Other liabilities and accrued expenses

Other payables and accrued expenses				
Derivative financial instruments				
Deferred income				
Items in course of collection				

31. Borrowings *[Present the analysis for both Group and Bank]*

Subordinated debt

The long-term subordinated debt (10 years) was raised from XXX to increase the Bank's supplementary capital, amounted to KShs XXX million (2014: KShsXXX million).

Senior loan

The Group has two long-term senior loans (ten years and five years respectively) raised from XXXXXXXXXX, in 2010 amounting KShs XXX million .

Reference **NOTES (CONTINUED)**

31. Borrowings (continued)

In millions of Kenya Shillings	**2015**	**2014**
Subordinated debt		
At start of year		
Accrued interest		
Repaid during the year		
Currency translation difference		
Senior loan		
At start of year		
Additions during the year		
Accrued interest		
Repaid during the year		
Currency translation difference		

32. Provisions for liabilities *[Present the analysis for both Group and Bank]*

	In millions of Kenya Shillings	**Redund-ancy**	**Branch closures**	**Onerous contracts**	**Total**
IAS 37.84(a)	*At* 1 January 2014				
IAS 37.84(b)	Provisions made during the year				
IAS 37.84(d)	Provisions reversed during the year				
	Utilised during the year				
IAS 37.84(a)	Balance at 31 December 20XX				
IAS 37.84(a)	*At* 1 January 2015				
IAS 37.84(b)	Provisions made during the year				
IAS 37.84(d)	Provisions reversed during the year				
	Utilised during the year				
IAS 37.84(a)	*At* 31 December 2015				

IAS 37.85(a), (b),

Redundancy

In accordance with the *Delivery Channel Optimisation* plans announced by the Group in November 2015, the Group is in the process of rationalising its retail branch network and related processing functions. The remaining provision is expected to be used during 2015.

IAS 37.85(a), (b),

Branch closures

In accordance with the plans announced by the Group in November 2015, the Group is in the process of rationalising the branch network to optimise its efficiency and improve overall services to customers. One part of this plan continues to involve the closure of some branches. Twenty three of the branches outlined on the Group's *Delivery Channel Optimisation Plan* were closed during 20XX and 20XX. The remaining provision relates to the balance of the branches set out in that plan, which will be completed during 2015.

IAS 37.85(a), (b)

Onerous contracts

The Group is lessee in a number of non-cancellable leases over properties that it no longer occupies. In some cases the rental income from sub-leasing these properties is lower than the rental expense. A provision has been made for the present value of the future lease payments less the lease receivables for those properties.

Reference **NOTES (CONTINUED)**

33. Retirement benefits obligation *[Present the analysis for both Group and Bank]*

IAS 19.120A(b) The Group makes contributions to a non-contributory defined benefit plan that provides pension and medical benefits for employees upon retirement. The plan entitles a retired employee to receive an annual payment equal to 1/60 of final salary for each year of service, and to the reimbursement of certain medical costs.

The table below outlines where the group's post employment amounts and activity are included in the financial statements

Reference	**The amounts recognised in the statement of financial position are as follows:** *In millions of Kenya Shillings*	**2015**	**2014**
IAS 19.120A(d), (f)	Defined pension benefits		
IAS 19.120A(d), (f)	Post employment medical benefits		
IAS 19.120A(f)	Recognised liability for defined benefit obligations		
	Income statement charge included in profit or loss:		
IAS 19.120A(d), (f)	Defined pension benefits		
IAS 19.120A(d), (f)	Post employment medical benefits		
	Remeasurements for:		
IAS 19.120A(d), (f)	Defined pension benefits		
IAS 19.120A(d), (f)	Post employment medical benefits		

IAS 19.135b) The following table analyses the components of defined benefit costs recognized in comprehensive income

In millions of Kenya Shillings	**2015**	**2014**
Current service cost		
Past service cost and loss arising from settlements		
Net interest expense		
Components of defined benefit costs recognised in profit or loss		
Return on plan assets (excluding amounts included in net interest expense)		
Actuarial losses arising from changes in demographic assumptions		
Actuarial gains arising from changes in financial assumptions		
Actuarial losses arising from experience adjustments		
Components of defined benefit costs recognised in other comprehensive income		

The net defined benefit liability [/asset] in the balance sheet comprises:

Present value of the defined benefit obligation		
Less: Fair value of plan assets		

Reference **NOTES (CONTINUED)**

33. Retirement benefits obligation (continued)

Reference	*In millions of Kenya Shillings*	**2015**	**2014**
IAS 19-140, 141	The movement in the defined benefit obligation over the year		
	At start of year		
	Current service cost		
	Net interest expense		
	Past service cost and loss arising from settlements		
	Actuarial losses arising from changes in demographic assumptions		
	Actuarial gains arising from changes in financial assumptions		
	Actuarial losses arising from experience adjustments		
	Benefits paid		
	At end of year		
IAS 19.120A e)	The movement in the fair value of plan assets is as follows:		
	At start of year		
	Return on plan assets (excluding amounts included in net interest expense)		
	Employer contributions		
	Employee contributions		
	Benefits paid		
	At end of year		
IAS 19.142	The fair value of plan assets comprises:		
	Equity investments:		
	Manufacturing		
	Financial institutions		
	Agriculture		
	Debt securities:		
	Treasury bonds		
	High quality corporate bonds		
	Investment property		
	Other		
	Total		

IAS 19.142 Only the equity investments and debt securities are quoted in an active market (Level 1)

IAS 19.142 Pension plan assets include a building occupied by the Bank with a fair value of KShsXXX million (2014: KShsXXX)

Reference **NOTES (CONTINUED)**

33. Retirement benefits obligation (continued)

		2015	2014
IAS 19.142	The significant actuarial assumptions used were as follows:		
IAS 19-83	Discount rate (%)		
IAS 19-87	Future salary increases (%)		
Ias 19-82	Life expectancy after retirement age		

For each of the above significant actuarial assumptions, a sensitivity analysis has been determined based on reasonably possible changes of the assumption occurring at the end of the reporting period, while holding all other assumptions constant:

- If the discount rate is 1% higher (lower), the defined benefit obligation would decrease by Shs million (increase by Shs XXX million)
- If the expected rate of salary growth increases (decreases) by 1%, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX)
- If the average life expectancy increases (decreases) by one year, the defined benefit obligation would increase by KShsXXX (decrease by KShs XXX).

IAS 19.145 a)

For the above sensitivity analysis, the present value of the defined benefit obligation has been determined using the Projected Unit Credit Method at the end of the reporting period, which is the same as that applied in the statement of financial position.

IAS 19.145b)

Such sensitivity analysis might not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another.

IAS 19.147b) The expected contributions to the plan during 2015 is KShsXXX.

Reference **NOTES (CONTINUED)**

IAS1.79

34. Share capital and premium

		Number of shares (thousands)	Ordinary shares	Share premium	Total
IAS1.106(d)	At January 2014				
IAS1.54(h)	Bonus issue				
	At 31 December 2014				
	Issue for cash				
	At 31 December 2015				

IAS1.76(a) At 31 December 2015 the authorised share capital comprised XX billion ordinary shares (2014: XX billion of KShsXXXeach. All issued shares are fully paid.

IAS1.76(a) On XXX2014, the company issued bonus shares of one ordinary share for every 10 shares held by capitalisiing KShsXXX from retained earnings.

On XXX2015 the company issued XXX shares for cash a a price of KShsXXX per share.

35. Regulatory reserve

IAS1.76(b) The regulatory reserve represents an appropriation from retained earnings to comply with the Prudential guidelines of the Central Bank of Kenya on loan loss provisions. The balance represents the excess of impairment provisions determined in accordance with the Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. The reserve is non-distributable.

IAS1.79

36. Other reserves *(Present analysis for both group and company)*

		Fair value reserves	Currency translation reserve	Total
IAS1.76	At January 2014			
	Revaluation – available for sale assets			
	Deferred income tax on revaluation			
	Currency translation differences			
	At 31 December 2014			
	Revaluation – available for sale assets			
	Deferred income tax on revaluation			
	Currency translation differences			
	At 31 December 2015			

IAS1.76(b) The fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

Currency translation reserve comprises all the foreign exchange differences arising from the translation of the financial statements of foreign operations as well as from the translation of liabilities that hedge the bank’s net investment in foreign operations.

Reference **NOTES (CONTINUED)**

37. Off balance sheet financial instruments, contingent liabilities and commitments *(Present analysis for both group and company)*

Group and company

In the ordinary course of business, the Group conducts business involving guarantees, acceptances and performance bonds. 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, whose nominal amounts are not reflected in the balance sheet. At the year end, the contingent items were as follows:

In millions of Kenya Shillings	**2015**	**2014**
Guarantees and standby letters of credit		
Letters of credit, acceptances and other documentary credits		
Performance bonds and warranties		
Derivatives commitments:		
Forward foreign exchange contract amounts		

Nature of contingent liabilities

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

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

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 almost immediate.

Forward foreign exchange contracts are commitments to either purchase or sell a designated financial instrument at a specified future date for a specified price and may be settled in cash or another financial asset. The fair values of the respective currency forwards are carried under other assets and other liabilities as appropriate.

IAS 17.35 **Operating leases**

Non-cancellable operating lease rentals are payable as follows:

In millions of Kenya Shillings	**2015**	**2014**
Less than one year		
Between one and five years		
More than five years		

IAS 17.35(d) The Group leases a number of branch and office premises under operating leases. The leases typically run for a period of up to XX years, with an option to renew the lease after that date. Lease payments are increased every three to five years to reflect market rentals.

Reference **NOTES (CONTINUED)**

38. Other contingencies

IAS 37.86(a), (b) A subsidiary is defending an action brought by a consumer rights organisation in Kenya in relation to the marketing of specific pension and investment products from 1992 to 1997. While liability is not admitted, if defence against the action is unsuccessful, fines and legal costs could amount to KShsXXX million. Based on legal advice, the directors do not expect the outcome of the action to have a material effect on the Group's financial position.

39. Investment in subsidiaries

IFRS12P10(a), 12(a-c)

	Ownership interest	
	2015	**2014**
XYX Limited		
PQ Limited		

All subsidiaries undertakings are included in the consildation.

The proportion of the voting rights in the subsidiary undertakings held directly by the parent company do not differ from the proportion of ordinary shares held.

IFRS12P12 The total non-controlling interest at 31 December 2015 is KShsXXX (2014: KShsXXX), of which KShsXXX is for XYX Limited and KShsXXX is attributable to PQ Limited..

IFRS12p18 There were no transactions with non-controlling interests during the year, other than payment of dividends by the subsidiaries.

Significant restrictions

IFRS12p10(b)(i) There are restrictions on exporting capital in the country where XYX is incorporated, other than through normal dividends.

IFRS12p12(g) B10(10) **Summarised financial information on subsidiaries with material non-controlling interests**

Set out below are the summarised financial information for each subsidiary that has non-controlling interest that are material to the group.

Summarised balance sheet

	XYX Limited At 31 December		PQ Limited At 31 December	
	2015	**2014**	**2015**	**2015**
Current				
Assets				
Liabilities				
Total current net assets				
Non-current				
Assets				
Liabilities				
Total non-current net assets				
Net asset				

Reference **NOTES (CONTINUED)**

39. Investment in subsidiaries (continued)

Summarised income statement

	XYX Limited For the year ened 31 December 2015	2014	PQ Limited For the year ended 31 December 2015	2015
Revenue				
Profit before income tax				
Income tax expense				
Profit for the year				
Other comprehensive income				
Total comprehensive income				
Total comprehensive income allocated to non-controlling interests				
Dividends paid to non-controlling interests				

Summarised cash flows

Cash flows from operating activities				
Cash generated from operations				
Interest paid				
Income tax paid				
Net cash generated from operating activities				
Net cash used in investing activities				
Net cash from financing activities				
Net (decrease)/increase in cash and cash equivalents				
Cash and cash equivalents at start of year				
Exchange differences in cash and cash equivalents				
Cash and cash equivalents at end of year				

IFRS12pB11 The information above is the amounts before inter-company eliminations.

40. Analysis of cash and cash equivalents as shown in the statement of cash flows

In millions of Kenya Shillings	2015	2014
Cash and balances with the central banks		
Less cash reserve requirement		
Government securities maturing within 91 days at the point of acquisition		
Deposits and balances due from banking institutions		
Deposits and balances due to banking institutions		

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

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

Reference **NOTES (CONTINUED)**

41. Related party transactions

IAS 24.17 **Transactions with key management personnel**

(Present analysis for both group and company)

Key management personnel and their immediate relatives have transacted with the Group during the period as follows:

IAS 124.17(a), (b) *In millions of Kenya Shillings*	**2015 Maximum balance**	**2015 Closing balance**	**2014 Maximum balance**	**2014 Closing balance**
Mortgage lending and other secured loans				
Credit card				
Other loans				

Interest rates charged on balances outstanding are a quarter of the rates that would be charged in an arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the period comprised

In millions of Kenya Shillings	**2015**	**2014**
Short-term employee benefits		
Long-service leave		
Post-employment benefits		

In addition to their salaries, the Group also provides non-cash benefits to directors and executive officers, and contributes to a post-employment defined benefit plan on their behalf. In accordance with the terms of the plan, directors and executive officers retire at age 60 and are entitled to receive annual payments equivalent to 70 percent of their salary at the date of retirement until the age of 65, at which time their entitlement falls to 50 percent of their salary at the date of retirement.

Loans and advances to key management	**2015**	**2014**
At start of year		
Loans advanced during the year		
Loans repayments received		
At end of year		

Interest earned on staff loans during the year amounted to KShsXXX (2014:KShsXXX).

Reference **NOTES (CONTINUED)**

41. Related party transactions (continued)

Loan and advances to directors and their associates

The Group has entered into transactions with its directors and their associates as follows:

In millions of Kenya Shillings	**2015**	**2014**
At start of year		
Interest charged		
Loans disbursed		
Repayments of loans and advances		
Net movement in overdraft balances		
At end of year		

Included in loans and advances is KShsXXX (2014 – KShsXXX) advanced to companies where relationship exists by virtue of shareholding and/or representation in the respective companies' board of directors. Loans and advances are at commercial terms in the ordinary course of business and are adequately secured.

The related interest income in 2015 was KShsXXX (2014 – KShsXXX).

Included in deposits is KShsXXX (2014 – KShsXXX) due to a subsidiary company. Interest paid on these deposits during the year amounted to KShsXXXXX (2014 – KShsXXX).

All the transactions with the related parties have been entered into in the normal course of business.

Directors' remuneration

In millions of Kenya Shillings	**2015**	**2014**
As executive directors		
Fees		

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