2015

Guardian BANK

Your Preferred Bank

ANNUAL REPORT

& FINANCIAL STATEMENTS

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Directors and Statutory Information

Dr. Maganlal M Chandaria*	Chairman
Vasant K Shetty	Managing Director
Hetul D. Chandaria	Executive Director
Rajeshwar Sahi*	Independent Non-Executive Director
Shantilal R. Shah	Independent Non-Executive Director
Dr. Samson Ndegwa	Independent Non-Executive Director
Mr. Ajay Shah	Independent Non-Executive Director
Bhavnish Chandaria	Independent Non-Executive Director (Appointed 14th January 2015)

* British

SECRETARY
Jophece Yogo
P.O. Box 69952, 00400 Nairobi

AUDITORS
KPMG Kenya
Certified Public Accountant
8th Floor, ABC Towers
Waiyaki Way, Nairobi
P.O. Box 40612, 00100 Nairobi GPO

REGISTERED OFFICE/ HEAD OFFICE
Guardian Centre
Biashara Street
P.O. Box 67437, 00200 Nairobi GPO

LAWYERS
Ochieng', Onyango, Kibet & Ohaga Advocates
Hamilton, Harrison and Matthews Advocates
AB Patel & Patel Advocates
Nyairo & Co Advocates
Kiruti & Co Advocates
LG Menezes Advocates
Ogolla Okello & Company Advocates
Kangoli & Company Advocates

CORRESPONDENT BANKS
Deutsche Bank, (UK, Frankfurt & NY)
Standard Bank of South Africa Ltd
Habib Bank (UK & NY)
ICICI Bank Ltd, Mumbai (India)
Bank of India, Nairobi
Kenya Commercial Bank, Nairobi

BRANCHES

BIASHARA STREET BRANCH
Guardian Centre
P.O. Box 67437-00200, Nairobi

WESTLANDS BRANCH
Brick Court House, Mpaka Road
P.O. Box 66568-00800, Nairobi

MOMBASA ROAD BRANCH (NBI)
Tulip House
P.O. Box 42060-00100, Nairobi

MOMBASA BRANCH
Oriental Building, Nkurumah Road
P.O. Box 40619-80100, Mombasa

ELDORET BRANCH
Beharilal House, Uganda Road
P.O. Box 7685-30100, Eldoret

KISUMU BRANCH
Amalo Plaza, Oginga Odinga Road
Central Square, Kisumu
P.O. Box 2816, 40100 Kisumu

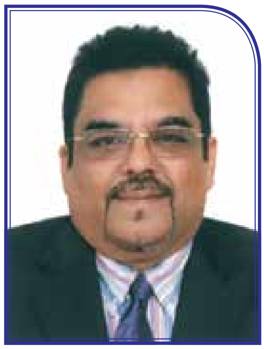
NGONG ROAD BRANCH
The Green House
P.O. Box 9822-00200, Nairobi

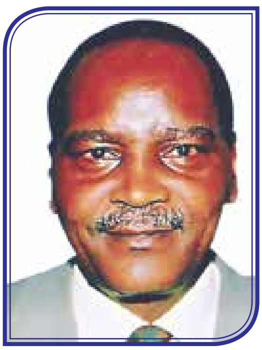
NYALI BRANCH
Links Plaza
P.O. Box 34375-80118, Nyali

NAKURU BRANCH
Parana House, Kenyatta Avenue
P.O. Box 18633-20100, Nakuru, (Opened 18/02/2015)

Directors

Dr. Maganlal M. Chandaria* (Chairman), * British





Second row from left: Vasant K. Shetty (Managing Director), Hetul D. Chandaria (Executive Director), Rajeshwar Sahi* (Independent Non-Executive Director),
Third row from left: Shantilal R. Shah (Independent Non-Executive Director), Dr. Samson Ndegwa (Independent Non-Executive Director), Mr. Ajay Shah (Independent Non-Executive Director), Bhavnish Chandaria (Appointed 14 January 2015),

Guardian BANK
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Chairman's report

It gives me great pleasure to present the Annual Report and the Financial Statements of the Bank for the financial year ending 31st December 2013.

Overall, the inflation was on the upward trend during the second and third quarter of the year. However, the Monetary Policy measures and favourable international oil prices continued to support a stable inflation and exchange rate during the first half of the year. In addition, The Monetary Policy Committee reduced the CBR by 1.0% to 8.5% during May 2013 which remained unchanged till the year end. As a result, Central Bank of Kenya is endeavoring to reduce the commercial bank's interest rate and spreads.

The performance of Guardian Bank was quite satisfactory during the financial year ending December 2013. The total deposits of the bank as at 31st December 2013 stood at Kshs. 11.181 bn. while the gross advances stood at Kshs. 9.126 bn., an increase of Kshs. 1.482 billion from the previous year.

The liquidity position of the bank was comfortable and as a result, the Bank has always been a lender in the inter-bank throughout the year. The liquidity ratio of the bank as at 31st December 2013 stood at 33.4% against the statutory requirement of 20%.

The gross income of the bank exceeded Ksh. 1.7 billion while the gross profit stood at Kshs. 383.751 mn. against Kshs. 223.389 mn. registered during the previous year. The bank, after making provision for non performing assets and taxation, posted a net profit of Kshs. 275.335 mn, which was 79% higher than the previous year. This is the highest profit ever shown by the bank. The shareholders of the bank decided not to declare dividend but to plough back the entire profit to improve the capital base of the bank. The Core Capital of the bank stood at Kshs. 1,493.885 bn. as at 31st December 2013 against the statutory requirement of Kshs. 1.000 bn.

The Bank has been strictly following the Prudential Guidelines of the Central Bank of Kenya, which, effective from January 2013, required Commercial Banks to include independent non-executive directors in the board to provide necessary checks and balances. The guidelines further provide that independent non-executive directors should constitute not less than a third {1/3} of the total members of the Board. To comply with the above and with the approval of Central Bank, the Bank inducted Mr. Ajay Shah and Dr. Samson Ndegwa as Board Members in February 2013 and May 2013 respectively. Mr. Ajay Shah hails from a leading business house in Eldoret and is a qualified Accountant while Dr. Ndegwa is a business Executive, holds a business degree and is involved in various social organizations. With their induction, the Bank now has two Non-Executive Directors and five Independent Non-Executive Directors besides two Executive Directors.

Chairman's report

The Bank has established various Board level and Management level committees to guide and improve the working of the Bank. The Bank is managed by qualified, experienced and highly dynamic professionals. The Bank's Management has an "open door policy" which enables frequent interaction with the customers/staff members. Management is highly sensitive in regard to quick 'decision making' which has enabled the bank to reach higher goals over the years.

Bank has eight branches – four in Nairobi, two in Mombasa, and one each at Eldoret and Kisumu. There are plans to widen the branch network and it has proposed to open two more branches in up-country centers during the next 18 months, subject to approval from Central Bank of Kenya.

The customer service of the bank has been of very high standards which resonate with our slogan "Your Preferred Bank". The Customer Service Committees established at our branches meet every month and review the services extended by the branches to customers - a strategy that has assisted the bank to continuously improve on its service standards.

I sincerely thank the members of the Board for their excellent co-operation and valuable guidance to the management from time to time in improving its performance.

I also thank KPMG Kenya, the Bank's Statutory Auditors for their continued support and counsel.

I would like to place on record my gratitude to the Governor, officials of Central Bank of Kenya and the Ministry of Finance for their co-operation and valuable guidance.

Lastly, but not in the least, I wish to convey my heart-felt thanks to the "Guardian Team" for their dedication, loyalty and team spirit that has propelled the bank to reach higher goals over the years; it is with such support from Customers and hard work from the Staff that enabled the Bank to get the Best Bank In Kenya Tier IV Award – 2014, organized by Think Business Ltd.

Thanking you,

Dr. M. M. Chandaria.

STATEMENT OF CORPORATE GOVERNANCE

Board/Management Committees

Tabulated below are Board/Management Committees, their composition and membership, functions and the frequency of meetings

	Credit Committee	Audit Committee	Risk Management Committee	Executive Committee	Strategy Committee	Human Resource Committee	Assets & Liabilities Management Committee	Business Continuity Management Committee (BCM)
Composition	Non-Executive Directors & Managing Director	Non-Executive Directors	Non-Executive Directors and Managing Director Executive Director	Managing Director Executive Director, Chief Executive officer & Senior Management	Managing Director, Executive Director, Chief Executive officer, Senior Management	Managing Director, Executive Director, Chief Executive officer, Senior Management	Managing Director, Executive Director, Chief Executive officer & Senior Management	Senior Management
Chairman	Mr. Shantilal R. Shah	Mr. Raj Sahi	Dr. Samson Ndegwa	Mr. Vasant K. Shetty	Mr. N. Sabesan	Mr. Vasant K. Shetty	Mr. Vasant K. Shetty	Mr. N. P. Thaker
Members	Dr. Maganlal M. Chandaria Mr. Raj Sahi Mr. Vasant K. Shetty Mr. Hetul Chandaria	Mr. Shantilal R. Shah Mr. Ajay Shah Mr. Bhavnish Chandaria	Mr. Vasant K. Shetty Mr. Hetul Chandaria Mr. Bhavnish Chandaria	Mr. Hetul Chandaria Mr. N. Sabesan Mr. N.P. Thaker Mrs Lorraine Miranda	Mr.Vasant K. Shetty Mr.Hetul Chandaria Mr. K R. Sahasramanam Mr. N.P. Thaker Mr. Joseph Wachira Mr.Neeraj Anand Ms. Martha Kibi Mrs. Lorraine Miranda Mr. Raj Sehmi Ms. Grace Nyende	Mr.Hetul Chandaria Mr. N. Sabesan Mr. N.P. Thaker Mr. Joseph Wachira	Mr.Hetul Chandaria Mr. N. Sabesan Mr. K R. Sahasramanam Mr. N.P. Thaker Mrs. Lorraine Miranda Mr. K. Solanki	Mr. K R. Sahasramanam Mrs. Lorraine Miranda Ms.Grace Nyende Mr.Neeraj

	Credit Committee	**Audit Committee**	**Risk Management Committee**	**Executive Committee**	**Strategy Committee**	**Human Resource Committee**	**Assets & Liabilities Management Committee**	**Business Continuity Management Committee (BCM)**
Main Functions	Review and oversee the lending policy of the bank, sanctioning new/review credit proposals within the delegated authority, evaluate / review bank's risk under Credit Risk Management	To ensure that the financial statements are prepared in timely and accurate manner, review internal controls, review the management report of external auditors, comply with CBK inspection report, approve annual audit plan, and review internal audit report.	Review/Implementation of Risk Management Framework -Review/Monitor and deliberation on risk mitigation approach. -Enhance overall risk awareness and control.	Compliance with regulatory requirements, introduction of bank's policy documents, introduction of robust working procedure/system, monitoring on going projects, sanction of new/review credit Proposals as per the delegated authority, evaluate strategic risk, operations risk management, foreign exchange risk management , regulatory risk management, reputation risk.	Drawing short term/long term business strategy of the bank, preparation of annual business budget, monitoring the Performance of the branches vis-à-vis the target, marketing/ publicity, branch expansions.	Selection / recruitment, promotions, performance review, disciplinary issues, staff training, staff welfare, preparation/ updating of HR Policy of the bank.	Compliance with the legal and regulatory requirements, monitoring the liquidity of the bank, take investment decision, fix rate of interest on deposit/ bank's base lending Rate, evaluate / review liquidity risk management, interest rate risk management price risk management.	"BCM Team" is responsible for - Protecting the interest of stake holders and meeting CBK compliance/legal requirements, - Developing resumption strategies for various business process, - Allocate resources for Disaster Recovery centre - Creating awareness amongst staff about the Disaster Recover Management, - Facilitating creation and updating of Business Continuity Policy,
Frequency of Meetings	Quarterly	Quarterly	Quarterly	Bi-monthly	Quarterly	Quarterly	Monthly	Quarterly

STATEMENT OF CORPORATE GOVERNANCE (CONTINUED)

Board Meetings Attendance

Names	26.03.15	08.07.15	29.09.15	24.11.15	%Attendance
Maganlal M. Chandaria	X	X	X	X	100%
Vasant K. Shetty	X	X	X	X	100%
Rajeshwar Sahi	X	X	X	X	100%
Shantilal R. Shah	X	X	-	X	75%
Hetul Chandaria	X	X	X	X	100%
Bhavnish D. Chandaria	X	X	X	X	100%
Samson Ndegwa	X	X	X	X	100%
Ajay Shah	X	X	X	X	100%

Evaluation of the Board of Directors

An annual evaluation of the Board of Directors was undertaken in 2015 and every other year, as required by the Central Bank of Kenya.

REPORT OF THE DIRECTORS FOR THE YEAR ENDED 31 DECEMBER 2015

The directors have pleasure in submitting their report together with the audited financial statements for the year ended 31 December 2015 which disclose the state of affairs of the Group and Company, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act.

1. Activities

The company is licensed to operate as a bank under the Banking Act.

2. Results

The results for the year are set out on page 12.

3. Dividend

The directors do not recommend the payment of a dividend (2014 - Nil).

4. Directors

The directors who served during the year are set out on page 2.

During the year 2015, there were 4 (2014 - 4) scheduled board meetings and the attendance by the directors is as tabulated on page 8.

Evaluation of board of directors was suitably carried out as required by Central Bank of Kenya regulations.

5. Auditors

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

6. Approval of financial statements

The financial statements were approved by the Board of Directors on 23rd March 2016

BY ORDER OF THE BOARD

Jophece Yogo
Secretary

Date: 23rd March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the consolidated financial statements of Guardian Bank Limited set out on pages 12 to 55 which comprise the statements of financial position of the group and the company at 31st December 2015, the group's statement of profit and loss and other comprehensive income, the group and company statement of changes in equity and the Group statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

The company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the 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.

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

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

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

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

Approval of the financial statements

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

Vasant K. Shetty	Hetul D. Chandaria	Rajeshwar Sahi
Managing Director	Executive Director	Independent Non-Executive Director

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF GUARDIAN BANK LIMITED

We have audited the consolidated financial statements of Guardian Bank Limited set out on pages 12 to 55 which comprise the statements of financial position of the group and the company as at 31st December 2015, and the group's statement of profit and loss and other comprehensive income, group and company statement of changes in equity and group statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 10, the company's directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and in the manner required by the 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.

Auditors' responsibility

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

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

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

Opinion

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

Report on other legal requirements

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

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

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

(iii) The statement of financial position of the company is in agreement with the books of account.

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

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
PO Box 40612, 00100 GPO
Nairobi, Kenya

Date: 23rd March 2016

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

	Notes	2015 KShs '000'	2014 KShs '000'
Interest income	5	1,996,277	1,794,322
Interest expense	5	(1,049,382)	(937,860)
Net interest income		**946,895**	**856,462**
Net fees and commissions income	**6**	**71,614**	**77,301**
Net trading income	7	49,811	56,516
Other revenue	8	48,947	23,709
		98,758	80,225
Revenue		**1,117,267**	**1,013,988**
Net impairment losses on financial assets	17(e)	(101,598)	(111,055)
Personnel expenses	9(a)	(331,281)	(295,689)
Operating lease expenses		(753)	(750)
Depreciation and amortisation		(43,903)	(34,125)
Other expenses	9(b)	(310,769)	(194,696)
Profit before income tax	**10**	**328,963**	**377,673**
Income tax expense	11	(99,633)	(116,422)
Profit for the year		**229,330**	**261,251**
Other comprehensive income			
Other comprehensive income for the year, net of income tax		-	-
Total comprehensive income for the year		**229,330**	**261,251**
Basic earnings per share	**12**	**KShs 10.18**	**KShs 11.60**

The notes set out on pages 17 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 KShs '000	2014 KShs '000
Assets			
Cash and balances with Central Bank of Kenya	13	1,320,403	1,582,023
Placements with other banks	14	721,061	621,724
Investments in Government securities	15	2,655,249	2,347,616
Other investments	16	-	192,223
Loans and advances to customers (net)	17(a)	9,242,735	9,434,741
Other assets	18	171,152	197,410
Property and equipment	20	405,298	130,046
Prepaid operating lease rentals	21	22,497	23,250
Intangible assets	22	4,525	4,458
Tax recoverable	11(b)	19,213	3,962
Deferred tax assets	23	47,359	35,420
Total assets		**14,609,492**	**14,572,873**
Liabilities			
Customers deposits	24	12,494,301	12,642,741
Unredeemed bearer certificate of deposit		-	500
Other liabilities	25	102,493	135,215
Provisions	26	28,232	39,281
Total liabilities		**12,625,026**	**12,817,737**
Equity (Page 13)			
Share capital	27	450,375	450,375
Statutory credit risk reserve		-	26,114
Retained earnings		1,534,091	1,278,647
Total equity		**1,984,466**	**1,755,136**
Total liabilities and equity		**14,609,492**	**14,572,873**

The financial statements on pages 12 to 55 were approved by the Board of Director on 23rd March 2016 and were signed on its behalf by:

Vasant K. Shetty
Managing Director

Hetul D. Chandaria
Executive Director

Rajeshwar Sahi
Independent
Non-Executive Director

Jophece Yogo
Board Secretary

The notes set out on pages 17 to 55 are an integral part of these consolidated financial statements.

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COMPANY STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Note	2015 KShs '000	2014 KShs '000
Assets			
Cash and balances with Central Bank of Kenya	13	1,320,403	1,582,023
Placements with other banks	14	721,061	621,724
Investments in Government securities	15	2,655,249	2,347,616
Other investments	16	-	192,223
Loans and advances to customers (net)	17(b)	9,223,218	9,441,563
Other assets	18	171,152	197,410
Investment in subsidiaries	19(a)	300,375	300,375
Property and equipment	20	405,298	130,046
Prepaid operating lease rental	21	22,497	23,250
Intangible assets	22	4,525	4,458
Tax recoverable	11(b)	19,213	3,962
Deferred tax asset	23	47,359	35,420
		14,890,350	**14,880,070**
Liabilities			
Customers deposits	24	12,494,301	12,642,741
Due to subsidiary companies	19(b)	366,313	369,551
Unredeemed bearer certificates of deposit		-	400
Other liabilities	25	102,493	135,215
Provisions	26	28,232	39,281
		12,991,339	**13,187,188**
Equity (Page 14)			
Share capital	27	450,375	450,375
Statutory credit risk reserve		-	26,114
Revenue reserves		1,448,636	1,216,393
		1,899,011	1,692,882
Total liabilities and equity		**14,890,350**	**14,880,070**

The financial statements on pages 12 to 55 were approved by the Board of Director on 23rd March 2016 and were signed on its behalf by:

Vasant K. Shetty Managing Director	Hetul D. Chandaria Executive Director	Rajeshwar Sahi Independent Non-Executive Director	Jophece Yogo Board Secretary

The notes set out on pages 17 to 55 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 KShs '000	2014 KShs '000
Net cash flow from operating activities	29(a)	625,141	1,050,017
Investing activities			
Purchase of intangible assets		(3,692)	(87)
Purchase of property and equipment		(317,790)	(19,176)
Proceeds from sale of property and equipment		5,215	2,000
Net cash flows from investing activities		**(316,267)**	**(17,263)**
Net increase in cash and cash equivalents	29(b)	308,874	1,032,754
Cash and cash equivalents at 1 January		2,475,235	1,442,481
Cash and cash equivalents at 31 December	**29(b)**	**2,784,109**	**2,475,235**

The notes set out on pages 17 to 55 are an integral part of these consolidated financial statements.

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

	Share capital KShs'000	Retained earnings KShs'000	Statutory Credit risk reserve KShs'000	Total equity KShs'000
2015				
At 1 January 2015	450,375	1,278,647	26,114	1,755,136
Profit for the year	-	229,330	-	229,330
Other comprehensive income				
Transfer from statutory credit risk reserve	-	26,114	(26,114)	-
At 31 December 2015	450,375	1,534,091	-	1,984,466
2014				
At 1 January 2014	450,375	1,016,659	26,851	1,493,885
Profit for the year	-	261,251	-	261,251
Other comprehensive income				
Transfer from statutory credit risk reserve	-	737	(737)	-
At 31 December 2014	**450,375**	**1,278,647**	**26,114**	**1,755,136**

The notes set out on pages 17 to 55 are an integral part of these consolidated financial statements

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

	Share capital KShs'000	Retained earnings KShs'000	Statutory Credit risk reserve KShs'000	Total equity KShs'000
2015				
At 1 January 2015	450,375	1,216,393	26,114	1,692,882
Profit for the year	-	206,129	-	206,129
Other comprehensive income				
Transfer from statutory credit risk reserve	-	26,114	(26,114)	-
At 31 December 2015	**450,375**	**1,448,636**	**-**	**1,899,011**
2014				
At 1 January 2014	450,375	954,405	26,851	1,431,631
Profit for the year	-	261,251	-	261,251
Other comprehensive income				
Transfer from statutory credit risk reserve	-	737	(737)	-
At 31 December 2014	450,375	1,216,393	26,114	1,692,882

The notes set out on pages 17 to 55 are an integral part of these consolidated financial statements

1. REPORTING ENTITY

Guardian Bank Limited ("the Bank" or "the company") is a company domiciled in Kenya. The consolidated financial statements of the Bank as at end of the year 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group" or "consolidated"). The Group is involved in investment, corporate and retail banking.
The address of the Bank's registered office is as follows:

Guardian Centre
Biashara Street
PO Box 67437 - 00100 GPO, Nairobi

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements of the Bank and its subsidiaries together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Kenyan Companies Act.

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

(b) Basis of measurement

The financial statements have been prepared on the historical cost basis of accounting.

(c) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates and assumptions are based on the Directors' best knowledge of current events, actions, historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

In particular, information about significant areas of estimation and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is set out below:

(i) Impairment of loans and receivables

The bank's loan loss provisions are established to recognise incurred impairment losses either on specific loan assets or within a portfolio of loans and receivables.

Impairment losses for specific loan assets are assessed on an individual basis. Individual impairment losses are determined as the difference between the carrying value and the present value of estimated future cash flows, discounted at the loans' original effective interest rate.

Estimating the amount and timing of future recoveries involves significant judgement, and considers the level of arrears as well as the assessment of matters such as future economic conditions and the value of collateral, for which there may not be a readily accessible market.

Loan losses that have been incurred but have not been separately identified at the reporting date are determined on a portfolio basis, which takes into account past loss experience and defaults based on portfolio trends. Actual losses identified could differ significantly from the impairment provisions reported as a result of uncertainties arising from the economic environment.

(ii) Fair value of financial instruments

Where the fair values of the financial assets and liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable market data where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

(iii) Taxation

Judgment is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The Bank recognises the net future tax benefit that relates to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the Bank to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Bank to realise the net deferred tax assets recorded at the reporting date could be impacted.

(iv) Useful lives and residual values of property and equipment

The company tests annually whether the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of property and equipment have been determined based on previous experience and anticipated disposal values when the assets are disposed. The rates used are set out on Note 3(d).

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements include the Company and subsidiaries in which the company holds 100% of the voting rights. A listing of the company's subsidiaries is set out in Note 19. Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

All inter-company balances and transactions are eliminated upon consolidation. Investments in subsidiaries are accounted for at cost at company level. However, the carrying amounts of these investments are reviewed annually and written down for impairment where considered necessary.

(b) Revenue recognition

Income is derived substantially from banking business. The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and when the specific criteria have been met for each of the group's activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the sale have been resolved. The group bases its estimates on historical results, taking into consideration the type of customer, type of transaction and specifics of each arrangement

(i) Interest income and interest expense

For all financial instruments measured at amortized cost, interest income or expense is recognized at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recognized as interest income or expense. The calculation of effective interest rate includes transaction costs and fees that are an integral part of the effective interest rate.

(ii) Fees and commission income

Fees and commissions are generally recognized 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 recognized as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party is recognized on completion of the underlying transaction. Other fees and commission income including account servicing fees and placement fees are recognized as the related services are performed. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received.

(c) Foreign currencies

(i) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs) which is also the bank's functional and presentation currency. All amounts have been rounded off to the nearest thousands, except when otherwise indicated.

(ii) Translation of foreign currencies

Transactions in foreign currencies during the year are converted into Kenya Shillings at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies as at the reporting date are translated into Kenya Shillings at the exchange rate ruling at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year. Resulting exchange differences are recognised in profit or loss for the year. Non monetary assets and liabilities denominated in foreign currency are recorded at the exchange rate ruling at the transaction date.

(d) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at historical cost less accumulated depreciation and impairment losses.

Cost includes expenditure that are directly attributable to the acquisition of the asset.

(ii) Subsequent cost

The cost of replacing a component of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit or loss.

(iii) Depreciation

Depreciation is charged to the profit or loss on a straight line basis over the estimated useful lives of each item of property, plant and equipment. The estimated useful lives are as follows:

• Leasehold improvements	5 years
• Equipment, fixtures and fittings, motor vehicles	3 to 8 years
• Buildings	40 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

(iv) Disposal of property and equipment

Gain and losses on disposal of an item of property and equipment are determined by comparing the proceeds from the disposal with the carrying amount of the property and equipment and are recognised net in profit or loss.

(e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Software is amortised on a straight line basis in profit or loss over its estimated useful life, from the date that is available for use. The estimated useful life of software is 3 years.

The amortisation method, useful life and the residual value are reviewed at each financial year-end and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

(f) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss on a straight-line basis over the period of the lease. Prepaid operating lease rentals in respect of leasehold land is recognised as an asset and amortised over the lease period.

(g) Taxation

Tax on the profit or loss for the year comprises current tax and deferred tax. Current tax is provided on the results in the year as shown in the financial statements adjusted in accordance with tax legislation.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities which affect neither accounting nor taxable profit.

A deferred tax asset on tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised.
Deferred tax asset is reviewed at each reporting date and reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is calculated on the basis of the tax rates currently enacted.

(h) Financial instruments

(i) Classification

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability of another entity. Financial instruments are classified as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money, goods and services directly to a debtor, with no intention of trading the receivable. Loans and receivables comprise loans and advances, and placements with other banks, and cash and bank balances.

Held-to-maturity

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the bank has the positive intent and ability to hold to maturity. Were the bank to sell, other than insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available for sale. These include treasury bills and bonds and other investments.

Other Financial liabilities

The bank classifies financial liabilities as other financial liabilities at amortised cost. Other Financial liabilities include customer deposits, borrowings and deposits from banking and non-banking financial institutions.

(ii) Recognition and measurement

The bank recognises financial assets on the date it commits to purchase the asset. A financial asset of financial liability is initially measured at fair value plus for items not at fair value through profit or loss, translation costs are directly attributable to the acquisition.

Held to maturity and loans and receivables are recognised on the day they are transferred to the bank.

(iii) De-recognition

A financial asset is derecognised when the bank loses control over the contractual rights that comprise that asset. This occurs when the rights are realised, expire or are surrendered. A financial liability is derecognised when it is extinguished.

On de-recognition of a financial asset, the difference between the carrying amount of the asset and the consideration received is recognised in profit or loss.
Held-to-maturity instruments and originated loans and receivables are derecognised on the day they are transferred by the bank.

(iv) Identification and measurement of impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. Financial assets are impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows on the asset that can be estimated reliably.

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

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a borrower, restructuring of a loan or advance by the Bank on terms that the Bank would otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

In assessing collective impairment the Bank uses statistical modelling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modelling.

Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

(v) Offsetting of financial assets and financial liabilities

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

(i) Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets other than deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(j) Financial guarantees

Financial guarantees are contracts that require the bank to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of the debt instrument.

(k) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Central Bank of Kenya (CBK) available to finance the bank's day-to-day operations, net balances from banking institutions and treasury bills and bonds which mature within three months or less from the date of acquisition. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(l) Employee benefits

(i) Short term employee benefits

Short term employee benefits are expensed as the related services are provided. A liability is recognised for the amount expected to be paid if the company has a present or constructive obligation to pay this amount as a result of past services provided by the employee and the obligation can be estimated reliably.

(ii) Post-employment benefits

Gratuity provisions are recognised for contractual employees as per their contractual terms. A provision is made in the financial statements for the estimated liability of such gratuity payable and movements in the provision are recognised in profit or loss.

(m) Dividends

Dividends on ordinary shares are recognised as a liability in the period in which they are declared and proposed dividends are disclosed as a separate component of equity.

(n) Provisions

Provisions are recognised when the company has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

(o) Earnings per share

Basic and diluted earnings per share (EPS) data for ordinary shares are presented in the financial statements. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, if any.

(p) Determination of fair values

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 in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

(q) New standards and interpretations effective but not adopted in the year

The Bank has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2015. The changes are explained below:

- IAS 19: Defined benefit plans – Employee contributions (effective for annual periods beginning on or after 1 July 2014). The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:
- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.
  When contributions are eligible for practical expedience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendment will not have a significant impact on the Bank's financial statements, as the Bank does not have a defined benefit plan.

(r) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended 31 December 2015, and have not been applied in preparing these financial statements. These are summarised below and the extent of the impact has not been determined. The Bank does not plan to early adopt these standards.

- **Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)**
  The amendments require the full gain to be recognised when assets transferred between an investor and its associate or joint venture meet the definition of a 'business' under IFRS 3 Business Combinations. Where the assets transferred do not meet the definition of a business, a partial gain to the extent of unrelated investors' interests in the associate or joint venture is recognised. The definition of a business is key to determining the extent of the gain to be recognised. The amendments will be effective from annual periods commencing on or after 1 January 2016.
  The amendment will not have a significant impact on the Bank's financial statements, as the Bank does not have associates and joint ventures.

- **Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)**

  The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business. Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured. The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted

The amendment will only have an effect on the financial statements if such an interest is acquired. Management will assess the impact if and when that occurs.

- **Amendments to IAS 41- Bearer Plants (Amendments to IAS 16 and IAS 41)**

The amendments to IAS 16 Property, Plant and Equipment and IAS 41 Agriculture require a bearer plant (which is a living plant used solely to grow produce over several periods) to be accounted for as property, plant and equipment in accordance with IAS 16 Property, Plant and Equipment instead of IAS 41 Agriculture. The produce growing on bearer plants will remain within the scope of IAS 41.

The new requirements are effective from 1 January 2016, with earlier adoption permitted.

The amendment will not have a significant impact on the Bank's financial statements as the Bank does not have bearer plants.

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

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

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

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

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

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

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

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

The adoption of these changes will not affect the amounts and disclosures of the Bank's financial statements.

- **IFRS 14 Regulatory Deferral Accounts**

IFRS 14 provides guidance on accounting for regulatory deferral account balances by first-time adopters of IFRS. To apply this standard, the entity has to be rate-regulated i.e. the establishment of prices that can be charged to its customers for goods and services is subject to oversight and/or approval by an authorised body.

The standard is effective for financial reporting years beginning on or after 1 January 2016 with early adoption is permitted.

The adoption of this standard is not expected to have an impact the financial statements of the Bank given that it is not a first time adopter of IFRS.

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

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

The amendment to IFRS 12 Disclosure of Interests in Other Entities requires an entity that prepares financial statements in which all its subsidiaries are measured at fair value through profit or loss in accordance with IFRS 10 to make disclosures required by IFRS 12 relating to investment entities. The amendment to IAS 28 Investments in Associates and Joint Ventures modifies the conditions where an entity need not apply the equity method to its investments in associates or joint ventures to align these to the amended IFRS 10 conditions for not presenting consolidated financial statements. The amendments introduce relief when applying the equity method which permits a non-investment entity investor in an associate or joint venture that is an investment entity to retain the fair value through profit or loss measurement applied by the associate or joint venture to its subsidiaries.

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

- **Disclosure Initiative (Amendments to IAS 1)**

The amendments provide additional guidance on the application of materiality and aggregation when preparing financial statements. The amendments apply for annual periods beginning on or after 1 January 2016 and early application is permitted.

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

- **IFRS 15 Revenue from Contracts with Customers**

This standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter of Transactions Involving Advertising Services. The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time. The standard specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard provides a single, principles based five-step model to be applied to all contracts with customers in recognising revenue being: Identify the contract(s) with a customer; Identify the performance obligations in the contract; Determine the transaction price; Allocate the transaction price to the performance obligations in the contract; and recognise revenue when (or as) the entity satisfies a performance obligation.

The application of IFRS 15 is not expected to have a significant impact on the Bank's financial statements.

- **IFRS 9: Financial Instruments (2014)**

On 24 July 2014 the IASB issued the final IFRS 9 Financial Instruments Standard, which replaces earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. This standard introduces changes in the measurement bases of the financial assets to amortized cost, fair value through other comprehensive income or fair value through profit or loss. Even though these measurement categories are similar to IAS 39, the criteria for classification into these categories are significantly different. In addition, the IFRS 9 impairment model has been changed from an "incurred loss" model from IAS 39 to an "expected credit loss" model. The standard is effective for annual periods beginning on or after 1 January 2018 with retrospective application, early adoption is permitted.

Although the Bank does not envisage any major impact on its financial statements on the adoption of IFRS 9 given its limited use of complex financial instruments, the Standard is still going through major changes before it finally replaces IAS 39. The full impact of these changes cannot therefore be reliably estimated at this time.

- **IFRS 16: Leases**

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

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

- **IFRS 16: Leases - continued**

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

  a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A company recognises the present value of the unavoidable lease payments and shows them either as lease assets (right-of-use assets) or together with property, plant and equipment. If lease payments are made over time, a company also recognises a financial liability representing its obligation to make future lease payments.
  b) depreciation of lease assets and interest on lease liabilities in profit or loss over the lease term; and
  c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (typically presented within either operating or financing activities) in the statement of cash flows

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

The standard does not require a company to recognise assets and liabilities for:
(a) short-term leases (i.e. leases of 12 months or less) and;
(b) leases of low-value assets

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

The application of IFRS 16 is not expected to have a significant impact on the Bank's financial statements.

4. FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- credit risk
- liquidity risk
- market risks
- operational risks

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Group Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Group risk management policies in their specified areas.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

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

The Group Risk Management Committee is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

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

Management of credit risk

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

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

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

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

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

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

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

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

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

Regular audits of business units and Group Credit processes are undertaken by Internal Audit.

Exposure to credit risk. Loans and advances to customers

	Note	2015 Group KShs'000	2015 Company KShs'000	2014 Group KShs'000	2014 Company KShs'000
Carrying amount	**17(a) & (b)**	**9,242,735**	**9,223,218**	**9,434,741**	**9,441,563**
Individually impaired:					
Grade 4: Doubtful		1,014,882	805,417	685,929	486,465
Grade 3: Substandard		14,255	14,255	100,879	100,879
		1,029,137	819,672	786,808	587,344
Allowances for Impairment	17(c) & (d)	(748,105)	(558,157)	(668,303)	(457,999)
Carrying amounts		**281,032**	**261,515**	**118,505**	**129,345**
Collectively impaired:					
Grade 1: Normal		8,969,588	8,969,588	9,171,806	9,171,806
Grade 2: Watch		20,398	20,398	300,665	300,665
		8,989,986	8,989,986	9,472,471	9,472,471
Allowances for Impairment	17(c)	(28,283)	(28,283)	(38,131)	(38,131)
Carrying amounts		**8,961,703**	**8,961,703**	**9,434,340**	**9,434,340**
Past due and not impaired:					
Grade 1: Normal		47,440	47,440	103,111	103,111
Grade 2: Watch		20,398	20,398	300,665	300,665
		67,838	67,838	403,776	403,776
Past due comprises:					
01-30 Days		47,440	47,440	103,111	103,111
31-60 Days		20,398	20,398	300,665	300,665
		67,838	67,838	403,776	403,776
Neither past due nor impaired:					
Grade 1: Normal		8,922,148	8,922,148	9,068,695	9,068,695
Grade 2: Watch		-	-	-	-
		8,922,148	**8,922,148**	**9,068,695**	**9,068,695**

Impaired loans and securities

Impaired loans and securities are loans and securities for which the Group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the Group's internal credit risk grading system.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Allowances for impairment

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

Write-off policy

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

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

Loans and advances - Group	**Gross**	**Net**
	KShs'000	**KShs'000**
31 December 2015		
Grade 3: Individually Impaired	14,255	8,715
Grade 4: Individually Impaired	1,014,882	272,317
	1,029,137	**281,032**
31 December 2014		
Grade 3: Individually Impaired	100,879	40,517
Grade 4: Individually Impaired	685,929	77,988
	786,808	**118,505**

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

Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 or 2014.

An estimate of the fair values of collateral against loans and advances to customers is shown below:

	2015 KShs'000	2014 KShs'000
Against impaired accounts	533,555	302,717
Against accounts not impaired	10,087,015	10,314,425
	10,620,570	10,617,142

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

Concentration by Sector	**2015 KShs'000**	**2014 KShs'000**
Agriculture, hunting, fishing and forestry	161,746	110,242
Manufacturing	860,235	1,382,309
Trade	4,413,220	4,354,552
Transport	553,531	672,046
Real estate	2,036,205	1,780,157
Personal loans	940,667	827,500
Others	1,053,519	1,014,370
	10,019,123	**10,141,176**

The other financial assets are neither past due nor impaired.

Cash and balances with CBK	1,320,403	1,582,023
Placements with other banks	721,061	621,724
Investments in government securities	2,655,249	2,347,616
Others investments	-	192,223
Other assets - items in transit	102,032	105,613
	4,798,745	**4,849,199**

(b) Settlement risk

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

For certain types of transactions the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from Group Risk.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations from its financial liabilities.

Management of liquidity risk

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

Central Treasury receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The liquidity requirements of business units and subsidiaries are met through short-term loans from Central Treasury to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

When an operating subsidiary or branch is subject to a liquidity limit imposed by its local regulator, the subsidiary or branch is responsible for managing its overall liquidity within the regulatory limit in co-ordination with Central Treasury. Central Treasury monitors compliance of all operating subsidiaries and foreign branches with local regulatory limits on a daily basis.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of both the Group and operating subsidiaries and foreign branches. A summary report, including any exceptions and remedial action taken, is submitted regularly to ALCO.

Exposure to liquidity risk

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

	2015	2014
Average for the period	**35.77%**	**35.88%**
Maximum for the period	38.42%	40.54%
Minimum for the period	31.51%	32.98%

Residual contractual maturities of assets and liabilities

Customer deposits represent current, savings, call and fixed deposit balances, which past experience have shown to be stable

31 December 2015	**Due within 3 months KShs'000**	**Due between 3 and 12 months KShs'000**	**Due between 1 and 5 years KShs'000**	**Due after 5 years KShs'000**	**Total KShs'000**
Assets					
Cash and balances with Central Bank of Kenya	1,320,403	-	-	-	1,320,403
Investment in Government Securities	1,393,040	342,314	435,322	484,573	2,655,249
Placements with other banks	721,061	-	-	-	721,061
Loans and advances to customers (net)	5,177,955	695,070	2,466,541	903,169	9,242,735
Other assets-items in transit	102,032	-	-	-	102,032
Total financial assets	**8,714,491**	**1,037,384**	**2,901,863**	**1,387,742**	**14,041,480**
Liabilities					
Customers' deposits	12,002,658	602,881	-	-	12,605,539
Other liabilities	-	102,493	-	-	102,493
Total financial liabilities	**12,002,658**	**705,374**	**-**	**-**	**12,708,032**
	(3,288,167)	**322,010**	**2,901,863**	**1,387,742**	**1,333,448**
Assets					
Cash and balances with Central Bank of Kenya	1,582,023	-	-	-	1,582,023
Investment in Government Securities	930,033	149,297	860,482	407,804	2,347,616
Other investments	192,223	-	-	-	192,223
Placements with other banks	621,724	-	-	-	621,724
Loans and advances to customers (net)	5,180,803	1,366,820	2,582,118	305,000	9,434,741
Other assets-items in transit	105,613	-	-	-	105,613
Total financial assets	**8,612,419**	**1,516,117**	**3,442,600**	**712,804**	**14,283,940**
Liabilities					
Customers' deposits	12,208,851	409,791	24,099	-	12,642,741
Other liabilities	-	135,213	-		135,213
Unredeemed bearer certificates	-	-	-	500	500
Total financial liabilities	**12,208,851**	**545,004**	**24,099**	**500**	**12,778,454**
	(3,596,432)	**971,113**	**3,418,501**	**712,304**	**1,505,486**

The previous table shows the undiscounted cash flows on the Group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The Gross nominal inflow/(outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

Management of market risks

The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the corporate banking unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

With the exception of translation risk arising on the Group's net investment in its foreign operations, all foreign exchange risk within the Group is transferred and sold down by Central Treasury to the corporate Banking unit. Accordingly, the foreign exchange position is treated as part of the Group's trading portfolios for risk management purposes.

Overall authority for market risk is vested in ALCO. Group Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instrument because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day-to-day monitoring activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)

FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (continued)

Interest rate risk

This table shows the extent to which the group's interest rate exposures on assets and liabilities are matched.
Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

31 December 2015	**Effective interest rate**	**Due within 3 months KShs'000**	**Due between 3 and 12 months KShs'000**	**Due between 1 and 5 years KShs'000**	**Due after 5 years KShs'000**	**Non-interest bearing KShs'000**	**Total KShs'000**
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,320,403	1,320,403
Investment in Government Securities	10.82%	1,393,040	342,314	435,322	484,573	-	2,655,249
Placements with other banks	13.29%	721,061	-	-	-	-	721,061
Loans and advances to customers (net)	15.43%	5,177,955	695,070	2,466,541	903,169	-	9,242,735
Other assets-items in transit		-	-	-	-	102,032	102,032
Total financial assets		**7,292,056**	**1,037,384**	**2,901,863**	**1,387,742**	**1,422,435**	**14,041,480**
Liabilities							
Customers' deposits	7.95%	12,002,658	602,881	-	-	-	12,605,539
Other liabilities		-	-	-	-	102,493	102,493
Unredeemed bearer certificates		-	-	-	-	-	-
Total financial liabilities		12,002,658	602,881	-	-	102,493	12,708,032

FINANCIAL RISK MANAGEMENT (Continued)

(d) Market risk (continued)

Interest rate risk

This table shows the extent to which the group's interest rate exposures on assets and liabilities are matched.
Items are allocated to time bands by reference to the earlier of the next contractual interest rate repricing date and maturity date.

		(4,710,602)	434,503	2,901,863	1,387,742	1,319,942	1,333,448
	Effective interest rate	**Due within 3 months KShs'000**	**Due between 3 and 12 months KShs'000**	**Due between 1 and 5 years KShs'000**	**Due after 5 years KShs'000**	**Non-interest bearing KShs'000**	**Total KShs'000**
31 December 2014							
Assets	-						
Cash and balances with Central Bank of Kenya		-	-	-	-	1,582,023	1,582,023
Investment in Government Securities	8.28%	930,033	149,297	860,482	407,804	-	2,347,616
Other investments	13.95%	192,223	-	-	-	-	192,223
Placements with other banks	13.45%	621,724	-	-	-	-	621,724
Loans and advances to customers (net)	15.19%	5,180,803	1,366,820	2,582,118	305,000	-	9,434,741
Other assets		-	-	-	-	105,613	105,613
Total assets		**6,924,783**	**1,516,117**	**3,442,600**	**712,804**	**1,687,636**	**14,283,940**
Liabilities							
Customers' deposits	7.56%	12,208,851	409,791	24,099	-	-	12,642,741
Other liabilities		-	-	-		135,213	135,213
Unredeemed bearer certificates		-	-	-	-	500	500
Total liabilities		**12,208,851**	**409,791**	**24,099**	**-**	**135,713**	**12,778,454**
Interest rate sensitivity gap		**(5,284,068)**	**1,106,326**	**3,418,501**	**712,804**	**1,551,923**	**1,505,486**

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(d) Market risk

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves worldwide and a 50 bp rise or fall in the greater than 12-month portion of all yield curves. Overall non-trading interest rate risk positions are managed by Central Treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Group's non-trading activities.

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor / issuer's credit standing) on debt securities held by Central Treasury and equity price risk is subject to regular monitoring by Group Risk, but is not currently significant in relation to the overall results and financial position of the Group.

The result of structural foreign exchange positions on the Group's net investments in foreign subsidiaries and branches, together with any related net investment hedges, is recognised in equity. The Group's policy is only to hedge such exposures when not to do so would have a significant impact on the regulatory capital ratios of the Group and its banking subsidiaries. The result of this policy is that hedging generally only becomes necessary when the ratio of structural exposures in a particular currency to risk-weighted assets denominated in that currency diverges significantly from the capital ratio of the entity being considered.

Currency risk

The group is exposed to currency risk through transactions in foreign currencies. The group's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of comprehensive income. In respect of monetary assets and liabilities in foreign currencies, the group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below summarizes the foreign currency exposure as at 31 December 2014 and 31 December 2015:

	2015	2014
	KShs'000	KShs'000
Assets in foreign currencies	947,337	965,348
Liabilities in foreign currencies	(914,185)	(953,572)
Net foreign currency exposure	**33,152**	**11,776**

The following table demonstrates the sensitivity to a reasonably possible change in the below mentioned exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities).

Increase/decrease in exchange rate		**Effect on profit before tax**	
		2015	2014
		KShs'000	KShs'000
USD	10%	2,779	986
GBP	10%	184	131
EURO	10%	257	24

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015 (CONTINUED)
FINANCIAL RISK MANAGEMENT (Continued)

The table below analyses the currencies to which the group is exposed at 31 December 2015

At 31 December 2015– KShs'000	**USD**	**GBP**	**EURO**	**OTHER**	**TOTAL**
Assets					
Cash and balances with Central Bank of Kenya	85,602	4,089	2,111	169	91,971
Deposits and balances due from banking institutions	239,064	54,406	16,628	852	310,950
Loans and advances to customers (net)	533,227	-	-	-	533,227
Other assets	11,189	-	-	-	11,189
Total foreign currency assets	**869,082**	**58,495**	**18,739**	**1,021**	**947,337**
Liabilities					
Other liabilities	1,521	124	11,178	19	12,842
Deposits and balances due to banking institutions	839,773	56,534	4,988	48	901,343
Total foreign currency liabilities	**841,294**	**56,658**	**16,166**	**67**	**914,185**
Foreign currency exposure at 31 December 2015	**27,788**	**1,837**	**2,573**	**954**	**33,152**
Off balance sheet items	**517,255**	**4,647**	**30,474**	**22,630**	**575,006**

At 31 December 2014– KShs'000	**USD**	**GBP**	**EURO**	**OTHER**	**TOTAL**
Assets					
Cash and balances with Central Bank of Kenya	35,942	4,506	4,030	7	44,485
Deposits and balances due from banking institutions	170,465	81,884	14,044	678	267,071
Loans and advances to customers (net)	650,275	-	-	-	650,275
Other assets	3,517	-	-	-	3,517
Total foreign currency assets	**860,199**	**86,390**	**18,074**	**685**	**965,348**
Liabilities					
Other liabilities	322,890	543	-	22	323,455
Deposits and balances due to banking institutions	527,452	84,540	17,831	294	630,117
Total foreign currency liabilities	**850,342**	**85,083**	**17,831**	**316**	**953,572**
Foreign currency exposure at 31 December 2014	**9,857**	**1,307**	**243**	**369**	**11,776**
Off balance sheet items	**848,400**	**6,729**	**32,139**	**12,388**	**899,656**

(e) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions
- requirements for the reconciliation and monitoring of transactions
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standards
- risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(f) Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Group as a whole. The parent company and individual banking operations are directly supervised by their local regulators.

In implementing current capital requirements, the Central Bank of Kenya requires the Group to maintain a prescribed ratio of total capital to total risk-weighted assets. The Group calculates requirements for market risk in its trading portfolios based upon the Group's VaR models and uses its internal grading as the basis for risk weightings for credit risk.

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

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

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

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

There have been no material changes in the Group's management of capital during the period.
The Group's regulatory capital position at 31 December was as follows:

	2015	2014
Core capital (Tier 1)	**KShs'000**	**KShs'000**
Paid up share capital	450,375	450,375
Retained earnings	1,304,761	1,017,398
Net after tax profits	229,330	261,251
Core capital	1,984,466	1,729,024
Supplementary capital (Tier 2)	-	26,114
Total capital	**1,984,466**	**1,755,138**
On balance sheet risk weighted assets	10,296,683	9,575,876
Off balance sheet risk weighted assets	959,132	676,856
Total risk weighted assets	**11,255,815**	**10,252,732**
Capital adequacy ratios		
Percentage of Core Capital to Risk Weighted Asset ratio	17.63%	16.25%
Minimum requirement	10.50%	10.50%
Percentage of Total Capital to Risk Weighted Asset ratio	17.63%	16.50%
Minimum requirement	14.50%	14.50%
Percentage of Core Capital to Deposits ratio	15.88%	13.18%
Minimum requirement	8.00%	8.00%

Capital allocation

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

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Financial assets and liabilities and their 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):

	Held to maturity KShs'000	Loans and receivables KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair values KShs'000
As at 31 December 2015					
Assets					
Cash and cash equivalents	-	-	1,320,403	1,320,403	1,320,403
Placements with other banks	-	-	721,061	721,061	721,061
Investments in Government securities	2,655,249	-	-	2,655,249	2,655,249
Loans and advances to customers (net)	-	9,242,735	-	9,242,735	9,242,735
Other assets – items in transit	-	102,032	-	102,032	102,032
Total assets	**2,655,249**	**9,344,767**	**2,041,464**	**14,041,480**	**14,041,480**
Liabilities and shareholders' funds					
Customers' deposits	-	-	12,494,301	12,494,301	12,494,301
Total liabilities	**-**	**-**	**12,494,301**	**12,494,301**	**12,494,301**
As at 31 December 2014					
Assets					
Cash and cash equivalents	-	-	1,582,023	1,582,023	1,582,023
Placements with other banks	-	-	621,724	621,724	621,724
Investments in Government securities	2,347,616	-	-	2,347,616	2,347,616
Other investments	192,223	-	-	192,223	192,223
Loans and advances to customers (net)	-	9,434,741	-	9,434,741	9,434,741
Other assets - items in transit	-	105,613	-	105,613	105,613
Total assets	**2,539,839**	**9,540,354**	**2,203,747**	**14,283,940**	**14,283,940**
Liabilities and shareholders' funds					
Customers' deposits	-	-	12,643,241	12,642,741	12,642,741
Total liabilities	**-**	**-**	**12,643,241**	**12,642,741**	**12,642,741**

5. NET INTEREST INCOME

	2015	2014
	KShs'000	KShs'000
Interest income		
Loans and advances to customers	1,630,122	1,440,880
Interest on government securities	301,358	274,134
Placements with other banks and banking institutions	64,797	79,308
Total interest income	**1,996,277**	**1,794,322**
Interest expense		
Customer deposits	1,024,918	914,228
Deposits from other banks and banking institutions	1,325	437
Other interest expenses	23,139	23,195
Total interest expense	**1,049,382**	**937,860**

6. FEE AND COMMISSION INCOME

	2015	2014
Fees and commission on loans and advances	57,032	63,409
Other fees and commissions	14,582	13,892
	71,614	**77,301**

7. NET TRADING INCOME

	2015	2014
Foreign exchange	35,736	42,524
Other	14,075	13,992
	49,811	**56,516**

8. OTHER REVENUE

	2015	2014
Service income	13,489	13,225
Other income	35,458	10,484
	48,947	**23,709**

9. OPERATING EXPENSES

(a) Staff costs

Salaries	321,105	285,397
Other staff costs	10,176	10,292
	331,281	**295,689**

(b) Other operating expenses

Donations	10,968	10,050
Insurance expenses	35,999	33,818
Legal expenses	67,177	2,621
Occupancy expenses	71,244	59,308
Other operating expenses	125,381	88,899
	310,769	**194,696**

10. PROFIT BEFORE INCOME TAX

		2015	2014
		KShs'000	KShs'000
Profit before income tax is arrived at after charging/(crediting):			
Depreciation expense (Note 20)		40,278	29,685
Amortisation of prepaid operating lease rentals (Note 21)		753	750
Amortisation of intangible assets (Note 22)		3,625	4,443
Directors fees	- As directors	4,460	4,287
	- As employees	52,505	41,510
Auditors remuneration		4,025	3,500
Profit on sale of property and equipment		(2,955)	(2,000)

11. INCOME TAX

(a) Income tax expense

Current tax expense:		
- Current year	106,814	120,584
- Adjustment for prior year	4,758	(175)
	111,572	120,409
Deferred tax credit (Note 23):		
- Current year	(18,574)	(3,986)
- Adjustment for prior year	6,635	(1)
	(11,939)	(3,987)
Total tax expense	**99,633**	**116,422**

The tax on the bank's profit differs from the theoretical amount using the basic tax rate as follows:

	2015	**2014**
	KShs'000	**KShs'000**
Profit before income tax	328,963	377,673
Tax at applicable rate	98,688	113,301
Net effect of non-deductible costs and non-taxable income	(10,448)	3,296
Prior year over provision of deferred tax asset	6,635	-
Prior year under provision of current tax	4,758	(175)
Total tax expense	**99,633**	**116,422**

(b) Tax (recoverable)/payable

At 1 January	(3,962)	32,043
Charge for the period	111,572	120,409
Paid during the paid	(126,823)	(156,414)
At 31 December	**(19,213)**	**(3,962)**

12. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share is based on:		
Net profit for the year attributable to shareholders (KShs '000)	**229,330**	**261,251**
Number of ordinary shares in issue during the year	**22,518,750**	**22,518,750**
Earnings per share (KShs)	**10.18**	**11.60**

At 31 December 2015 there are no ordinary shares with dilutive potential (2014-Nil)

13. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

Group and Company	2015 KShs'000	2014 KShs'000
Cash on hand	126,155	138,360
Balances with Central Bank of Kenya:		
- Cash reserve ratio	650,395	658,545
- Other	543,853	785,118
	1,320,403	**1,582,023**

The cash ratio reserve which is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2015, the cash reserve ratio requirement was 5.25% of eligible deposits (2014 - 5.25%). The funds are available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below 3.00% requirement and provided the overall average in the month is at least 5.25%.

14. PLACEMENTS WITH OTHER BANKS

	2015 KShs'000	2014 KShs'000
Group and company		
Due within 12 months of reporting date	**721,061**	**621,724**

15. INVESTMENTS IN GOVERNMENT SECURITIES

Group and Company

	2015	2014
Held to maturity		
Treasury Bills:		
Maturing within 90 days of reporting date	1,393,040	930,033
Maturing after 90 days of reporting date	342,314	577,519
	1,735,354	1,507,552
Treasury bonds:		
Maturing between 1 year and 5 years	435,322	432,260
Maturing after 5 years	484,573	407,804
	919,895	840,064
	2,655,249	**2,347,616**

The weighted average effective interest rate on Government securities at 31 December 2015 was 10.82% (2014 - 9.99%).

16. OTHER INVESTMENTS

Private placements

Group and Company	2015 KShs'000	2014 KShs'000
Private placements	-	192,223

17. LOANS AND ADVANCES TO CUSTOMERS

	2015 KShs'000	2014 KShs'000
(a) Group		
Overdrafts	3,884,527	3,553,613
Loans	4,858,436	4,670,616
Bills discounted	566,535	1,214,648
Hire purchase	475,732	415,239
Premium financing	213,087	183,786
Bills purchased	20,806	103,274
	10,019,123	10,141,176
Less: Impairment losses reserve (Note 17(c))	(776,388)	(706,435)
	9,242,735	**9,434,741**
(b) Company		
Overdrafts	3,795,260	3,478,846
Loans	4,741,045	4,553,224
Bills discounted	566,535	1,214,648
Hire purchase	475,732	415,239
Premium financing	213,087	175,269
Bills purchased	17,999	100,467
	9,809,658	9,937,693
Less: Impairment losses reserve (Note 17(d))	(586,440)	(496,130)
	9,223,218	**9,441,563**

(c) Impairment losses reserve – Group

2015:	Specific impairment KShs '000	Portfolio impairment KShs '000	Total KShs '000
At 1 January 2015	668,304	38,131	706,435
Impairment losses made in the year	160,168	2,679	162,847
Impairment recovered/unrequired in the year	(53,807)	(12,527)	(66,334)
Write-offs during the year	(26,560)	-	(26,560)
At 31 December 2015	**748,105**	**28,283**	**776,388**
2014:			
At 1 January 2014	617,634	47,477	665,111
Impairment losses made in the year	130,918	(9,346)	121,572
Write-offs during the year	(80,248)	-	(80,248)
At 31 December 2014	**668,304**	**38,131**	**706,435**

(d) Impairment losses reserve – Company

2015:			
At 1 January 2015	457,999	38,131	496,130
Impairment losses made in the year	179,525	2,679	182,204
Impairment recovered/unrequired in the year	(52,807)	(12,527)	(65,334)
Write-offs during the year	(26,560)	-	(26,560)
At 31 December 2015	**558,157**	**28,283**	**586,440**
At 1 January 2014	407,329	47,477	454,806
Impairment losses made in the year	130,918	(9,346)	121,572
Write-offs during the year	(80,248)	-	(80,248)
At 31 December 2014	**457,999**	**38,131**	**496,130**

	Specific impairment KShs '000	Portfolio impairment KShs '000	Total KShs '000

(e) Net impairment (write backs)/ losses – Group

	2015 KShs'000	2014 KShs'000
Impairment losses made in the year (Note 17(c))	162,847	121,572
Recoveries during the year	(61,249)	(10,517)
Net charge to profit or loss	**101,598**	**111,055**

(f) Non-performing loans and advances – Group

Loans and advances include a net amount of KShs 281,032,154 (2014 – KShs 118,505,000), which have been classified as non-performing. The estimated value of securities held against this net balance is KShs 533,555,000 (2014- KShs 251,055,000).

	2015 KShs'000	2014 KShs'000
Interest on impaired loans and advances **which has not yet been received in cash**	**262,197**	**203,159**

18. OTHER ASSETS

Group and company	2015 KShs'000	2014 KShs'000
Items in transit	102,032	105,613
Accounts receivable and prepayments	69,120	91,797
	171,152	**197,410**

19. INVESTMENT IN SUBSIDIARIES

(a) Investment in subsidiaries

Company	Ownership		
The First National Finance Bank Ltd	100%	104,375	104,375
Guilders International Bank Ltd	100%	196,000	196,000
		300,375	**300,375**

(b) Balances due to subsidiary companies

Balance as at 1 January 2015	369,551	357,371
Net loans movement	(3,138)	12,180
Decrease in unredeemed certificates of deposit	(100)	-
Balance as at 31 December 2015	**366,313**	**369,551**

20. PROPERTY AND EQUIPMENT
Group and Company

2015	**Buildings**	**Leasehold improvements**	**Equipment furniture and fittings**	**Motor vehicles**	**Capital work in progress**	**Total**
	KShs'000	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
At 1 January 2015	51,503	111,199	106,348	23,477	7,944	300,471
Additions	239,201	14,704	28,733	35,152	-	317,790
Write offs	-	(16,807)	-	-	-	(16,807)
Transfers	-	7,389	555	-	(7,944)	-
Disposals	-	-	-	(10,980)	-	(10,980)
At 31 December 2015	290,704	116,485	135,636	47,649	-	590,474
Depreciation						
At 1 January 2015	12,424	73,416	72,038	12,547	-	170,425
Charge for the year	5,195	16,247	13,407	5,429	-	40,278
Write offs	-	(16,807)	-	-	-	(16,807)
Disposals	-	-	-	(8,720)	-	(8,720)
At 31 December 2015	17,619	72,856	85,445	9,256	-	185,176
Carrying amount						
At 31 December 2015	**273,085**	**43,629**	**50,191**	**38,393**	**-**	**405,298**

The gross carrying value of fully depreciated leasehold improvements and equipment that are still in use is KShs 87,866,937 (2014 - KShs 69,624,389). Such assets would have attracted a notional depreciation of KShs 17,925,630 (2014 - KShs 15,279,038).

20. PROPERTY AND EQUIPMENT
Group and Company

2014	Buildings	Leasehold improvements	Equipment furniture and fittings	Motor vehicles	Capital work in progress	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Cost						
At 1 January 2014	51,503	111,174	101,871	17,052	-	281,600
Additions	-	25	4,782	6,425	7,944	19,176
Write offs	-	-	(276)	-	-	(276)
Disposals	-	-	(29)	-	-	(29)
At 31 December 2014	51,503	111,199	106,348	23,477	7,944	300,471
Depreciation						
At 1 January 2014	10,854	60,157	61,343	8,691	-	141,045
Charge for the year	1,570	13,259	11,000	3,856	-	29,685
Write offs	-	-	(276)	-	-	(276)
Disposals	-		(29)	-	-	(29)
At 31 December 2014	12,424	73,416	72,038	12,547	-	170,425
Carrying amount						
At 31 December 2014	**39,079**	**37,783**	**34,310**	**10,930**	**7,944**	**130,046**

21. PREPAID OPERATING LEASE RENTALS
Group and company

The net historical book value of leasehold land has been classified as prepaid operating lease rentals as below:

	2015	2014
	KShs'000	KShs'000
Cost		
At 1 January and 31 December	30,000	30,000
Amortisation		
At 1 January	6,750	6,000
Amortisation for the year	753	750
At 31 December	7,503	6,750
Carrying amount as at 31 December	**22,497**	**23,250**

22. INTANGIBLE ASSETS - Software

	2015 KShs'000	2014 KShs'000
Group and company		
Cost		
At 1 January	22,878	22,791
Additions	3,692	87
Write-offs	(2,706)	-
At 31 December	23,864	22,878
Amortisation		
At 1 January	18,420	13,977
Amortisation during the year	3,625	4,443
Write-offs	(2,706)	-
At 31 December	19,339	18,420
Carrying amount as at 31 December	**4,525**	**4,458**

23. DEFERRED TAX ASSET

Group and Company

Deferred tax asset at 31 December 2014 and 2015 are attributable to the items detailed in the table below:

	At 1 January 2015 KShs'000	Prior year (over) / under provision KShs'000	Recognised in profit or loss KShs '000	At 31 December 2015 KShs '000
2015				
Arising from:				
Property and equipment	20,064	(6,639)	4,442	17,867
Provision for loans and advances	11,434	5	10,532	21,971
Gratuity provision	1,650	-	3,600	5,250
Leave accrual	2,272	(1)	-	2,271
	35,420	**(6,635)**	**18,574**	**47,359**

	At 1 January 2015	Prior year (over) / under provision	Recognised in profit or loss	At 31 December 2015
	KShs'000	KShs'000	KShs '000	KShs '000
2014				
Arising from:				
Property and equipment	15,671	(1)	4,394	20,064
Provision for loans and advances	14,242	-	(2,808)	11,434
Gratuity provision	-	-	1,650	1,650
Leave accrual	1,521	1	750	2,272
	31,434	**-**	**3,986**	**35,420**

24. CUSTOMERS DEPOSITS

	2015	2014
	KShs'000	KShs'000
Group and company		
Cost		
Non-profit institutions and individuals	7,969,801	8,544,623
Private enterprises	3,623,157	3,468,000
Foreign currency accounts	901,343	630,118
	12,494,301	**12,642,741**

25. OTHER LIABILITIES

	2015	2014
Group and Company		
Sundry creditors	69,518	59,669
Accruals	32,975	75,546
	102,493	**135,215**

26. PROVISIONS

Group and Company

Provisions for employee related expenses and utility costs:

	2015	2014
Balance at 1 January 2015	39,281	26,107
Provisions made during the year	13,080	15,437
Provisions used during the year	(24,129)	(2,263)
Balance at 31 December 2015	**28,232**	**39,281**

27. SHARE CAPITAL

	2015 KShs'000	2014 KShs'000
Group and Company		
Authorised		
25,000,000 ordinary shares of KShs 20 each	500,000	500,000
Issued and fully paid		
22,518,750 ordinary shares of KShs 20 each	450,375	450,375

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

28. ASSETS PLEDGED AS SECURITY

As at 31 December 2015, treasury bonds/bills amounting to KShs 100,000,000 with Bank of India and KShs 102,000,000 with Kenya Commercial Bank were pledged as security for letter of credit facilities.

29. NOTES TO THE STATEMENT OF CASH FLOWS

	2015 KShs'000	2014 KShs'000
(a) Reconciliation of profit before income tax to cash flows from operating activities		
Profit before income tax	328,963	377,673
Depreciation	40,278	29,685
Amortisation of intangible asset	3,625	4,443
Prepaid operating lease rental amortisation	753	750
Profit on sale of property and equipment	(2,955)	(2,000)
	370,664	410,551
(Increase)/decrease in operating assets		
Central Bank of Kenya cash reserve ratio	8,150	(75,930)
Other investments	192,223	65,304
Loans and advances to customers	192,006	(1,087,956)
Investment in Government securities	155,374	428,908
Other assets	26,258	(43,424)
	574,011	(713,098)

29. NOTES TO THE STATEMENT OF CASH FLOWS

	2015	2014
	KShs'000	KShs'000
(a) Increase / (decrease) in operating liabilities		
Customers deposits	(148,440)	1,462,258
Unredeemed bearer certificate of deposit	(500)	-
Other liabilities	(32,722)	33,546
Provisions	(11,049)	13,174
	(192,711)	1,508,978
Net cash flows from operations before income tax	751,964	1,206,431
Income taxes paid	(126,823)	(156,414)
Net cash flows from operating activities	**625,141**	**1,050,017**

(b) Analysis of the balances of cash and cash equivalents

	2015	2014	Change in the year
	KShs'000	KShs'000	KShs'000
Balances with Central Bank of Kenya	543,853	785,118	(241,265)
Cash on hand	126,155	138,360	(12,205)
Placements with other banks	721,061	621,724	99,337
Treasury bill maturing within 3 months	1,393,040	930,033	463,007
	2,784,109	**2,475,235**	**308,874**

30. CONTINGENT LIABILTIES

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. At the year end, the contingencies were as follows:

	2015	2014
	KShs'000	KShs'000
Commitments with respect to:		
Irrevocable letters of credit	367,478	361,796
Guarantees	606,685	414,568
Bills for collection	52,241	192,515
Swaps	11,178	317,092
	1,037,582	**1,285,971**

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.

In the ordinary course of business, the bank and its subsidiaries are defendants in various litigation and claims. Although there can be no assurances, the directors believe, based on the information currently available and legal advice, that the claims can be successfully defended and therefore no provision has been made in the financial statements.

31. RELATED PARTY TRANSACTIONS

(a) Loans and advances

The Bank has entered into transactions with its staff, directors, significant shareholders and their affiliates.

	2015	2014
	KShs'000	KShs'000
The aggregate amount of loans: Loans to employees:		
Balance at the beginning of the year	33,530	23,824
Loans advanced during the year	8,275	21,244
Loans repayments received	(13,072)	(11,538)
Balance at end of year	**28,733**	**33,530**
Loans and advances to directors, shareholders and associates	**329,016**	**317,415**
Off balance sheet items	**16,442**	**16,423**

The related interest income in 2015 was KShs 50,482,108 (2014 - KShs 12,929,629).

(b) Key management remuneration

	2015	2014
Salaries and other employee benefits	**67,919**	**39,005**

Salaries and other employee benefits include those relating to the senior management.

(c) The aggregate amounts of deposits withdrawn from related parties at 31 December 2015 were KShs 713,379,734 (2014 - KShs 417,027,450 deposits received). The transactions were carried out on commercial terms and conditions.

(d) In the normal course of business, the bank has entered into transactions with certain related parties. These transactions are at commercial terms and conditions.

32. OPERATING LEASES

	2015	2014
	KShs'000	KShs'000
Operating lease rentals are payable as follows:		
Tenancy		
Less than one year	40,226	30,332
Between one and five year	82,301	43,409
Over 5 years	55,840	-
	178,367	**73,741**

The Bank leases a number of bank premises under operating leases. The leases typically run for an initial period of between five and six years with an option to renew the lease at its expiry. During the year ended 31 December 2015, KShs 48,636,058 (2014 – KShs 40,357,983) was recognised as an expense in the statement of comprehensive income in respect of operating leases.

NOTES

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Your Preferred Bank

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