ANNUAL REPORT AND FINANCIAL STATEMENTS

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PARTNERSHIP FOR GROWTH

Bank of Baroda (Kenya) Ltd.

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TRUST
IS OUR STRENGTH

Dear Stakeholders,

I have the pleasure to present the Bank's Annual Audit Report and Financial Statements for the year ended 31st December 2015.

KENYAN ECONOMY

The Gross Domestic Product (GDP) grew by 5.6% in 2015 compared to 5.3% growth in 2014. Sectors like agriculture; construction; real estate; finance and insurance showed significant growth, while growth in mining and quarrying; information & communication; and wholesale & retail trade was subdued during the period. Tourism industry continued to remain affected with no improvement in the inflow of tourists visiting the country.

Key macroeconomic indicators remained relatively stable. Infrastructure development continued to remain the main agenda of the State, though, overall effect of these investments on the other sectors of economy/ local industry is yet to be distinctly visible.

Overall, inflation eased from 6.9% in 2014 to 6.6% in 2015 mainly due to lower energy and fuel cost.

The current account deficit as a percentage of GDP narrowed from 14.5% in 2014 to 11.4% in 2015. This was primarily due to value of fall in imports and improved exports. The fiscal deficit on the other hand increased marginally from the previous level of 8.00% in 2014 to 8.10% in 2015.

Initially, the Kenyan Shilling depreciated sharply against its major trading currencies; subsequently it improved reasonably and stabilized by the end of the year.

In 2015 the Central Bank of Kenya (CBK) undertook several policies to support price stability and economic growth. It focused on achieving and maintaining stability in the general price levels. The Central Bank Rate (CBR) was raised from 8.5% to 10.0% in June 2015, and further to 11.5% in July, 2015 to contain inflationary pressures and stem exchange rate volatility.

The CBK also used Open Market Operations (OMO), repo securities and Term Auction Deposits (TAD), to deal with excess liquidity in the money market and to reduce volatility of the interbank rate during the year. During the second half of the year, interest rates on money market instruments rose as high as 21-22%, thus affecting the cost of resources for the financial sector.

The performance of Kenya's economy in 2016 is likely to be determined largely by internal factors. However, exogenous factors will also shape the economy but probably to a lesser extent. Generally, all the sectors of the economy are expected to grow.

The financial intermediation sector is likely to remain robust despite the three commercial banks being put under Receivership by the Central Bank of Kenya.

BANKING SECTOR

The Kenyan banking sector is comprised of 41 commercial banks, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 80 foreign exchange bureaus, 16 money remittance providers and 3 credit reference bureaus as at 31st December 2015.

During 2015 the balance sheet in terms of total assets grew at an annual growth of 13.6%; Gross loans grew by 16.6% and deposits grew by 12.2%.

The banking sector also recorded an improved capital position in December 2015 with total shareholders' funds increasing by 8.6%. However, the core capital to total risk-weighted assets ratio decreased marginally from 15.9% in December 2014 to 15.6% in December 2015. Total capital to total risk-weighted assets ratio also decreased marginally from 19.2% in December 2014 to 18.6% in December 2015.

The ratio of gross non-performing loans to gross loans increased from 5.4% in December 2014 to 6.1% in December 2015.

The banking sector's pre-tax profits grew by 2.8% from Kshs. 140.9 Billion at 31st December 2014 to Kshs. 144.9 Billion for the year ended 31st December 2015.

PERFORMANCE OF THE BANK

During the year 2015, Deposits grew to stand at Kshs. 52.93 Billion on 31st December 2015, translating to a growth of 8.72% over last year in local currency. There was wild volatility in the market as far as the interest rates were concerned. In view of this, our effort throughout the year was to contain the cost of deposits and deliberately discourage bulk and high cost deposits.

We managed to grow our advances by Kshs. 3.26 Billion to stand at Kshs. 32.26 Billion as at 31st December 2015, indicating a growth of 11.24% over the year 2014. Slow and erratic pace in the economy affected the credit off take.

Total Business of the Bank grew to Kshs. 85.19 Billion as at 31st December 2015, showing a growth of 9.66% over last year.

The Bank's operating income stood at Kshs. 3.08 Billion for the year ended 31st December 2015 compared to Kshs. 2.78 Billion in December 2014 translating to 10.86% growth in operating profit during the year.

In line of the Bank's determination to ensure unhealthy advances are fully provided, additional provision of Kshs. 601.761 million relating to NPA accounts was made resulting in increase of provisions, hence, reduced profitability. The ratio of Gross NPA as a percentage of total advances increased to 7.33% as at 31st December 2015 compared to a ratio of 3.67% as at December 2014.

While efforts are already on to either upgrade the downgraded accounts or recover the accounts in full, the recovery process by initiating legal action has also been started in cases where the businesses have been closed down and other cases in default.

AWARDS & ACCOLADES

Like in the past years, the performance of the Bank has been adjudged and acknowledged by the Industry. In the Banking Awards for the year 2014 organised by a leading financial magazine – Think Business, Bank was adjudged the ''Most Efficient Bank" in the entire industry.

ACHIEVEMENTS

Bank opened its 12th branch at a very prime location in Diamond Plaza, Nairobi on 27th June 2015.

The Bank has rolled out the i - Tax module for collection of taxes on behalf of KRA (Kenya Revenue Authority).

OTHER MAJOR DEVELOPMENTS

The process of constructing the Bank's Head Office in Nairobi has been approved by the Board. We are awaiting other approvals from other statutory agencies. The ground breaking ceremony is likely to take place shortly.

In order to meet the growing challenges of ever increasing business of the Bank and to offer better services, additional human resources are being continuously recruited and developed, thus creating opportunities for the people of the country.

CORPORATE SOCIAL RESPONSIBILITY

Corporate Social Responsibility continues to remain in focus for the Bank. During the year 2015, Bank participated in First Lady Half Marathon and also donated Kshs. One Million to 'Beyond Zero' campaign launched by First Lady for women and child welfare.

Bank arranged for donation of used computers, stationery and food items for the children and old women of 'Lavarna Children Home for Orphanage and old Mamas' at Thika in an event.

WAY FORWARD

The process of introducing VISA accredited debit cards is now reaching the stage of implementation. It is in final stage of testing.

In respect of Mobile Banking, vendor of the product has been shortlisted. Security and other operational aspects of the proposed platform are being explored.

Introduction of new products for our customers would be our regular endeavor for enhancing value for them. Four new loan products namely Home Improvement Loan, Additional Assured Advance, Baroda Mortgage Loan and Loan against Future Rent Receivable have been launched. We are expecting an encouraging response from the customers.

Bank will be participating in KITS (Kenya Interbank Transaction Switch) project under the aegis of KBA (Kenya Bankers Association).

Separate Marketing vertical to deal exclusively with opening of accounts and mobilization of business is proposed.

ACKNOWLEDGEMENTS

I take this opportunity to thank the Government and the Central Bank of Kenya for continued support to our Bank. We also appreciate our esteemed customers and business partners for their continued patronage. I thank the management and staff for their dedication which resulted in sustained increase in our business and bottom line during the year. I would also like to thank my fellow Directors for their able support, timely guidance and decision making.

We look forward to working together towards meeting and exceeding customers and shareholder's expectations in the coming year and I look forward to your continued support and good wishes.

Thank you,

(B.B. Joshi)
Chairman,
Bank of Baroda (Kenya) Ltd.

Name
Bhuwanchandra B. Joshi.
Age
59 years
Nationality
Indian
Position
Chairman and Non-Executive Director
Date of Appointment
23rd May 2016
Other Directorships
Bank of Baroda, India. Bank of Baroda (Ghana) Ltd.
Bank of Baroda (Botswana) Ltd. Indo- Zambia Bank Ltd. & IndiaFirst Life Insurance Co. Ltd.
Qualifications
B.Com, CAIIB
Percentage of Shareholding in the bank
None

Name
Yatish C. Tewari
Age
57 Years
Nationality
Indian
Position
Managing Director
Date of Appointment
07 December 2013
Other Directorships
None
Qualifications
B. Sc, JAIIB
Percentage of Shareholding in the bank
One share held in trust

Name
Philip Burh
Age
55 Years
Nationality
Indian
Position
Director (Executive)
Date of Appointment
17 March 2014
Other Directorships
None
Qualifications
B. A, MBA, JAIIB, Certificate in Information Technology
Percentage of Shareholding in the bank
None

Name
Mr. Rajiv S. Abhyankar
Age
60 Years
Nationality
Indian
Position
Non-Executive Director
Date of Appointment
13 January 2015
Other Directorships
None
Qualifications
M. Sc, CAIIB, IIBF
Percentage of Shareholding in the bank
None

Name
Mr. Patrick K. Njoroge
Age
49 Years
Nationality
Kenyan
Position
Non-Executive Director
Date of Appointment
18 August 2014
Other Directorships
Kenya Association of Investments Group. East Africa Capital Consultants. Algorithm Limited. Amalgamated Chama Limited
Qualifications
ICPAK, ACIB, MBA Insititute of Directors
Percentage of Shareholding in the bank
None

Name
Vikram C. Kanji
Age
49 Years
Nationality
Kenyan
Position
Non-Executive Director
Date of Appointment
22-Jan-2010
Other Directorships
Leadway Investments Ltd -(Executive), Suvila Ltd-(Executive), Mombasa Cements Ltd (Non-Executive), Kontiki Ltd Safari Sunset Ltd.
Qualifications
Advocate of High Court of Kenya, Certified Public Secretary of Kenya
Percentage of Shareholding in the bank during the year
None

Bank of Baroda (Kenya) Ltd.

PRINCIPAL SHAREHOLDER	-	Bank of Baroda, India – 86.70%
Country of incorporation and domicile	-	Kenya

PRINCIPAL OFFICERS

Mr. Yatish C. Tewari	-	Managing Director
Mr. Kumar Ajay Singh	-	Head - Operations
Ms. Elizabeth Nyambutu	-	Head - Credit
Mr. Winston Sore	-	Head - Internal Audit
Mr. Sanjay Kumar Ray	-	Head - Treasury
Mr. Amit Gupta	-	Head - Risk Management / Compliance
Ms. Maria Gorett Makokha	-	Head - Treasury (Back Office)
Mr. Patrick Sila	-	Head - Finance
Mr. Rakesh R. Mehta	-	Branch Head - Digo Road Branch, Mombasa
Mr. Gopal Saxena	-	Branch Head - Thika Branch
Mr. Banambar Behera	-	Branch Head - Kisumu Branch
Mr. Rajan Prasad	-	Branch Head - Sarit Centre Branch, Nairobi
Mr. Philip Burh	-	Branch Head - Industrial Area Branch, Nairobi
Mr. Raman Kumar	-	Branch Head - Eldoret Branch
Mr. S. K. Palanivelu	-	Branch Head - Nakuru Branch
Mr. Aditya N. Singh	-	Branch Head - Nairobi Main (Office) Branch
Mr. Paul M. Kairu	-	Branch Head - Kakamega Branch
Ms. Neela K. Raj	-	Branch Head - Nyali Branch, Mombasa
Mr. Elias K. Karanu	-	Branch Head - Meru Branch
Mr. Dhiru Shah	-	Head - Marketing
Mr. Fredrick Ngande	-	Branch Head - Mombasa Road Branch - Nairobi
Mr. Srikrishna VSN Raja	-	Branch Head - Diamond Plaza Branch - Nairobi

REGISTERED OFFICE

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P.O. Box 30033, 00100
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Fax: (020) 316070/310439
E-mail: kenya@bankofbaroda.com; ho.kenya@bankofbaroda.com; dmd.kenya@bankofbaroda.com

INDEPENDENT AUDITOR

Grant Thornton
Certified Public Accountants (Kenya)
5th Floor Avocado Towers
Muthithi Road, Westlands
P.O. Box 46986, 00100
NAIROBI - KENYA

COMPANY SECRETARIES

Africa Registrars
Certified Public Secretaries
Kenya - Re Towers
Upperhill
P.O. Box 1243, 00100
NAIROBI - KENYA

LEGAL ADVISORS

Hamilton Harrison & Mathews Advocates
A. B. Patel & Patel Advocates
Mwaura & Wachira Advocates
Patel & Patel Advocates

PRINCIPAL VALUERS

Njihia Njoroge & Co
Crystal Valuers Limited
Datoo Kithiku Limited
Coral Properties Limited

PRINCIPAL CORRESPONDENT BANKS

Bank of Baroda	-	Mumbai, India
Bank of Baroda	-	New York, U.S.A.
Bank of Baroda	-	London, U.K.
Bank of Baroda	-	Brussels, Belgium
NedBank Ltd.	-	Johannesburg, South Africa
Bank of Baroda	-	Sydney, Australia
Bank of India	-	Tokyo, Japan
Bank of Montreal	-	Toronto, Canada
Union Bank of Switzerland	-	Zurich, Switzerland

HEAD OFFICE

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BRANCH NETWORK

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P.O. Box 30033, 00100 NAIROBI
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Digo Road Branch, Mombasa
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KISUMU
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Fax: (057) 2024375
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E-mail: thika@bankofbaroda.com

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Eldoret Branch
Charotar Patel Plaza, Moi Street
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Telephone: (053) 2063341
Fax: (053) 2063540
E-mail: eldoret@bankofbaroda.com

Industrial Area Branch, Nairobi
Enterprise Road
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indust.nairobi@bankofbaroda.com

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Mombasa Road, Next to
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Nyali Branch, Mombasa
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MOMBASA
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Diamond Plaza Branch, Nairobi
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Kakamega Branch
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Fax: (056) 31766
E-mail: kakamega@bankofbaroda.com

Bank of Baroda (Kenya) Ltd.

The Board committees as at the date of this report comprise:

Board Audit Committee	Board Credit Committee	Asset and Liability Committee	Board Risk Management Committee	Executive Committee
Composition				
Three Non-Executive Directors	Two Executive and Three Non-Executive Directors.	Two Executive Directors Head Credit Head Operations Head Treasury Head Treasury (Back Office) Head Finance	One Executive Director & Three Non-Executive Directors	One Executive Director Head Operations Head Credit Head IT Head Treasury Head HR & Administration Head Finance
Main function				
Strengthening the control environment, financial reporting and auditing function.	Appraisal and approval of credit applications and reviewing credit portfolio.	Monitoring and management of the statement of financial position including liquidity risk, interest rate risk, foreign currency risk and compliance with all statutory requirements.	Ensuring quality, integrity and reliability of the Bank's risk management function.	To act as link between the Board and Management in implementing operational plans, annual budgets and periodic review of operations, strategic plans and identification of opportunities.
Frequency of meetings per Annum (minimum)				
Quarterly	Quarterly	Monthly	Quarterly	Three times a year
Chairperson				
Mr. Patrick K. Njoroge	Mr. Patrick K. Njoroge	Mr. Yatish C. Tewari	Mr. Patrick K. Njoroge	Mr. Philip Burh
Members				
Mr. Vikram C. Kanji Mr. Rajiv S. Abhyankar	Mr. Yatish C. Tewari Mr. Vikram C. Kanji Mr. Philip Burh Mr. Rajiv S. Abhyankar	Ms. Elizabeth Nyambutu Mr. Kumar Ajay Singh Mr. Sanjay Kumar Ray Ms. Maria Gorett Makokha Mr. Philip Burh Mr. Patrick Sila	Mr. Vikram C. Kanji Mr. Rajiv S. Abhyankar Mr. Yatish C. Tewari	Ms. Elizabeth Nyambutu Mr. Patrick Kombe Mr. Sanjay Kumar Ray Mr. Kennedy Machoka Mr. Patrick Sila Mr. Kumar Ajay Singh

The Bank places strong importance on maintaining a sound control environment and applying the highest standards to continue its business integrity and professionalism in all areas of activities. It shall continue its endeavour to enhance shareholders' value by protecting their interests and defend their rights by ensuring performance at all levels and maximizing returns with minimal use of resources in its pursuit of excellence in corporate life.

1. Respective Responsibilities

The shareholders' role is to appoint the Board of Directors and the external auditors. This role is extended to holding the Board accountable and responsible for efficient and effective governance.

The Board of Directors is responsible for the governance of the Bank, and to conduct the business and operations of the Bank with integrity and in accordance with generally accepted corporate practices, in a manner based on transparency, accountability and responsibility.

2. Board of Directors

The composition of the Board is set out on page 4-5. The Board is chaired by a Non-Executive Chairman and comprises of the Managing Director (Executive Director), one other Executive Director and three other Non-Executive Directors. All Non- Executive Directors are independent of management. The Board has varied and extensive skills in the areas of banking, business management, accountancy and information communication and technology. The Directors' responsibilities are set out in the Statement of Directors Responsibilities on page 13. The Directors are responsible for the development of internal financial controls which provide safeguard against material misstatements and fraud and also for the fair presentation of the financial statements.

The board meets on a quarterly basis and has a formal schedule of matters reserved for discussion.

During the year under review, the Board meetings were held on the following dates:

- 16 March 2015
- 27 June 2015
- 07 September 2015
- 01 December 2015

The attendance of individual Directors is as follows:

Name of Director	Period	Meetings held During their tenure	Meetings Attended
Mr. Rajan Dhawan*	01 January 2015 to 30 September 2015	3	1
Mr. Yatish C Tewari	01 January 2015 to 31 December 2015	4	4
Mr. Philip Burh	01 January 2015 to 31 December 2015	4	4
Mr. Patrick K Njoroge	01 January 2015 to 31 December 2015	4	4
Mr. Vikram C. Kanji	01 January 2015 to 31 December 2015	4	4
Mr. Rajiv S. Abhyankar	13 January 2015 to 31 December 2015	4	4

* Since retired on 30th September 2015.

The Board has appointed various sub-committees to which it has delegated certain responsibilities with the chairperson of the sub-committees reporting to the Board. The composition of the sub-committees is set out on page 8.

3. Board Evaluation

In compliance with the Prudential Guidelines issued by the Central Bank of Kenya and also part of good corporate governance, each member of the Board including the Chairman conducted a peer evaluation exercise for the year 2015. This involved a self review of the Board's capacity, functionality and effectiveness of performance against its set objectives. This enabled the Board to assess its areas of strengths and weakness and then know how to balance its skills, expertise and knowledge.

The Board Performance evaluation covered the following:

(a) The Board Self Evaluation

The Board's performance during the year was evaluated by each member where members were allowed to give their opinion on how the Board had performed. Members were satisfied that the Board had performed to their expectations.

(b) The Director Peer Evaluation

A Directors' Peer evaluation exercise was conducted for each member. Each director was required to give the ratings on the performance of each member of the Board.

(c) The Board Chairman's Evaluation

The Board members assessed the Chairman's performance and noted that the Board managed to achieve its business targets for year 2015 under his Chairmanship. The Chairman was effective during the year.

4. Board Committees

Board Audit Committee

The committee comprises three Non-Executive Directors. The committee meets on a quarterly basis and its functions include:

- Monitoring and strengthening the effectiveness of management information and internal control systems.
- Review of financial information and improving the quality of financial reporting.
- Strengthening the effectiveness of internal and external audit functions, and deliberating on significant issues arising from internal and external audits, and inspections carried out by the Bank Supervision Department of Central Bank of Kenya.
- Increasing the stakeholders' confidence in the credibility and stability of the institution.
- Monitoring instances of non-compliance with the International Financial Reporting Standards, applicable legislation and the Central Bank of Kenya Prudential Regulations and other pronouncements.

Board Credit Committee

The committee is chaired by a Non-Executive Director and comprises of the two Executive Directors, two Non-Executive Director and the Head of Credit as convener. It meets at least once in a quarter. The functions of the committee include Credit monitoring, appraisal and approval of credit applications based on limits set by the Board. The committee also monitors and reviews non-performing advances and ensures that adequate loan loss provisions are held against delinquent accounts in accordance with the guidelines issued by the Central Bank of Kenya and International Accounting Standards Board.

Board Risk Management Committee

The committee, chaired by an Executive Director and comprising one Executive Director and three Non-Executive Directors, meets on a quarterly basis to ensure quality, integrity and reliability of Risk Management function and programme by way of assisting the Board of Directors in the discharge of duties relating to the corporate accountability, reviewing the integrity of the risk control systems, monitoring external developments relating to the practice of corporate accountability and providing independent and objective oversight.

5. Management Committees

Asset and Liability Committee

The committee, chaired by the Managing Director, comprising two Executive Director and various departmental heads, meets on a monthly basis to discuss operational issues and to monitor and manage the statement of financial position to ensure that adequate resources are available to meet anticipated fund demands and to monitor compliance with all statutory requirements. The committee is also responsible for developing a framework for monitoring the banking risks including operational, liquidity, maturity, interest rate and exchange rate risks.

Executive Committee

The committee, chaired by an Executive Director and comprising various departmental heads, meets at least three times a year to implement operational plans, annual budgeting, periodic reviews of operations, strategic plans, ALCO strategies, identification and management of key risks and opportunities.

Directors' Remuneration

The remuneration to all Directors is based on the responsibilities allocated to the Directors, and is subject to regular review to ensure that it adequately compensates them for the time spent on the affairs of the Bank.

Relationship with Shareholders

The Bank is a private limited liability company with the details of the main shareholder set out on the General Information page. Shareholders have full access through the Managing Director to all information they require in respect of the Bank and its affairs. In accordance with the guidelines issued by the Central Bank of Kenya, the Bank publishes quarterly accounts in the Kenyan newspapers.

(Yatish C. Tewari)
Managing Director

30th March 2016

The directors submit their report and the audited financial statements for the year ended December 31, 2015, in accordance with Section 22 of the Banking Act and Section 366 of the Companies Act, which disclose the state of affairs of the bank.

1. PRINCIPAL ACTIVITIES

Main business and operations

The bank is licensed under the Banking Act and provides banking, financial and related services.

The operating results and state of affairs of the bank are fully set out in the attached financial statements and do not in our opinion require any further comment.

Net profit of the company was Kshs ('000) 2,026,117 (2014: Kshs ('000) 2,216,911 profit).

2. Events after the reporting period

The management is not aware of any matter or circumstance arising since the end of the financial year.

3. Dividends

The Directors propose a final dividend of Kshs. 4.0 per share (2014: Kshs. 3.80 per share) amounting to Kshs. 197.943 million (2014: Kshs. 188.05 million).

4. Directors

The directors of the bank during the year and to the date of this report are as follows:

Mr. Ranjan Dhawan (resigned w.e.f. 30/09/2015)
Mr. Yatish C. Tewari
Mr. Philip Burh
Mr. Rajiv S. Abhyankar
Mr. Patrick K. Njoroge
Mr. Vikram C. Kanji

In accordance with the Bank's Articles of Association, no Director is due for retirement by rotation.

5. Independent auditor

At a statutory general meeting of the bank, the Auditor Messrs Grant Thornton, Certified Public Accountants (K) were appointed to office and have indicated their willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap. 486), subject to approval of the Central Bank of Kenya in accordance with Section 24(1) of the Banking Act (Cap. 488).

BY ORDER OF THE BOARD

For and on behalf of:-
AFRICA REGISTRARS SECRETARIES

COMPANY SECRETARY
NAIROBI

30th March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are required in terms of the Kenyan Companies Act and the Banking Act to maintain adequate accounting records and are responsible for the content and integrity of the financial statements and related financial information included in this report. It is their responsibility to ensure that the financial statements fairly present the state of affairs of the bank as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with International Financial Reporting Standards. The external auditors are engaged to express an independent opinion on the financial statements.

The financial statements are prepared in accordance with International Financial Reporting Standards and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The directors acknowledge that they are ultimately responsible for the system of internal financial control established by the bank and place considerable importance on maintaining a strong control environment. To enable the directors to meet these responsibilities, the board of directors sets standards for internal control aimed at reducing the risk of error or loss in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the bank and all employees are required to maintain the highest ethical standards in ensuring the bank's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the bank is on identifying, assessing, managing and monitoring all known forms of risk across the bank. While operating risk cannot be fully eliminated, the bank endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The directors are of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or loss.

The directors have reviewed the bank's cash flow forecast for the year to December 31, 2016 and, in the light of this review and the current financial position, they are satisfied that the bank has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the bank's financial statements. The financial statements have been examined by the bank's external auditor and their report is presented on page 14.

The financial statements set out on pages 12 to 59, which have been prepared on the going concern basis, were approved by the board of directors on 22nd March 2016 and were signed on its behalf by:

DIRECTOR

MANAGING DIRECTOR

To the members of Bank of Baroda (Kenya) Ltd

We have audited the accompanying financial statements of Bank of Baroda (Kenya) Limited; which comprise its statement of financial position as at December 31, 2015, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 15 to 59.

Directors' responsibility for the annual financial statements

The banks'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 (Cap. 486) and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

IIn our opinion, proper books of accounts have been kept and the financial statements, which are in agreement therewith, give a true and fair view of the state of the financial affairs of the bank as at December 31, 2015, and its financial performance and its cash flows for the year then ended and comply with the Kenyan Companies Act (Cap. 486), Banking Act (Cap. 488) and International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

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

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

(iii) the Bank's statement of financial position, statement of profit or loss and statement of other comprehensive income are in agreement with the books of account.

Grant Thornton

Grant Thornton
Certified Public Accountants (K)
PIN NO. P051141680Q

NAIROBI: **30th March 2016**
B/108/1215/101/0316/AUD

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA D. V. Shah - P/No 1729.

STATEMENT OF PROFIT OR LOSS AND OTHER COMPRIHENSIVE INCOME

	Notes	2015 Shs '000	2014 Shs '000
Interest income	4	7,591,982	6,807,462
Interest expense	5	(3,884,201)	(3,431,210)
NET INTEREST INCOME		**3,707,781**	**3,376,252**
Fees and commission income		155,256	151,786
Foreign exchange trading income		85,878	79,622
Other income	6	98,776	24,375
Non interest expenses	7	(960,359)	(851,963)
Increase in impairment losses on loans and advances	11	(601,761)	(85,464)
PROFIT BEFORE TAX		**2,485,571**	**2,694,608**
Taxation	12	(459,454)	(477,697)
PROFIT FOR THE YEAR		**2,026,117**	**2,216,911**
EARNINGS PER SHARE			
Basic and diluted (Shs. per share)		40.94	44.80
DIVIDEND			
Proposed final dividend for the year		197,943	188,046
DIVIDEND PER SHARE (Shs. per share)		**4.00**	**3.80**

STATEMENT OF PROFIT OR LOSS AND OTHER COMPRIHENSIVE INCOME

	Notes	2015 Shs '000	2014 Shs '000
Profit for the year		2,026,117	2,216,911
Items that may be reclassified subsequently to profit or loss:			
Fair value gain and (losses) on financial assets classified as			
'available-for-sale'			
- government securities	13	(426,394)	255,333
- corporate bonds	13	(5,394)	3,958
- quoted shares	13	(528)	163
Other comprehensive income for the year net of taxation	13	(432,316)	259,454
Total comprehensive income for the year		1,593,801	2,476,365

The accounting policies on pages 20 to 29 and the notes on page 30 to 59 form an integral part of the financial statements.

	Notes	2015 Shs'000	2014 Shs'000
ASSETS			
Cash in hand	14	272,005	307,936
Balances with Central Bank of Kenya	15	2,966,012	2,713,518
Governement securities	16	32,215,403	28,480,500
Deposits and balances due from other banking institutions	17	819,275	1,194,965
Other assets	18	439,022	377,622
Loans and advances to customers	19	31,018,373	28,388,852
Investment securities	20	162,901	206,162
Current tax receivable	21	28,085	37,176
Intangible assets	22	2,937	4,896
Investment property	23	22,903	23,522
Property and equipment	24	183,599	126,928
Deferred tax	25	47,033	82,572
TOTAL ASSETS		**68,177,548**	**61,944,649**
EQUITY AND LIABILITIES			
LIABILITIES			
Customer deposits	26	52,928,623	48,683,188
Deposits and balances due from other banking institutions	27	3,596,940	3,036,350
Other liabilities	28	378,899	357,780
TOTAL LIABILITIES		**56,904,462**	**52,077,318**
EQUITY			
Share capital	29	989,717	989,717
Fair value reserve (Statement of Changes in Equity)		(518,525)	(86,209)
Statutory loan loss reserve (Statement of Changes in Equity)		365,353	358,853
Retained income (Statement of Changes in Equity)		10,238,598	8,416,924
		11,075,143	9,679,285
Proposed dividends (Statement of Changes in Equity)		197,943	188,046
TOTAL EQUITY		**11,273,086**	**9,867,331**
TOTAL EQUITY AND LIABILITIES		**68,177,548**	**61,944,649**

The financial statements and the notes on pages 12 to 59, were approved by the board of directors on 22nd March 2016 and were signed on its behalf by:

Managing Director

Director

Director

For and on behalf of:-
AFRICA REGISTRARS SECRETARIES
COMPANY SECRETARY
NAIROBI

The accounting policies on pages 20 to 29 and the notes on page 30 to 59 form an integral part of the financial statements.

STATEMENT OF CHANGES IN EQUITY

	Share capital Kshs '000	Fair value reserve Kshs '000	Statutory loan loss reserve Kshs '000	Total reserves Kshs '000	Retained income Kshs '000	Proposed dividends Kshs '000	Total equity Kshs '000
Balance at January 01, 2014	**989,717**	**(345,944)**	**249,293**	**(96,651)**	**6,497,900**	**178,149**	**7,569,115**
Changes in equity							
Total comprehensive income for the year	-	259,454	-	259,454	2,216,911	-	2,476,365
Realisation of fair value reserve	-	281	-	281	(281)	-	-
Transfer to statutory loan loss reserve	-	-	109,560	109,560	(109,560)	-	-
Dividends paid	-	-	-	-	-	(178,149)	(178,149)
Dividends proposed	-	-	-	-	(188,046)	188,046	-
Total changes	-	259,735	109,560	369,295	1,919,024	188,046	2,476,365
Balance at January 01, 2015	**989,717**	**(86,209)**	**358,853**	**272,644**	**8,416,924**	**188,046**	**9,867,331**
Changes in equity							
Total comprehensive income for the year	-	(432,316)	-	(432,316)	2,026,117	-	1,593,801
Transfer to statutory loan loss reserve	-	-	6,500	6,500	(6,500)	-	-
Dividends paid	-	-	-	-	-	(188,046)	(188,046)
Dividends proposed	-	-	-	-	(197,943)	197,943	-
Total changes	-	(432,316)	6,500	(425,816)	1,821,674	197,943	1,593,801
Balance at December 31, 2015	**989,717**	**(518,525)**	**365,353**	**(153,172)**	**10,238,598**	**197,943**	**11,273,086**
Note(s)	29	13					

	Notes	2015 Shs '000	2014 Shs '000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	31	5,035,470	5,382,305
Tax paid	2 1	(414,824)	(623,901)
Net cash from operating activities		**4,620,646**	**4,758,404**
Cash flows from investing activities			
Purchase of property and equipment	24	(101,311)	(44,816)
Sale of property and equipment	24	2,366	3,465
Purchase of intangible assets	22	(499)	(3,495)
Sale of investment securities	20	-	62,652
Net movement in government securities	16	(4,161,297)	(3,974,015)
NET CASH (USED IN) INVESTING ACTIVITIES		**(4,260,741)**	**(3,956,209)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid	38	(197,943)	(188,046)
TOTAL CASH MOVEMENT FOR THE YEAR		**161,962**	**614,149**
Cash at the beginning of the year	14	3,021,454	2,397,409
TOTAL CASH AT END OF THE YEAR	14	**3,238,017**	**3,021,454**

1. PRESENTATION OF FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards, the Kenyan Companies Act and the Banking Act. The financial statements have been prepared on the historical cost basis, as modified by the carrying of available for sale investments at fair value and impaired assets at their recoverable amount. They are presented in Kenya Shillings and rounded off to the nearest thousand.

These accounting policies are consistent with the previous period.

1.1 General information

Bank of Baroda (Kenya) Limited is incorporated in Kenya under the Companies Act as a private limited liability company and is domiciled in Kenya. The Bank is licensed under the Banking Act and provides banking, financial and related services.

The Bank operates 13 branches within Kenya.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, in conformity with International Financial Reporting Standards, management is required to make judgements, estimates and assumptions that affect the amounts represented in the financial statements and disclosure of contingent assets and liabilities at the date of the financial statements. Use of available information and the application of judgement are inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements. Significant judgements include:

Impairment of loans and advances

Critical estimates have been made by the management in arriving at the discounted values of securities in order to arrive at the impairment charges for non-performing loans and advances. The values of securities are discounted using both the International Financial Reporting Standards and the Prudential Guidelines issued by the Central Bank of Kenya. The Prudential Guidelines provide a specific basis of discounting securities whilst discounting according to International Accounting Standard 39 (IAS 39) on Financial Instruments: ‘Recognition and Measurement’ is based on historical experience and other relevant factors, discounted to net present values.

Impairment losses on loans and advances

The bank reviews its loan portfolio to assess the likelihood of impairment at least on a quarterly basis. In determining whether a loan or advance is impaired, the management makes judgement as to whether there is any evidence indicating that there is a measurable decrease in the estimated future cash flows expected from that loan or advance.

Management use judgement based on historical experience for such assets with credit risk characteristics and as to whether there are any conditions that would indicate potential impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Impairment of available-for-sale financial assets

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

Fair value measurement and valuation process

In estimating the fair value of an asset or a liability, the Bank uses market-observable data to the extent it is available. Where level 1 inputs are not available, the Bank makes use of financial models or engages third party qualified valuers to perform the valuation techniques and inputs to the model.

Useful life and residual value of property, plant and equipment

The estimates of useful lives as translated into depreciation rates are detailed in property, plant and equipment policy on the annual financial statements. These rates and residual lives of the assets are reviewed annually taking cognizance of the forecasted commercial and economic realities and through benchmarking of accounting treatments in the country.

Held-to-maturity financial assets

The management have reviewed the Bank's held to maturity assets in light of its capital maintenance and liquidity requirements and have confirmed the Bank's positive intention and ability to hold those assets to maturity.

Non financial assets

The bank reviews its non financial assets to assess the likelihood of impairment on an annual basis. In determining whether such assets are impaired, management make judgements as to whether there are any conditions that indicate potential impairment of such assets.

1.3 Property and equipment

The cost of an item of property and equipment is recognised as an asset when:

- it is probable that future economic benefits associated with the item will flow to the company; and
- the cost of the item can be measured reliably.

Property and equipment is initially measured at cost. Buildings are subsequently shown at market value, based on the valuations performed by professional independent valuers, less subsequent accumulated depreciation and impairment losses. All other property and equipment are stated at historical cost less depreciation.

Property and equipment are depreciated on the straight line basis and reducing balance basis to write down the cost of assets, or the revalued amounts, to its residual value over its estimated useful life using the following annual rates:

Nature of assets	**Rate % and Method of Depreciation**
Buildings	Straight line basis over the remaining period of the lease
Furniture and fixtures	12.5 - Reducing balance basis
Motor vehicles	25 - Reducing balance basis
Computers and electronics	Straight line basis over a period of three years
Leasehold improvements	Straight line basis over a period of ten years

The residual value, useful life and depreciation method of each asset are reviewed at the end of each reporting period. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

1.4 Intangible assets

Intangible assets costs which are clearly identifiable and controlled by the bank and have probable benefit exceeding the cost beyond one year are recognised as an intangible asset. These assets are amortised using the straight line method over their estimated useful life. Costs associated with the maintenance of existing computer software programs and modifications are expensed as incurred. Intangible assets are stated at cost net of accumulated amortisation and impairment losses.

Amortisation is provided to write down the intergible assets, on a straight line basis, to their residual values as follows:

Item	**Useful life**
Computer software	5 years

1.5 Financial instruments

Classification

The bank classifies financial assets and financial liabilities into the following categories:

- Financial assets at fair value through profit or loss - held for trading
- Financial assets at fair value through profit or loss - designated
- Held-to-maturity investment
- Loans, advances and receivables
- Available-for-sale financial assets

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition.

Financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss.

The Bank's financial assets fall into the following categories:

Held-to-maturity - Held-to-maturity investments are non derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs other than an insignificant amount of held-to-maturity assets, the entire category would be treated and classified as available-for-sale.

Available-for-sale financial assets - Financial assets that are not: (a) financial assets at fair value through profit or loss (b) loans, advances or receivables or (c) financial assets held-to-maturity; are recognised as available-for-sale financial assets.

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

- those that the entity intends to sell immediately or in the short term, which are classified as ''held for trading', and those that the entity upon initial recognition designated it as 'fair value
- those that the entity upon initial recognition designates as 'available-for-sale'; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

All assets with maturities greater than 12 months after the reporting date are classified as non-current assets. Subsequent to initial recognition, they are carried at amortised cost using the effective interest method. Changes in the carrying amount are recognised in the profit or loss.

1.5 Financial instruments (continued)

Purchases and sales of financial assets are recognised on the trade date i.e. the date on which the Bank commits to purchase or sell the asset.

Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

Gains and losses on disposal of investments whose changes in fair value were initially recognised in the profit or loss are determined by reference to their carrying amount and are taken into account in determining operating profit. On disposal of assets whose changes in fair value were initially recognised in equity, the gains/losses are recognised in the reserve, where the fair values were initially recognised. Any resultant surplus/deficit after the transfer of the gains/losses are transferred to retained earnings.

The Bank does not have any financial assets classified as either 'held for trading' or 'fair value through profit or loss'.

Management classifies financial assets as follows:

Cash in hand, balances with Central Bank of Kenya, placements with and loans and advances from other banking institutions, other assets, tax recoverable and loans and advances to customers are classified as loans and receivables and are carried at amortised cost.

The portfolio of government securities has been split by bond into the 'held-to-maturity' and ''available-for-sale' classes of financial assets. The fair values of government securities classified as available for sale are based on the market prices as at the reporting date.

Investment securities are classified as 'available-for-sale' (AFS) financial assets. The fair values of quoted investments and corporate bonds are based on current bid prices at the reporting date. Where fair values cannot be reliably measured (unquoted investments), the Bank carries these investments at cost less provision for impairment cost less provision for impairment.

Where financial assets are carried at fair value in the statement of financial position, management classify the fair values of financial assets based on the qualitative characteristics of the fair valuation as at the financial year end.

The three hierarchy levels used by management are:

- **Level 1:** where fair values are based on non-adjusted quoted prices in active markets for identical financial assets.
- **Level 2:** where fair values are based on adjusted quoted prices and observable prices of similar financial assets.
- **Level 3:** where fair values are not based on observable market data.

Financial liabilities

The Bank's financial liabilities which include customer deposits, deposits due to and borrowings from other banking institutions, current tax and other liabilities fall into the following category:

Financial liabilities measured at amortised cost: These are initially measured at fair value and subsequently measured at amortised cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the redemption value is recognised 'as interest expense in the profit or loss under finance costs.

Financial liabilities are derecognised when, and only when, the Bank's obligations are discharged, cancelled or expired.

Offsetting financial instruments

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

1.6 Tax

Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset. Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities

A deferred tax liability is recognised using the liability method for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Tax expense

Current and deferred taxes are recognised as income or an expense and included in profit or loss for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to other comprehensive income, or
- a business combination.

Current tax and deferred taxes are charged or credited to other comprehensive income if the tax relates to items that are credited or charged, in the same or a different period, to other comprehensive income.

Current tax and deferred taxes are charged or credited directly to equity if the tax relates to items that are credited or charged, in the same or a different period, directly in equity.

1.7 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessor

The company recognises finance lease receivables in the statement of financial position.
Finance income is recognised based on a pattern reflecting a constant periodic rate of return on the company's net investment in the finance lease.

Operating leases - lessor

Assets leased to third parties under operating leases are included in investment properties in the statement of financial position.

Operating leases – lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

Any contingent rents are expensed in the period they are incurred.

1.8 Impairment of financial assets

Assets carried at amortised cost

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

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

- Default in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower or issuer (for example, declining financial ratios)
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's or issuer's competitive position;
- Deterioration in the value of collateral; and
- The disappearance of an active market for that financial asset because of financial difficulties.

Impairment of loans and advances

Loans and advances are recognised when cash is advanced to borrowers. Loans and advances are initially recognised at fair value and are subsequently carried at amortised cost less provision for impairment losses.

Management uses the Prudential Guidelines issued by the Central Bank of Kenya when arriving at impairment provisions (whether specific or general). Management classifies the performance of each loan account in line with the requirements of these guidelines as follows:

Category		**Performance guideline for classification of account**
• Normal	-	Accounts are performing as per the contractual terms, are not in arrears and are operating within the sanctioned credit limits
• Watch	-	Accounts that are in arrears and/or exceed the sanctioned limit for periods between 30 to 90 days
• Sub-standard	-	Accounts that are in arrears and/or exceed the sanctioned limit for periods between 90 to 180 days
• Doubtful	-	Accounts that are in arrears and/or exceed the sanctioned limit for periods between 180 to 365 days
• Loss	-	Accounts that are in arrears and/or exceed the sanctioned limit for periods over 365 days

A specific credit risk provision for loan impairment is established to provide for management's estimate of credit losses as soon as the recovery of an exposure is identified as doubtful. In arriving at such provisions, present value of future expected cash flows, including amounts recoverable from securities, discounted at effective interest rates of loans are taken into account.

A general credit risk provision for loan impairment is also provided for in accordance with the requirements of the Prudential Guidelines issued by the Central Bank of Kenya. This ranges from between 1% to 3% of the gross advances classified as Normal and Watch (per the categorisation required by the Central Bank of Kenya). These general provisions are held on the statutory loan loss reserve under shareholders equity.

Where provisions computed in accordance with the Prudential Guidelines exceed those under International Accounting Standard 39 (IAS 39) on 'Financial Instruments', the excess is credited to reserves under retained earnings.

1.8 Impairment of financial assets (continued)

The Prudential Guidelines and IAS 39 are used by the Bank to determine when a loan becomes impaired. The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is/or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the effective interest rate and the discounted value of the collateral. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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

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

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

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

Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are considered to be past due. They will continue to be treated as past due unless all past due interest is paid in cash at the time of renegotiation and a sustained record of performance has been maintained.

Assets classified at fair value on the statement of financial position

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets are impaired. In the case of equity investments held at fair value a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists, the cumulative loss (the difference between the acquisition cost and the current fair value, less any impairment losses previously recognised in profit or loss) is eliminated from equity and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

1.9 Share capital

Ordinary shares are classified as equity.

1.10 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Retirement benefit costs

The company contributes to the statutory National Social Security Fund. This fund is a defined contribution scheme registered under the National Social Security Fund Act. The company's obligations under this scheme are limited to specific contributions legislated from time to time and are currently limited to a maximum of Kshs 200 per employee per month.

The bank operates a defined contribution staff retirement benefit scheme for its permanent and pensionable employees. The scheme is administered by an insurance company. The Bank has no further payment obligations once the contributions have been paid.

The company's obligations to the schemes are recognised in the statement of comprehensive income.

Employee entitlements

The Employee entitlements to gratuity and long term service awards are recognised when they accrue to employees. A provision is made for the estimated liability for such entitlements as a result of services rendered by employees up to the statement of financial position date.

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

1.11 Provisions and contingencies

Provisions are recognised when:

- the bank has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; ond
- a reliable estimate can be made of the obligation.

The amount of a provision is the present value of the expenditure expected to be required to settle the obligation.

1.12 Revenue recognition

Revenue is recognised only when it is probable that the economic benefits associated with the transaction will flow to the Bank.

The bank 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 banks activities as described below. The amount of revenue is not considered to be reliably measured until all contingencies relating to the transaction have been resolved. The bank bases its estimates on historical results, taking into cosideration the type of customer, type of transaction and specifics of each arrangement.

Interest income is recognised on an accrual basis in profit or loss using the effective yield on the asset. Interest income includes income from loans and advances, income from placements with loans and advances to other banking institutions and income from government securities. When financial assets become impaired, interest income is thereafter recognised at rates used to discount future cash flows for the purposes of measuring the recoverable amount.

Fees and commissions income and hire purchase options fees are recognised at the time of effecting the transaction.

Foreign exchange trading income is recognised at the time of effecting the transaction. It includes income from spot and forward deals and translated foreign currency assets and liabilities.

Dividend income is recognised when the shareholders right to receive payment has been established.

Rental income is accrued by reference to time on a straight line basis over the lease term.

1.13 Impairment of non-financial assets

Any impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Non-financial assets that suffered an impairment are reviewed for possible reversal of the impairment at each date of the statement of financial position.

1.14 Translation of foreign currencies

Foreign currency transactions

Transactions in foreign currencies during the year are converted into Kenya Shillings (functional currency) at rates ruling at the transaction dates.

At the end of the reporting period:
- foreign currency monetary items are translated using the closing rate;
- non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period are recognised in the statement of comprehensive income in the period in which they arise.

1.15 Dividends

Proposed dividends are disclosed as a separate component of equity until declared.

Dividends are recognised as a liabilities in the period in which they are approved by the Bank's shareholders.

1.16 Foreign exchange forward contracts

Foreign exchange forward contracts are marked to market and are carried at their fair value and shown as commitments. Gains and losses on foreign exchange forward contracts are dealt with on a net basis in profit or loss in the year in which they arise.

1.17 Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet transactions and disclosed as contingent liabilities. Estimates of the outcome and of the financial effect of contingent liabilities is made by the management based on the information available up to the date the financial statements are approved for issue by the Directors. Any expected loss is charged to profit or loss.

1.18 Investment property

Investment properties are long-term investments in land and buildings that are not occupied substantially for own use. Investment properties are initially recognised at cost and subsequently stated at historical cost less accumulated depreciation.

Subsequent expenditure on investment properties where such expenditure increases the future economic value in excess of the original assessed standard of performance is added to the carrying amount of the investment property. All other expenditure is recognised as an expense in the year which it is incurred.

Depreciation is calculated on the straight line basis to write down the cost of the property to its residual value over its estimated useful life of 50 years.

The properties residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

The properties carrying amounts are written down immediately to their recoverable amount if the carrying amount is greater than their estimated recoverable amount.
Gains or losses on disposal of investment property are determined by comparing the proceeds with the carrying amount and are taken into account in determining operating profit.

1.19 Statutory loan loss reserve

The Prudential Guidelines issued by the Central Bank of Kenya require the Bank to make general provisions against impairment of loans and advances. These amounts are recognised in the statutory loan loss reserve in shareholders equity.
The loan loss reserve is not distributable.

1.20 Interest expense

Interest for all interest-bearing financial liabilities is recognised within interest expense in profit or loss using the effective interest method.

Interest expense includes expense incurred on customer deposits, placements and overnight borrowings with other banking institutions.

2. New Standards and Interpretations

The abbreviations IFRS and IAS represent International Financial Reporting Standards and International Accounting Standards respectively.

2.1 Standards and interpretations effective and adopted in the current year

The following standards, interpretations and amendments became effective for the current financial year:

Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

The amendements to IAS 19 clarify how an entity should account for contributions made by employees or third parties that are linked to services to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service either using the plan's contribution formula or on a straight-line basis; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The effective date of the amendment is for years beginning on or after July 01, 2014.

The impact of the amendment is not material.

Annual Improvements to IFRSs 2010–2012 Cycle

The annual improvements include amendments to a number of IFRSs and IASs which have been summarised below:

- IFRS 2 (Share-based Payments) - The amendment clarifies the definition of 'vesting conditions' by defining a 'performance condition' and a 'service condition' and amends the definition of a 'market condition' to clarify that a market condition is a performance condition. It also clarifies that a 'market condition' can be based on the market price (or value) of the entity's equity instruments or the equity instruments of another entity in the same group and that a share market index is a non-vesting condition because it not only reflects the performance of the entity, but also of other entities outside the group.
- IFRS 3 (Business Combinations) - The amendment clarifies that the classification of contingent consideration in a business combination as either a financial liability or an equity instrument is based solely on the requirements of IAS 32 ('Financial Instruments: Presentation). It states that the subsequent measurement of contingent consideration in a business combination should be measured at fair value at each reporting and changes in fair value should be recognised in profit or loss, regardless of whether it is a financial instrument or a non-financial instrument.
- IFRS 8 (operating Segments) - The amendment requires entities to disclose the judgements made in identifying their reportable segments when operating segments have been aggregated, including a brief description of the operating segments that have been aggragated and the economic indicators that determine the aggregation criteria. It also clarifies that the entity is required to provide a reconciliation between the total reportable segments' assets and the entity's assets only if the segment assets are regularly reported to the chief operating decision maker.
- IFRS 13 (Fair Value Measurement) - Amends the Basis for Conclusions to clarify that an entity is not required to discount short-term receivables and payables without stated interest rate below their invoice amount when the effect of discounting is immaterial.
- IAS 16 (Property, Plant and Equipment) and IAS 38 (Intangible Assets) - The amendment addresses the diversity in practice in calculating the accumulated depreciation or amortisation for an item of property, plant and equipment or intangible asset that is measured using the revaluation method. It clarifies that the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount and that the accumulated depreciation or amortisation is calculated as the difference between the gross carrying amount and the carrying amount after taking into account impairment losses.

Annual Improvements to IFRSs 2010–2012 Cycle (continued)

- IAS 24 (Related Party Disclosures) - Amends the definition of a 'related party' in order to include 'management entities', that provide key management personnel services to the reporting entity. It also requires the disclosure of the amounts recognised by the reporting entity as a service fee to a separate management entity for the provision of the key management personnel services and provides a relief so that the reporting entity is not required to disclose components of the compensation to key management personnel where the compensation is paid via amanagement entity.

The effective date of these amendments are for years beginning on or after July 01, 2014.

The impact of these amendments are not material.

Annual Improvements to IFRSs 2011–2013 Cycle

The annual improvements include amendments to a number of IFRSs and IASs which have been summarised below:

- IFRS 1 (First-time Adoption of International Financial Reporting Standards) - Amends the Basis for Conclusions to clarify that a first time adopter has the choice between applying an existing and currently effective IFRS or, applying early, a new or revised IFRS that is not mandatorily effective, provided that the new or revised IFRS permits early application. A first time adopter is required however to apply the same version of IFRS throughout the periods covered by those first IFRS financial statements unless IFRS 1 provides an exemption or an exception that permits or requires otherwise.
- IFRS 3 (Business Combinations) - Amends IFRS 3 to exclude from its scope the accounting for the formation of all types of joint arrangements as defined in IFRS 11 (Joint Arrangements). It clarifies that the above mentioned scope exclusion only addresses the accounting in the financial statements of the joint arrangement itself, and not the accounting by the parties to the joint arrangement for their interests in the joint arrangement.
- IFRS 13 (Fair Value Measurement) - Clarifies that the portfolio exception in IFRS 13.52 applies to all contracts accounted for within the scope of IAS 39 (Financial Instruments: Recognition and Measurement) or IFRS 9 (Financial Instruments), regardless of whether those contracts meet the definitions of financial assets or financial liabilities in accordance with IAS 32 (Financial Instruments: Presentation). This means, for example, that commodity contracts that can be settled net in cash and which are accounted for as financial instruments, can qualify for the exemption.
- IAS 40 (Investment Property) - Clarifies that IFRS 3 and IAS 40 are not mutually exclusive. Therefore, in determining whether a property is owner-occupied property or investment property requires judgement based on IAS 40.7-14 and whether the acquisition of an investment property meets the definition of a business combination or is the acquisition of an asset, reference should be made to IFRS 3 to determine whether it is a business combination (not to IAS 40.7-14).

The effective date of the amendment is for years beginning on or after July 01, 2014.

The impact of these amendments are not material.

2.2 Standards and interpretations not yet effective

The company has chosen not to early adopt the following standards and interpretations, which have been published and are mandatory for the company's accounting periods beginning on or after January 01, 2016 or later periods:

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

The amendments to IAS 16 prohibit the use of a revenue-based depreciation method for property, plant and equipment because:

- a depreciation method which is based on revenue allocates the asset's depreciable amount based on revenue generated in an accounting period as a proportion of total expected revenue during the asset's usefeul life
- revenue reflects a pattern of economic benefits that are generated from operating the business rather than the economic benefits that are being consumed through use of the asset.

The amendments to IAS 38 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is innapropriate for the same reasons set out above. This rebuttable presumption can be overcome, i.e. a revenue-based amortisation method might be appropriate, only in two limited circumstances:

- the intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold, or
- when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have a material impact on the company's financial statements.

Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)

The amendments to IAS 16 (Property, Plant and Equipment) and IAS 41 (Agriculture) define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with IAS 16, instead of IAS 41. In terms of the amendments, bearer plants can be measured using either the cost model or the revaluation model set out in IAS 16.

On the initial application of the amendments, entities are permitted to use the fair value of items of bearer plants as their deemed cost as at the beginning of the earliest period presented. Any difference between the previous carrying amount and the fair value should be recognised in opening retained earnings at the beginning of the earliest period presented.

The produce growing on bearer plants continues to be accounted for in accordance with IAS 41.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have an impact on the company's financial statements.

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

The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have animpact on the company's financial statements.

Annual Improvements to IFRSs 2012–2014 Cycle

The annual improvements include amendments to a number of IFRSs and IASs which have been summarised below:

- IFRS 5 (Non-current Assets Held for Sale and Discontinued Operations) - Amends IFRS 5 to clarify that a direct reclassification of an asset (or disposal group) from being held for sale to being held for distribution (or vicce-versa) is not treated as a cessation of held for sale classification. Accorddingly, the entity continues to measure the asset (or disposal group) at the lower of carrying amount and fair value less costs to sell. The amendments also state that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29.
- IFRS 7 (Financial instruments: Disclosures) - The amendments provide additional guidance to help entities identify circumstances under which a contract to 'service' financial assets is considered to be 'continuing involvement' in those assets for the purposes of applying the disclosure requirements in paragraphs 42E-42H of IFRS 7. Such circumstances commonly arise when, for example, the servicing fee is dependant on the amount or timing of the cash flows collected from the transferred financial asset or when a fixed fee is not paid in full due to nonperformance of that asset. The amendments clarify that the additional disclosures required by the recent amendments to IFRS 7 (Disclosure - Offsetting Financial Assets and Liabilities) are not specifically required for all interim periods. However, these disclosures may still be required in some circumstances to meet the general principles of IAS 34 (Interim Financial Reporting).
- IAS 19 (Employee Benefits) - Paragraph 83 of IAS 19 requires that the currency abnd term of the corporate or government bonds used to determine the discount rate for post-employment benefit obligations must be consistent with the currency and estimated term of obligations. The amendments clarify that the assessment of the depth of the corporate bond market shall be made at the currency level rather than the country level.
- IAS (Interim Financial Reporting) - The amendments clarify the meaning of disclosure of information, 'elsewhere in the interim financial report' and require the inclusion of a cross-reference from the interim financial statements to the location of this information. The amendments specify that information incorporated by cross-reference must be available to users of the interim financial statements on the same terms and at the same time as those statements.

The effective date of these amendments is for years beginning on or after January 01, 2016.

It is unlikely that these amendments will have a material impact on the company's financial statements.

2. New Standards and Interpretations (continued)

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

The Amendments to IFRS 10 and IAS 28 address an acknowledged inconsistency between IFRS 10 (Consolidated Financial Statements) and IAS 28 (Investments in Associates). This relates to accounting for transactions in which a parent entity loses control of a subsidiary by contributing it to an associate or joint venture.

The inconsistency stemmed originally from a conflict between the requirements of IAS 27 (Consolidated and Separate Financial Statements (Revised 2008)) and SIC-13 (Jointly Controlled Entities – Non-Monetary Contributions by Venturers). While IAS 27 required the full gain or loss to be recognised on the loss of control of a subsidiary, SIC-13 required a partial gain or loss recognition in transactions between an investor and its associate or joint venture. Although IFRS 10 supersedes IAS 27, and IAS 28 (2011) supersedes both IAS 28 and SIC-13, the conflict remained.

The Amendments alter IFRS 10 so that:

- the current requirements for the partial gain or loss recognition for transactions between an investor and its associate or joint venture only apply to the gain or loss resulting from the sale or contribution of assets that do not constitute a business, as defined in IFRS 3 (business Combinations)
- the gain or loss from the sale or contribution of assets that constitute a business between an investor and its associate or joint venture is recognised in full.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have an impact on the company's financial statements.

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

The amendments to IFRS 11 (Joint Arrangements) provide guidance on how to account for the acquisition of an interest in a joint operation in which the activities constitute a business as defined in IFRS 3 (Business Combinations). Specifically, the amendments state that the relevant principles on accounting for business combinations in IFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

Additionally, consequential amendments to IFRS 1 (First-time Adoption of International Financial Reporting Standards) have been made so that IFRS 1's exemption for past business combinations can also apply to past acquisitions of interests in joint operations in which the activity of the joint operation constitutes a business.

A joint operator is also required to disclose the relevant information required by IFRS 3 and other standards for business combinations.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have an impact on the company's financial statements.

IFRS 14 - Regulatory Deferral Accounts

IFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The Standard is available only to first-time adopters of IFRSs who recognised regulatory deferral account balances under their previous GAAP. IFRS 14 permits eligible first-time adopters of IFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of comprehensive income. Disclosures are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral accounts.

The effective date of the standard is for years beginning on or after January 01, 2016.

It is unlikely that the standard will have a material impact on the company's financial statements.

2. New Standards and Interpretations (continued)

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

The publication introduces three narrow scope amendments to IFRS 10 and IAS 28 addressing the accouting for interests in investment entities and applying the consolidation exemption:

- Exemption from preparing consolidated financial statements: Under IFRS 10 (Consolidated Financial Statements), a parent entity is exempted from preparing consolidated financial statements if it meets certain criteria. One of these criteria si that the entity's ultimate or any immediate parent produces consolidated financial statements that are available for public use and comply with IFRSs.
- A subsidiary that provides services that relate to the parent's investment activities: The Amendments modify IFRS 10, clarifying that the consolidation requirement applies only to subsidiaries that are not themselves investment entities and whose main purpose and activities are providing services that relate to the investment entity's investment activities.
- Application of the equity method by a non-investment entity investor to an investment entity investee: The Amendments adds guidance to IAS 28. They provide relief to non-investment entity investors with interests in associates or joint ventures that are investment entities by allowing them to retain, when applying the equity method, the fair value measurement applied by the investment entity associates or joint ventures to their interests in subsidiaries.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have a material impact on the company's financial statements.

Disclosure Initiative (Amendments to IAS 1)

The amendments are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial statements.

The amendments:

- clarify the materiality requirements in IAS 1 (Presentation of Financial Statements), including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information
- clarify that IAS 1's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated
- add requirements for how an entity should present sub-totals in the statement(s) of profit or loss and other comprehensive income and the statement of financial position
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order
- remove potentially unhelpful guidance in IAS 1 for identifying a significant acconting policy.

The effective date of the amendment is for years beginning on or after January 01, 2016.

It is unlikely that the amendment will have a material impact on the company's financial statements.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. It will supersede the following revenue standards and interpretations upon its effective date:

- IAS 18 -Revenue
- IAS 11 - Construction Contracts
- IFRIC 13 - Customer Loyalty Programmes
- IFRIC 15 - Agreements for the Construction of Real Estate
- IFRIC 18 - Transfers of Assets from Customers; and
- SIC 31 - Revenue-Barter Transactions involving Advertising Services

Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 - Financial Instruments: Recognition and Measurement (IFRS 9 - Financial instruments, if IFRS 9 is early adopted).

2. New Standards and Interpretations (continued)

The effective date of the standard is for years beginning on or after January 01, 2018.

The impact of this standard is currently being assessed.

IFRS 9 - Financial Instruments

IFRS 9 - Financial Instruments will replace IAS 39 (and all the previous versions of IFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

IFRS 9 requires all recognised financial assets to be subsequently measured at amortised cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of IFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income (rather than profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, IFRS 9 introduces an 'expected credit loss' model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognised.

For hedge accounting, IFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and nonfinancial risk exposures.

The effective date of the standard is for years beginning on or after January 01, 2018.

The impact of this standard is currently being assessed

3. Financial risk management

Financial risk management

The Bank's activities exposes it to a variety of financial risks and those activities involve analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyse these risks, to set risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date management information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk management function is carried out by the Bank's risk management department under policies approved by the Board of Directors. The Bank's risk management department identifies, measures, monitors and controls financial risks in close coordination with various other departmental heads. The Bank has Board approved policies covering specific areas, such as credit risk, market risk, liquidity risk and operational risk.
The most important types of risk are credit risk, liquidity risk, market risk and operational risk. Market risk includes currency risk, interest rate risk and price risk.

Capital management

The bank's objectives when managing capital, which is a broader concept than the equity on the face of the statement of financial position are:
- To comply with the capital requirements set by the regulator, Central Bank of Kenya.
- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders
- To maintain a strong capital base to support the development of its business.

The Bank monitors the adequacy of its capital using ratios established by Central Bank of Kenya. These ratios measure capital adequacy by comparing the Bank's core capital with total risk-weighted assets plus risk weighed off-balance sheet items, total deposit liabilities and total risk-weighted off balance sheet items.

Credit risk weighted assets

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0%, 20%, 50% and 100%) are applied e.g. cash in hand (domestic and foreign), balances held with Central Bank of Kenya including securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to support the holding of these assets. Property, plant and equipment carries a 100% risk weighting. Based on these guidelines it means that they must be supported by capital equal to 100% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit e.t.c. are taken into account by applying different categories of credit risk conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for statement of financial position assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less non-dealing investments. Supplementary capital (Tier 2) includes general provisions and non-dealing investments.

Market risk weighted assets

This is the risk of loss in on and off balance sheet position arising from movement in market prices. These risks pertain to inherent risk related instruments in the trading book, commodities risk throughout the bank, equities risk and foreign exchange risk in the trading and banking books of the bank. Different risk weights are applied as per the Prudential Regulation.

3. Financial risk management (continued)

Operational risk weighted assets

This is the risk of loss resulting from inadequate or failed internal process, people or from external events. The operational risk is calculated using the Basic Indicator Approach. Under this approach, the capital charge for operational risk is a fixed percentage of average positive annual gross income of the institution over the past three years. Annual gross income is the sum of net interest income and net non interest income.

The table overleaf summarizes the composition of the regulatory capital.

		Balance sheet nominal amount		Risk weighted amount	
		2015	2014	2015	2014
Cash in hand		272,005	307,935	-	-
Balances with Central Bank of Kenya		2,966,013	2,713,519	-	-
Government securities		32,215,403	28,480,500	-	-
Deposits and balances from other banking institutions		819,273	1,194,965	163,855	238,993
Other assets		439,022	377,622	439,022	377,622
Loans and advances to customers		31,018,373	28,388,852	28,379,555	21,503,213
Investment properties		22,903	23,522	22,903	23,522
Other investments		162,901	206,162	162,901	206,162
Intangible assets		2,937	4,896	2,937	4,896
Property and equipment		183,599	126,928	183,599	126,928
Deferred tax		47,033	82,573	47,033	82,573
Tax recoverable		28,085	-	28,085	-
		68,177,547	**61,907,474**	**29,429,890**	**22,563,909**
Off balance sheet position		5,910,271	6,335,664	4,018,004	4,450,232
Less: Market Risk qualifying Assets included in above		(162,901)	(206,162)	(162,901)	(264,693)
Adjusted credit risk weighted assets		**73,924,917**	**68,036,976**	**33,284,993**	**26,749,448**
Market risk					
Interest rate risk capital charge		228,346	310,502	2,854,325	3,881,275
Foreign exchange risk capital charge		6,535	991	81,690	12,389
Total market risk capital charge		**234,881**	**311,493**	**2,936,015**	**3,893,664**
Total market risk weighted assets		**2,936,015**	**4,195,006**	**2,936,015**	**3,893,664**
Operational risk					
Net interest income					
	2014	3,376,252	-	-	-
	2013	3,044,384	3,044,384	-	-
	2012	2,147,779	2,147,779	-	-
	2011	-	2,286,130	-	-
Net non interest income					
	2014	255,783	-	-	-
	2013	275,569	275,569	-	-
	2012	319,357	319,357	-	-
	2011	-	-	-	-
Gross income		**9,419,124**	**8,242,580**	**-**	**-**
Average gross income		3,139,708	2,747,527	470,956	412,129
Total operational risk weighted assets		**3,139,708**	**2,747,527**	**5,886,053**	**5,151,613**
Total risk weighted assets		**80,000,641**	**74,715,343**	**42,107,961**	**40,043,636**

3. Financial risk management (continued)

	2015 Kshs '000	2014 Kshs '000
Capital adequacy requirement calculation		
Tier 1 Capital	11,181,282	9,324,068
Tier 2 Capital	365,353	358,853
	11,546,635	9,682,921
Total deposit liabilities	52,928,623	48,683,189

Risk weighted amounts for loans and advances to customers are stated net of impairment losses. These balances have also been offset against fixed deposits and short term deposits placed by customers as securities. There is no borrower with either funded or non-funded facilities, exceeding twenty five percent of core capital.

	Actual Ratios		Minimum Requirement	
	2015	2014	2015	2014
Core capital to total risk weighted assets	26.30 %	23.30 %	10.50 %	10.50 %
Total capital to total risk weighted assets	27.10 %	24.18 %	14.50 %	12.00 %
Core capital to deposit liabilities	21.13 %	19.15 %	8.00 %	8.00 %

Credit risk

The Bank takes on exposure to credit risk, which is the risk that a customer will cause a financial loss for the Bank by failing to fulfil a contractual obligation. Credit risk is the most important risk for the Bank's business. Management therefore carefully manages its exposure to credit risk. Credit risk mainly arises from customer loans and advances, credit cards, investing activities and loan commitments (off balance sheet financial instruments).

The credit risk management and control are centralised in credit and treasury departments of the bank.

Measurement of credit risk

- Loans and advances

In measuring credit risk of loans and advances to customers, the bank reflects on various components. These include:

- the probability of default by the borrower/client on their contractual obligations;
- current exposures on the borrower/client and the likely future development, from which the bank derives the exposure at default; and
- the likely recovery ratio on the defaulted obligations.

These credit risk measurements, which reflect expected loss, are embedded in the bank's daily operational management. The operational measurements can be contrasted with impairment allowances required under IAS 39 and the Banking Act which are based on losses that have been incurred at the date os the statement of financial position rather than expected loss.

The bank assesses the probability of default of individual borrower/client using internal rating methods tailored to the various categories of the borrower/client. These have been developed and combine statistical analysis with the credit department's judgement and are validated, where appropriate, by comparison with externally available data.

Management assesses the credit quality of the customer, taking into account their financial position, past experience and other factors.

Individual limits are set based on internal or external information in accordance with limits set by the management. The utilisation of credit limits is regularly monitored. Corrective action is taken where necessary.

3. Financial risk management (continued)

- Investments

For investments, internal ratings taking into account the requirements of the Banking Act are used by the bank for managing the credit risk exposures. The investments in those securities are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirment at the same time.-

- Risk limit control and mitigation policies

The bank manages, limits and controls concentrations of credit risk wherever they are identified. The bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by charging these lending limits where appropriate.

Some other specific control and mitigation measures are outlined below:

- Collateral

The bank employs a range of policies and practices to mitigate credit risk. The most common one is to obtain collateral for loans and advances to customers. The types of collateral obtained include:

- Mortgages over properties;
- Charges over business assets such as land and buildings, inventory and receivables;
- Charges over financial instruments such as investments;
- Deposits placed under lien.

- Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and letters of credit carry the same credit risk as loans. Letters of credit (which are written undertakings by the bank on behalf of a customer authorising a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions) are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct advance or loan.

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

- Impairment and provisioning policies

The bank's internal and external systems focus more on credit quality mapping from the inception of the lending of the loan or advance. In contrast, impairment provisions are recognised for financial reporting purposes only for losses that have been incured at the statement of financial position date based on objective evidence of impairment.

The impairment provision shown in the statement of financial position at the year-end is derived after taking various factors into consideration as described in the accounting policy. The bank's management uses basis under IAS 39 and the Prudential Guidelines to determine the amount of impairment.

3. Financial risk management (continued)

- Exposure to credit risk

The management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the bank resulting from both its loan and advances portfolio and other financial assets based on the following:

- The maximum exposure to credit risk arises from investments in government securities which form 45.86% (2014: 45.25%) of total assets; 36.00% (2014: 35%) represents loans and advances to customers.
- Government securities are considered stable investments as the risk is considered negligible.
- 96.33% (2014: 97.51%) of the loans and advances portfolio is categorised in the top two grades of the internal rating system (Normal and Watch).
- 12.51% (2014: 1.95%) of the loans and advances portfolio are considered to be past due but not impaired.• Most of its loans and advances to customers are performing as per the respective covenants. Non-performing loans and advances have been provided for. The loans and advances are also secured.
- Cash in hand, balances with Central Bank of Kenya and placements with other banking institutions are held with sound financial institutions.
- Management considers the historical information available to assess the credit risk on investment securities.

Exposure to this risk has been quantified in each financial asset note in the financial statements along with any concentration of risk.

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are overdrawn.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses. The maturity of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature are important factors in assessing the iquidity of the bank and its exposure to changes in interest and exchange rates.

The bank does not maintain cash resources to meet all liabilities as they fall due as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainity. The management has set limits on the minimum portion of maturing funds available to meet such withdrawals and on the level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The management reviews the maturity profile on a weekly basis and ensures that sifficient liquidity is maintained to meet maturing deposits which substantially are generally rolled over into new deposits.The bank fully complies with the Central Bank of Kenya's minimum cash reserve ratio (5.25%) and liquidity ratio (20%) requirements, with the average liquidity maintained at 62.5% (2014: 60.5%) during the year.

The table overleaf analyses the bank's financial assets and liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

3. Financial risk management (continued)

At December 31, 2015	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Total
Assets						
Cash in hand	272,005	-	-	-	-	272,005
Balances with Central Bank of Kenya	2,477,474	304,596	168,948	11,752	3,242	2,966,012
Government securities	1,128,246	625,701	1,848,830	12,642,191	15,970,435	32,215,403
Placement with and loans and advances to other banking institutions	819,275	-	-	-	-	819,275
Other assets	439,022	-	-	-	-	439,022
Loans and advances to customers	18,034,091	457,246	701,432	3,886,530	7,939,074	31,018,373
Investment properties	-	-	-	-	22,903	22,903
Other investments	-	-	-	-	162,901	162,901
Intangible assets	-	-	-	-	2,937	2,937
Property and equipment	-	-	-	-	183,599	183,599
Deferred tax	-	-	-	-	47,033	47,033
Current tax receivable	-	28,085	-	-	-	28,085
Total assets	23,170,113	1,415,628	2,719,210	16,540,473	24,332,124	68,177,548
Liabilities and shareholders' equity						
Customer deposits	43,092,303	6,132,783	3,401,627	236,620	65,290	52,928,623
Deposits due to other banking institutions	3,596,940	-	-	-	-	3,596,940
Other liabilities	378,899	-	-	-	-	378,899
Shareholders' equity	-	197,943	(518,525)	-	11,593,668	11,273,086
Total liabilities and equity	47,068,142	6,330,726	2,364,577	236,620	11,658,958	68,177,548
Net liquidity gap as at December 31, 2015	**(23,898,029)**	**(4,915,098)**	**354,633**	**16,303,853**	**12,673,166**	**-**
At December 31, 2014						
Total assets	20,544,857	1,426,418	936,479	7,775,334	31,261,562	61,944,650
Total liabilities and equity	34,794,526	9,400,936	5,495,325	943,326	11,310,537	61,944,650
Net liquidity gap as at December 31, 2014	**(14,249,669)**	**(7,974,518)**	**(4,558,846)**	**6,832,008**	**19,951,025**	**-**

Experience indicates that customer deposits are maintained for longer periods than the contracted maturity dates. The deposit base is considered to be of a stable and long term nature.

3. Financial risk management (continued)

Interest rate risk

The bank's operations are subject to the risk of interest rate fluctuations to the extent that interest earning assets and interest bearing liabilities mature or reprice at different times or in differing amounts. Risk management activities are aimed at optimizing net interest income, given market interest rates levels consistent with the bank's business strategies.

The bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows. The management closely monitors the interest rate trends to minimise the potential adverse impact of interest rate changes. The table summarises the exposure to interest rate risk at the balance sheet date. Included in the table are the assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The bank does not have any derivative financial instruments. The bank does not bear an interest rate risk on off balance sheet items.

3. Financial risk management (continued)

Cash flow interest rate risk.

At December 31, 2015	Up to 3 months	3 to 6 months	6 to 12 months	1 to 3 years	Over 3 years	Non-interest bearing	Total
Assets							
Cash in hand	-	-	-	-	-	272,005	272,005
Balances with Central Bank of Kenya	-	-	-	-	-	2,966,012	2,966,012
Government securities	-	-	1,807,617	12,360,381	17,329,282	718,123	32,215,403
Placement with and loans and advances to other banking institutions	715,456	-	-	-	-	103,819	819,275
Other assets	-	-	-	-	-	439,022	439,022
Loans and advances to customers	18,034,091	457,246	701,432	3,886,530	5,575,264	2,363,810	31,018,373
Investment properties	-	-	-	-	-	22,903	22,903
Other investments	-	-	-	-	141,067	21,834	162,901
Intangible assets	-	-	-	-	-	2,937	2,937
Property, plant and equipments	-	-	-	-	-	183,599	183,599
Deferred tax	-	-	-	-	-	47,033	47,033
Current tax	-	-	-	-	-	28,085	28,085
Total assets	18,749,547	457,246	2,509,049	16,246,911	23,045,613	7,169,182	68,177,548
Liabilities and shareholders' equity							
Customer deposits	39,432,545	6,132,783	3,401,627	236,620	65,290	3,659,758	52,928,623
Deposits due to other banking institutions	3,341,162	-	-	-	-	255,778	3,596,940
Other liabilities	-	-	-	-	-	378,899	378,899
Shareholders' equity	-	-	-	-	-	11,273,086	11,273,086
Total liabilities and equity	42,773,707	6,132,783	3,401,627	236,620	65,290	15,567,521	68,177,548
Interest sensitivity gap as at December 31, 2015	**(24,024,160)**	**(5,675,537)**	**(892,578)**	**16,010,291**	**22,980,323**	**(8,398,339)**	**-**
At December 31, 2014							
Total assets	17,482,912	392,918	935,989	7,356,246	30,217,255	5,559,330	61,944,650
Total liabilities and equity	30,454,977	9,212,890	5,581,534	943,326	1,545,043	14,206,880	61,944,650
Interest sensitivity gap as at December 31, 2014	**(12,972,065)**	**(8,819,972)**	**(4,645,545)**	**6,412,920**	**28,672,212**	**(8,647,550)**	**-**

3. Financial risk management (continued)

The tables below summarise the effective interest rates calculated on a weighted average basis, by major currencies for monetary financial assets and liabilities:

2015	Ksh	USD	GBP	Euro
Government securities	10.34 %	- %	- %	- %
Deposits and balances due from banking institutions	9.06 %	- %	- %	- %
Loans and advances to customers	17.69 %	7.92 %	9.06 %	- %
Customer deposits	7.84 %	- %	- %	- %
Deposits and balances due to banking institutions	- %	2.11 %	- %	- %

2014	Ksh	USD	GBP	Euro
Government securities	10.72 %	- %	- %	- %
Deposits and balances due from banking institutions	8.24 %	- %	- %	- %
Loans and advances to customers	17.49 %	7.94 %	7.34 %	- %
Customer deposits	7.79 %	- %	- %	- %
Deposits and balances due to banking institutions	- %	1.74 %	- %	- %

Interest rate risk sensitivity

At 31 December 2015, if the weighted average interest had been 10% higher, with all other variables held constant, post-tax profit would have been as follows:

	2015 Shs '000	2014 Shs '000
Effect on interest income - increase	531,439	476,522
Effect in interest expense - (increase)	(271,894)	(240,185)
Net effect on profit after tax - increase	259,545	236,337

Currency risk

The bank operates wholly within Kenya and its assets and liabilities are reported in the local currency. It conducts trade with correspondent banks and takes deposits and lends in other currencies. The bank's currency position and exposure are managed within the exposure guideline of 10% of the core capital as stipulated by the Central Bank of Kenya. The position is reviewed on a daily basis by management.

The significant currency positions are detailed below:

At 31 December 2015	USD	GBP	Euro	Others	Total
Assets					
Cash and Bank balances	13,595	2,011	1,126	-	16,732
Balances with Central Bank of Kenya	63,380	4,751	5,487	3,276	76,894
Deposits due from other banking institutions	-	155,242	50,626	143,504	349,372
Loans and advances to customers	4,702,950	119,868	-	-	4,822,818
Total assets	4,779,925	281,872	57,239	146,780	5,265,816
Liabilities and shareholders' equity					
Customer deposits	1,361,837	251,062	61,178	-	1,674,077
Deposits due to other banking institutions	3,474,354	-	-	122,586	3,596,940
Total liabilities and equity	4,836,191	251,062	61,178	122,586	5,271,017
Net statement of financial position gap	**(56,266)**	**30,810**	**(3,939)**	**24,194**	**(5,201)**
Off balance sheet net notional position	(126,836)	-	-	(54,131)	(180,967)
At December 31, 2014					
Total assets	3,996,640	306,929	31,238	53,914	4,388,721
Total liabilities and equity	4,131,903	307,819	27,923	91,947	4,559,592
Net statement of financial position gap	**(135,263)**	**(890)**	**3,315**	**(38,033)**	**(170,871**

3. Financial risk management (continued)

Market risk

Market risk is the risk that changes in the market prices, which includes currency exchange rate and interest rates, will affect the fair value or future cash flows of financial instruments. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising on the return on risk. Overall management for management of market risk rests with the Assets & Liability Committee (ALCO).

The treasury department is responsible for the development of detailed risk management policies, subject to review and approval by ALCO, and for the day to day implementation of the policies.

Market risks arise mainly from trading and non-trading activities.

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

Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the bank's available-for-sale investments.

The major measurement techniques used to measure and control market risk are outlined below:

- ALCO review:

ALCO meets on an adhoc basis to review the following:

- A summary of the bank's aggregate exposure on market risk
- A summary of the bank's maturity/repricing gaps
- A report indicating that the bank is in compliance with the board's set exposure limit
- A comparison of past forecast or risk estimates with actual results to identify any shortcomings.

- Review by the treasury department:

The treasury department monitors foreign exchange risk in close collaboration with the management. Regular reports are prepared by the treasury department of the bank and discussed with the management. Some of these reports include:

- Net overnight positions by currency
- Maturity distribution by currency of the assets and liabilities for both on and off balance sheet items
- Outstanding contracts (if any) by settlement date and currency
- Total values of contracts, spots and futures
- Aggregate dealing limits
- Exception reports for example limits or line excesses.

Operational risk

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

The bank endeavors to manage the operational risk by creating a balance between avoidance of cost of financial losses and damage to the bank's reputation within overall cost effectiveness and to avoid control procedures that restrict creativity and initiative. The key responsibility for development and implementation of policies and programs to implement the bank's operational risk management is with the senior management of the bank.

The above is tried to be achieved by development of overall standards for the bank to manage the risk in the following areas:

- Segregation of duties including independent authorisation of transactions
- Monitoring and reconciliation of transactions

3. Financial risk management (continued)

- Compliance of regulatory and legal requirement
- Documentation of control and procedure
- Assessment of the operational risk on a periodic basis to address the deficiencies observed, if any
- Reporting of operational losses and initiation of remedial action
- Development of contingency plan
- Giving training to staff to improve their professional competency
- Ethical and business standards
- Obtaining insurance wherever feasible, as a risk mitigation measure.

Risk measurement and control

Interest rate, currency, credit, liquidity and other risks are actively managed by management to ensure compliance with the bank's risk limits. The bank's risk limits are assessed regularly to ensure their appropriateness given its objectives and strategies and current market conditions. A variety of techniques are used by the bank in measuring the risks inherent in its trading and non-trading positions.

Foreign exchange risk sensitivity

The table below summarises the effect on post-tax profit had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant. If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

2015	USD	GBP	EURO	Others	Total
Effect on profit - Increase / (decrease)	(3,939)	2,157	(276)	1,694	(364)
2014	**USD**	**GBP**	**EURO**	**Other**	**Total**
Effect on profit - Increase / (decrease)	(9,468)	(62)	232	(2,662)	(11,960)

Price risk sensitivity

The Bank is exposed to price risk on quoted shares, corporate bonds and government securities because of investments that are classified on the statement of financial position as 'Available-for-sale'.

The table below summarises the impact on increase in the market price on the Bank's equity net of tax. The analysis is based on the assumption that the market prices had increased by 5% with all other variables held constant and all the Banks equity instruments moved according to the historical correlation with the price:

	Impact on other comprehensive income	
	2015	2014
	Kshs '000	Kshs '000
Effect of increase	363,633	489,597

		2015 Shs'000	2014 Shs'000
4. INTEREST INCOME			
Loans and advances to customers		4,469,907	4,074,952
Government securities		2,987,477	2,640,248
Corporate bonds		20,207	26,939
Deposits and balances due from banking institutions		113,685	64,762
Other income		706	561
		7,591,982	**6,807,462**
5. INTEREST EXPENSE			
Time deposits		3,733,176	3,310,855
Customer deposits		82,959	78,394
Deposits and balances due to banking institutions		66,917	41,961
Other interest expense		1,149	-
		3,884,201	**3,431,210**
6. OTHER INCOME			
Profit and loss on sale of assets		346	3,249
Dividend income		69	793
Recoveries of advances previously impaired		74,247	95
Rental income		18,994	19,803
Miscellaneous income		5,120	435
		98,776	**24,375**
7. NON INTEREST EXPENSE			
Staff costs (Note 8)		473,842	412,868
Directors' emoluments as executives		13,437	12,274
Depreciation and amortisation		45,697	53,287
Property and equipment written off		4,001	71
Auditors remuneration - current year fees		4,466	3,628
- underprovision of prior year fees		979	-
Contribution to Deposit Protection Fund		67,319	59,926
Operating lease rent		114,363	87,689
Administration expenses	(Note 9)	168,430	163,444
Establishment expenses	(Note 10)	67,825	58,776
Net increase in impairment provisions		**960,359**	**851,963**
8. STAFF COSTS			
Salaries and wages		320,020	287,321
National Social Security Fund (NSSF)		23,019	17,872
Fringe benefits		765	875
Staff leave		7,920	4,657
Staff medical		19,452	19,141
Staff training		124	181
Other staff expenses		102,542	82,821
		473,842	**412,868**

9. ADMINISTRATIVE EXPENSES

	2015 Shs '000	2014 Shs '000
Advertising	14,166	15,579
Computer expenses	18,215	18,661
Donations and fines	823	2,012
Subscriptions and periodicals	3,661	1,406
Entertainment	3,253	3,721
Legal and professional fees	48,595	59,169
Miscellaneous	38,174	20,651
Postages, telephones, telex and fax	4,974	4,782
Printing and stationery	9,493	12,750
Secretarial fees	204	195
Insurance	15,128	12,721
Travelling and motor vehicle	11,744	11,797
	168,430	**163,444**

10. ESTABLISHMENT EXPENSES

	2015 Shs '000	2014 Shs '000
Electricity and water	17,545	18,381
Insurance	984	451
Licences	3,008	2,654
Office cleaning	5,889	5,395
Repairs and maintenance	40,399	31,895
	67,825	**58,776**

11. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

	2015 Shs '000	2014 Shs '000
Loans and advances to customers		
- Additional provisions	601,761	85,464

12. Taxation

	2015 Shs '000	2014 Shs '000
Major components of the tax expense		
Current		
Current tax	423,915	486,824
Deferred		
Deferred tax charge / (credit)	35,539	(9,127)
	459,454	**477,697**
Reconciliation of the tax expense		
Reconciliation between accounting profit and tax expense.		
Accounting profit	2,485,571	2,694,608
Tax at the applicable tax rate of 30% (2014: 30%)	745,671	808,382
Tax effect of adjustments on taxable income		
Expenses not deductible for tax purposes	56,508	7,266
Income not subject to tax	(342,725)	(337,951)
	459,454	**477,697**

13. Other comprehensive income

Components of other comprehensive income - 2015

	Net
Available-for-sale financial assets adjustments	
Government securities	(426,394)
Corporate bonds	(5,394)
Quoted shares	(528)
	(432,316)

Components of other comprehensive income - 2014

	Net
Available-for-sale financial assets adjustments	
Government securities	255,333
Corporate bonds	3,958
Quoted shares	163
	259,454

14. Cash in hand

	2015 Shs'000	2014 Shs'000
Cash and cash equivalents consist of:		
Cash on hand	272,005	307,936

15. Balances with Central Bank of Kenya

Balances with Central Bank of Kenya		
- Cash reserve ratio	2,889,118	2,687,052
- Other	76,894	26,466
	2,966,012	2,713,518

The cash reserve ratio balance is non interest bearing and is based on the value of customer deposits as adjusted in accordance with Central Bank of Kenya requirements. As at 31 December 2015 the cash reserve ratio requirement was 5.25% (2014: 5.25%) of all customer deposits. These funds are not available for the Bank's day to day operations.

16. Governement securities

Available-for-sale		
Listed shares	7,129,153	9,605,169
Held-to-maturity		
Treasury bonds	23,724,390	17,947,419
Treasury bills	1,361,860	927,912
	25,086,250	**18,875,331**
Total government securities	**32,215,403**	**28,480,500**
Current assets		
Available-for-sale	7,129,153	9,605,169
Held to maturity	25,086,250	18,875,331
	32,215,403	**28,480,500**
Government securities comprise of:		
Maturing within 91 days	1,361,860	927,912
Maturing after 91 days and within a year	1,609,313	907,007
Maturing after a year	13,558,907	10,258,463
Maturing after three years	15,685,323	16,387,118
	32,215,403	**28,480,500**

The fair values of the government securities classified as 'available-for-sale' financial assets are categorised under Level 1 based on the information set out in the accounting policy.

There were no gains or losses realised on the disposal of held-to-maturity financial assets in 2015 and 2014, as all the financial assets were disposed of at their redemption date.

17. Deposits and balances due from other banking institutions

	2015 Shs '000	2014 Shs '000
Balances with banking institutions in Kenya	469,901	950,200
Balances with banking institutions abroad	217,348	195,495
Balances with parent bank	132,026	49,270
	819,275	**1,194,965**

18. Other assets

	2015 Shs '000	2014 Shs '000
Items in transit	249,435	212,342
Other receivables and prepayments	189,587	165,280
	439,022	**377,622**

In the opinion of the management, the bank's exposure to credit risk from other assets is low as these are expected to be collected within no more than 12 months after the date of this report.

19. Loans and advances to customers

	2015 Shs '000	2014 Shs '000
Overdrafts	32,153,577	28,639,324
Commercial loans	109,571	362,899
Gross loans and advances	**32,263,148**	**29,002,223**
Provision for impaired loans and advances	(1,021,959)	(494,625)
Suspended interest	(222,816)	(118,746)
Net loans and advances	**31,018,373**	**28,388,852**

Provision for impaired loans and advances

	2015 Shs '000	2014 Shs '000
At start of the year	494,625	415,909
Additional provision during the year	596,255	85,464
Provision utilised during the year for write off	180	(6,653)
Recoveries	(69,277)	(95)
Net (decrease)/increase	**1,021,783**	**494,625**

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which provisions for impairment have been recognised amount to Kshs. 2.364 billion (2014: Kshs. 1.064 billion). These are included in the statement of financial position net of provisions at Kshs. 1.119 billion (2014: Kshs. 0.451 billion). In the opinion of the Directors, sufficient securities are held to cover the exposure on such loans and advances. Interest income amounting to Kshs. 222.816 million (2014: Kshs. 118.746 million) on impaired loans and advances has not been recognised as the management feels no economic benefit of such interest will flow to the Bank.

From past experience, the management is of the opinion that the 1% general provision for normal accounts and 3% general provision for watch accounts is adequate to cover any accounts which might become delinquent in the future.

Concentration

Economic sector risk concentrations within the loans and advances portfolio are as follows;

	2015 Kshs	2015 %	2014 Kshs	2014 %
Agriculture	649,732	2.01%	664,413	2.29%
Manufacturing	7,565,893	23.45 %	5,909,636	20.38 %
Building and construction	2,814,312	8.72 %	4,080,658	14.07 %
Mining and quarrying	627,103	1.94 %	819,667	2.83 %
Energy and water	66,393	0.21 %	71,335	0.25 %
Trade	8,985,282	27.85 %	8,375,315	28.88 %
Tourism, restaurants and hotels	1,834,525	5.69 %	1,221,567	4.21 %
Transport and communication	2,943,091	9.12 %	2,626,915	9.06 %
Real estate	4,095,916	12.70 %	4,073,790	14.05 %
Financial services	424,769	1.32 %	91,208	0.31 %
Social, Community and Personal Households	2,256,132	6.99 %	1,067,719	3.68 %
	32,263,148	**100 %**	**29,002,223**	**100 %**

Loans and advances neither past due nor impaired, past due but not impaired and individually impaired

	2015 Shs '000	2014 Shs '000
Neither past due nor impaired	27,799,258	24,308,813
Past due but not impaired	2,100,080	3,628,784
Individually impaired	2,363,810	1,064,626
Gross loans and advances to customers	**32,263,148**	**29,002,223**
Less: Provision for impaired loans and advances and suspended interest	(1,244,775)	(613,371)
Net loans and advances to customers	**31,018,373**	**28,388,852**

The loans and advances past due but not impaired are aged between 30 to 90 days. Loans and advances that are aged past 180 days are considered impaired.

The credit quality of the portfolio of loans and advances that were past due but not impaired can be assessed by reference to the internal rating system adopted by the bank. The loans and advances past due but not impaired can be analysed as follows:

	2015	2014
Watch	2,100,080	3,628,784

The fair value of the collateral for loans and advances past due but not impaired is considered adequate.

Loans and advances individually impaired

The fair value of the collateral for loans and advances individually impaired is Kshs 975.869 million.

Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a perviously overdue customer account is reset to a substandard status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the jusdgement of the credit committee indicate that payment will most likely continue. These policies are kept under continuous review.

Repossessed collateral

As at 31 December 2015 the Bank did not hold possession of any repossed collateral held as security.

20. Investment securities

	2015 Shs '000	2014 Shs '000
Quoted equity investments:		
At start of year	2,225	2,062
Fair value (loss)/gain	(337)	163
At end of the year	**1,888**	**2,225**
Unquoted equity investments:		
At start and end of year	19,391	19,391
Corporate bonds		
At start of year	184,546	243,240
Redemption	(35,197)	(60,588)
Interest income for the year	-	26,939
Interest income received	-	(29,003)
Fair value (loss)/gain	(7,727)	3,958
At end of the year	**141,622**	**184,546**
	162,901	206,162

The fair values of the quoted equity investments and corporate bonds are categorised under Level 1 based on the information set out in the accounting policy.

21. Tax paid

	2015 Shs '000	2014 Shs '000
Balance at beginning of the year	37,176	(99,901)
Current tax for the year recognised in profit or loss	(423,915)	(486,824)
Balance at end of the year	(28,085)	(37,176)
Net book value	**(414,824)**	**(623,901)**

22. Intangible assets

	2015			2014		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Computer software	12,290	(9,353)	2,937	11,791	(6,895)	4,896

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	4,896	499	(2,458)	2,937

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	3,759	3,495	(2,358)	4,896

In the opinion of management there is no impairment in the value of intangible assets.

Amortisation costs are included in non interest expenses in the profit or loss.

23. Investment property

	2015			2014		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Investment property	30,950	(8,047)	22,903	30,950	(7,428)	23,522

Reconciliation of investment property - 2015

	Opening balance	Depreciation	Total
Investment property	23,522	(619)	22,903

Reconciliation of investment property - 2014

	Opening balance	Depreciation	Total
Investment property	24,141	(619)	23,522

24. Property and equipment

	2015			2014		
	Cost / Valuation	Accumulated amortisation	Carrying value	Cost / Valuation	Accumulated amortisation	Carrying value
Buildings	11,123	(5,119)	6,004	11,123	(4,897)	6,226
Furniture and fittings	140,365	(68,433)	71,932	117,403	(62,060)	55,343
Motor vehicles	31,306	(22,175)	9,131	28,076	(20,292)	7,784
Computer and electronic equipment	153,479	(139,150)	14,329	144,296	(128,317)	15,979
Leasehold improvements	164,753	(82,550)	82,203	116,934	(75,338)	41,596
Total	**501,026**	**(317,427)**	**183,599**	**417,832**	**(290,904)**	**126,928**

Reconciliation of property and equipment - 2015

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	6,226	-	-	(222)	6,004
Furniture and fittings	55,343	28,701	(1,838)	(10,274)	71,932
Motor vehicles	7,784	4,500	(110)	(3,043)	9,131
Computer and electronic equipment	15,979	13,704	(72)	(15,282)	14,329
Leasehold improvements	41,596	54,406	-	(13,799)	82,203
	126,928	**101,311**	**(2,020)**	**(42,620)**	**183,599**

Reconciliation of property and equipment - 2014

	Opening balance	Additions	Disposals	Depreciation	Total
Buildings	6,449	-	-	(223)	6,226
Furniture and fittings	51,152	12,386	(103)	(8,092)	55,343
Motor vehicles	5,728	4,650	-	(2,594)	7,784
Computer and electronic equipment	31,472	15,662	(113)	(31,042)	15,979
Leasehold improvements	37,837	12,118	-	(8,359)	41,596
	132,638	**44,816**	**(216)**	**(50,310)**	**126,928**

In the opinion of management, there is no impairment in the value of property and equipment.

25. Deferred tax

	2015 Shs '000	2014 Shs '000
Deferred tax asset / (liability)		
Deferred tax	47,033	82,572
Reconciliation of deferred tax asset (liability)		
At beginning of the year	82,572	73,446
Accelerated capital allowances	(26,385)	5,936
Provisions	(9,154)	3,190
	47,033	**82,572**

Recognition of deferred tax asset / liability

Deferred tax is calculated on all temporary differences under the liability method using a principal tax rate of 30% (2014: 30%).

26. Customer deposits

	2015	2014
Foreign currency deposits	9,879,810	8,774,132
Term deposits	43,048,813	39,909,056
	52,928,623	**48,683,188**
Analysis of customer deposits by maturity		
Payable within 90 days	43,092,303	31,400,396
Payable after 90 days and within one year	9,534,410	14,794,424
Payable after one year	301,910	2,488,368
	52,928,623	**48,683,188**

The economic sector concentrations within the customer deposits portfolio were as follows:

	2015 Kshs	2015 %	2014 Kshs	2014 %
Non profit institutions and individuals	44,005,703	83.14 %	39,854,223	81.86 %
Private companies	8,694,513	16.43 %	8,621,808	17.71 %
Insurance companies	228,407	0.43 %	207,158	0.43 %
	52,928,623	**100 %**	**48,683,189**	**100 %**

Included in customer accounts were deposits of Kshs. 2,150.300 million (2014: Kshs. 1,818.336 million) held as collateral for loans and advances. The fair value of those deposits approximates the carrying amount.

27. Deposits and balances due from other banking institutions

	2015	2014
Parent bank	122,586	91,947
Foreign banks	3,474,354	2,944,403
	3,596,940	**3,036,350**

28. Other liabilites

	2015	2014
Staff leave and gratuity accrual	204,533	184,675
Bills payable	1,005	1,946
Other accounts payable	173,361	171,159
	378,899	**357,780**

Other liabilities are expected to be settled within no more than 12 months after the date of the statement of financial position.

29. Share capital

	2015 Shs '000	2014 Shs '000
Authorised		
49,486 Ordinary shares of Kshs. 20,000 each	989,717	989,717
Issued		
49,486 Ordinary shares of Kshs. 20,000 each	989,717	989,717

30. Related parties

Included in loans and advances and customer deposits are amounts advanced to/received from certain directors and companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to related companies.

Key management includes the directors and other members of key management.

(a) Compensation to key management	2015 Shs '000	2014 Shs '000
Short-term employee benefits	47,183	47,491
Post-employment benefits	7,123	2,208
	54,306	**49,699**
(b) Interest received from loans and advances to:		
Related companies	-	1,222
Senior management employees	601	162
Other employees	46,633	10,125
	47,234	**11,509**
(c) Interest paid on deposits from:		
Directors	3,273	3,117
Related companies	7,473	6,794
Senior management employees	22	21
Other employees	356	333
	11,124	**10,265**
(d) Management fees paid		
Related companies	46,203	41,079

30. Related parties (continued)

(Figures in Kenya Shillings Thousand)

	Directors		Related companies		Senior management employees		Other employees	
(e) Outstanding loans and advances	2015	2014	2015	2014	2015	2014	2015	2014
At start of year	-	-	-	18,106	2,322	2,128	171,382	139,797
Advances during the year	-	-	-	-	1,000	1,000	64,530	64,530
Interest charged	-	-	-	1,222	163	163	10,125	10,125
Repayments during the year	-	-	-	(19,328)	(969)	(969)	(43,070)	(43,070)
	-	**-**	**-**	**-**	**2,516**	**2,322**	**202,967**	**171,382**

The loans and advances to related parties are performing.

No provisions have been recognised in respect of the loans and advances to Directors, related parties or staff as they are performing well.

	Directors		Related companies		Senior management employees		Other employees	
(f) Deposits	2015	2014	2015	2014	2015	2014	2015	2014
At start of year	10,671	52,094	133,152	117,674	1,886	574	169,497	39,924
Deposits received during the year	123,484	107,377	1,271,150	1,264,754	35,567	33,240	331,128	389,562
Interest paid during the year	3,273	3,117	7,473	6,794	22	21	356	333
Withdrawals during the year	(96,247)	(151,917)	(1,344,502)	(1,256,070)	(36,465)	(31,949)	(325,403)	(260,322)
	41,181	**10,671**	**67,273**	**133,152**	**1,010**	**1,886**	**175,578**	**169,497**

30. Related parties (continued)

	2015 Shs '000	2014 Shs '000
(g) Directors emoluments		
Fees	695	890
Others	12,742	11,384
	13,437	**12,274**

All transactions with related parties were at arms length and at terms and conditions similar to those offered to other major customers.

31. Cash generated from operations

	2015 Shs '000	2014 Shs '000
Profit before taxation	2,485,571	2,694,608
Adjustments for:		
Depreciation and amortisation	45,697	53,287
(Profit) / Loss on sale of assets	(346)	(3,249)
Changes in working capital:		
Loans and advances to customers	(2,629,697)	(4,810,292)
Placement with and loans and advances to other banking institutions	375,690	(170,574)
Other assets	(68,589)	(106,286)
Due to local banking institutions	560,590	924,274
Customer deposits	4,245,435	6,806,668
Other liabilities	21,119	(6,130)
	5,035,470	**5,382,306**

32. Capital commitments

There were no capital expenditure contracted as at the reporting date.

Operating leases – as lessee (expense)

The future minimum lease payments under non-cancellable operating leases are as follows:

	2015 Shs '000	2014 Shs '000
Minimum lease payments due		
- not later than 1 year	108,186	88,257
- later than 1 year and not later than 5 years	383,170	327,785
	491,356	**416,042**

The Directors are of the view that future net revenues, funding and cash flows will be sufficient to cover these commitments.

33. Off-balance sheet financial instruments, contingent liabilities and committments

In common with banking business, the bank conducts business involving acceptances, guarantees, performance bonds and letters of guarantee. The majority of these facilities are offset by corresponding obligations from third parties.

	2015 Shs '000	2014 Shs '000
Contingent liabilities		
Spots	107,921	235,709
Letters of credit	1,542,416	1,535,026
Letters of guarantees	3,343,626	3,745,504
Bills sent for collection	916,308	819,425
	5,910,271	**6,335,664**

An acceptance is an undertaking by a bank to pay a bill of exchange on a specified due date. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the bank to make payments to third parties on production of credit compliant documents which are subsequently reimbursed by customers.

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

Based on the estimate of the financial effect of the contingencies and the corresponding obligations from third parties, no loss is anticipated.

The Bank has open lines of credit facilities with correspondent Banks.

Commitments	2015 Shs '000	2014 Shs '000
Undrawn formal stand-by facilities, credit lines	3,329,595	2,969,370

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

The pending litigation claims relate to cases instituted by third parties against the Bank. Judgement in respect of these cases had not been determined as at 31 December 2015. The directors are of the opinion that no liabilities will crystallise.

34. Events after the reporting period

The management of the bank is not aware of any events after the reporting period; which may have a significant impact on the operational existance or on the financial performance of the bank for the period.

35. Currency

The financial statements are presented in Kenya Shillings rounded to the nearest thousand shilling ('000).

36. Comparative figures

Previous year's figures have been regrouped / rearranged wherever necessary in order to make them comparable with that of current financial period.

37. Earnings per share

Basic earnings per share is calculated on the profit attributable to the shareholders and on the weighted average number of shares outstanding during the year adjusted for the effect of any share issue during the year.

	2015 Shs '000	2014 Shs '000
Net income for the period attributable to shareholders	2,026,117	2,216,910
Adjusted weighted average number of ordinary shares in issue	49,486	49,486
Earnings per share - basic and diluted	40.94	44.80

There were no potentially dilutive shares outstanding as at 31 December 2015 and 2014.

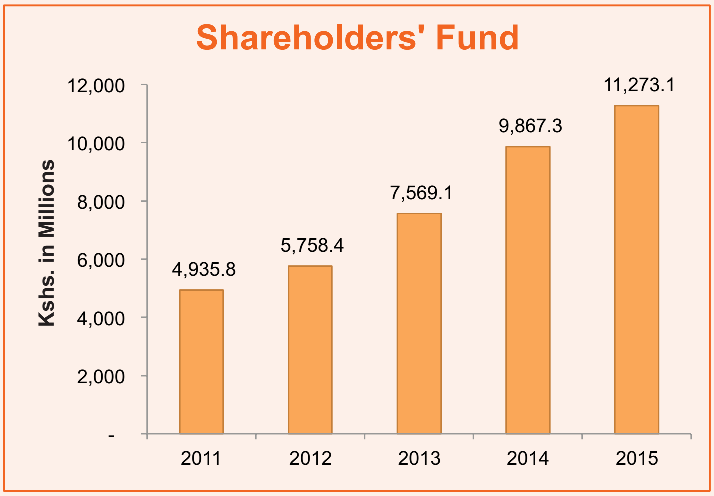
38. Dividends

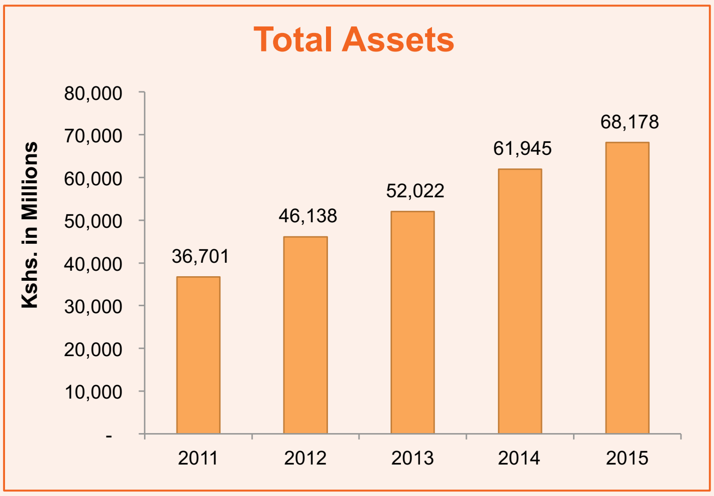
Dividends	(197,943)	(188,046)

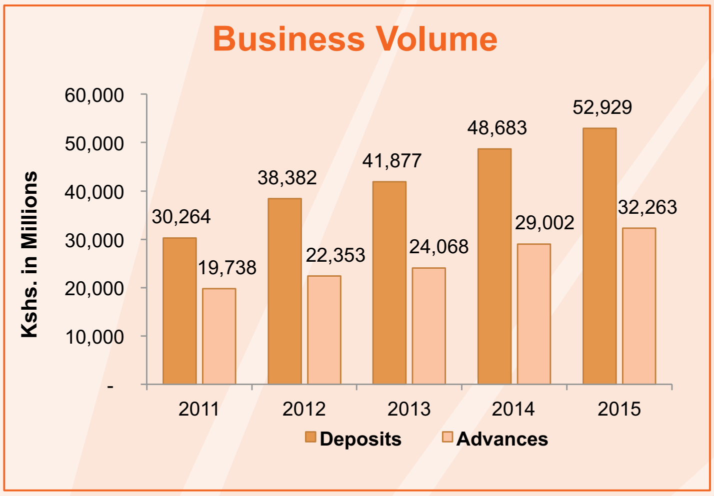
		2015 Shs '000	2014 Shs '000
1.0	**NON-PERFORMING LOANS AND ADVANCES**		
(a)	Gross Non-performing loans and advances	2,363,810	1,064,626
(b)	Less: Interest in Suspense	222,816	118,746
(c)	Total Non-Performing Loans and Advances (a-b)	2,140,994	945,880
(d)	Less: Loan Loss Provision	1,021,958	494,625
(e)	Net Non-Performing Loans and Advances(c-d)	1,119,036	451,255
(f)	Discounted Value of Securities	1,119,036	451,255
(g)	Net NPLs Exposure (e-f)	-	-
2.0	**INSIDER LOANS AND ADVANCES**		
(a)	Directors, Shareholders and Associates	210	-
(b)	Employees	237,734	171,382
(c)	Total Insider Loans and Advances and other facilities	237,944	171,382
3.0	**OFF-BALANCE SHEET ITEMS**		
(a)	Letters of credit,guarantees, acceptances	4,885,832	5,280,529
(b)	Forwards, swaps and options	107,921	235,709
(c)	Other contingent liabilities	916,308	819,425
(d)	Total Contingent Liabilities	5,910,061	6,335,663
4.0	**CAPITAL STRENGTH**		
(a)	Core capital	11,181,282	9,324,068
(b)	Minimum Statutory Capital	1,000,000	1,000,000
(c)	Excess/(Dificiency)(a-b)	10,181,282	8,324,068
(d)	Supplementary Capital	365,353	358,853
(e)	Total Capital (a+d)	11,546,635	9,682,921
(f)	Total risk weighted assets	42,107,961	40,043,636
(g)	Core Capital/Total deposits Liabilities	21.1%	19.2%
(h)	Minimum statutory Ratio	8.0%	8.0%
(I)	Excess/(Deficiency) (g-h)	13.1%	11.2%
(j)	Core Capital / total risk weighted assets	26.6%	23.3%
(k)	Minimum Statutory Ratio	10.5%	10.5%
(l)	Excess (Deficiency) (j-k)	16.10%	12.8%
(m)	Total Capital/total risk weighted assets	27.4%	24.2%
(n)	Minimum statutory Ratio	14.5%	14.5%
(o)	Excess/(Deficiency) (m-n)	12.9%	9.7%
14	**LIQUIDITY**		
(a)	Liquidity Ratio	61.5%	60.5%
(b)	Minimum Statutory Ratio	20.0%	20.0%
(c)	Excess (Deficiency) (a-b)	**41.5%**	**40.5%**

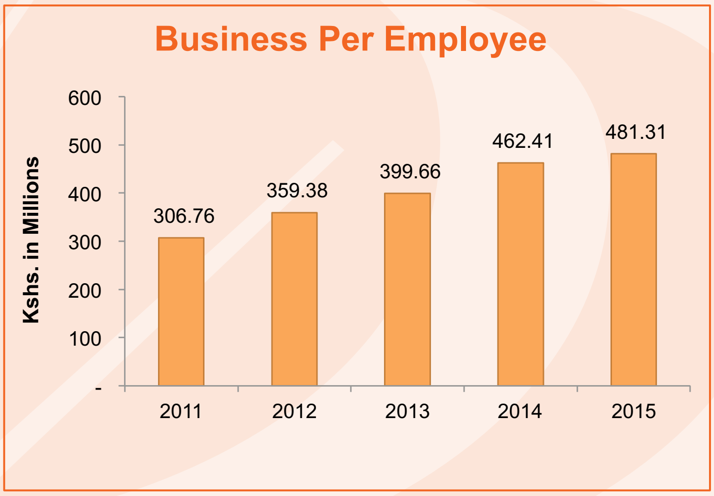
FINANCIAL HIGHLIGHTS

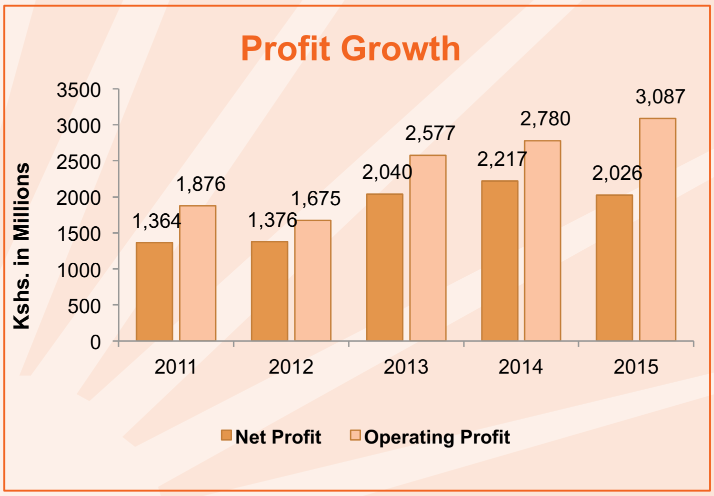
APPENDIX - II

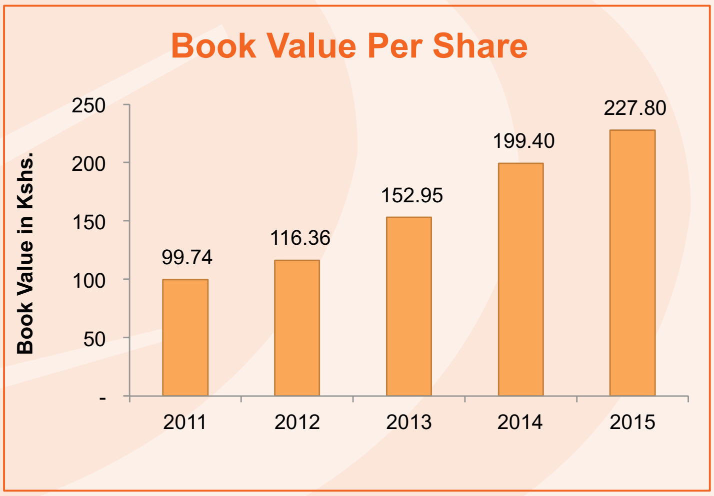












Opening of Branches

Diamond Plaza Branch, Nairobi (12th Branch)

Guest of Honour Mr. Rajiv S. Abhyankar, CGM (International Operations), Bank of Baroda, India and Director of the Bank seen cutting the ribbon on the occasion of opening ceremony of Diamond Plaza Branch, Nairobi of the Bank, while, Mr. Yatish C. Tewari, Managing Director, staff members & customers look on.

Guest of Honour Mr. Rajiv S. Abhyankar, CGM (International Operations), Bank of Baroda, India and Director of the bank seen cutting the cake in the presence of Mr. Yatish C. Tewari, MD & other Directors of the bank.

Mombasa Road Branch, Nairobi (13th Branch)

Bank's 13th Branch- Mombasa Road, Nairobi was inaugurated by H.E. Mrs. Suchitra Durai, High Commissioner of India to Kenya in a function attended by large gathering of existing/ prospective customers, Shareholders of the Bank in the presence of Mr. Yatish C. Tewari, Managing Director, on 17th February 2016.

Lighting of the Lamp by Mr. Patrick K. Njoroge, Director of the bank on the occasion of inauguration of Mombasa Road branch, Nairobi in the presence of H.E. Mrs. Suchitra Durai, High Commissioner of India to Kenya and stakeholders on 17th February 2016.

Signing of the Visitors' book of the Mombasa Road branch, Nairobi by the Chief Guest- H.E. Mrs. Suchitra Durai, High Commissioner of India to Kenya on the occasion of inauguration of the branch on 17th February 2016.

Valued stakeholders of the bank, seen, cutting of the cake along with Mr. Yatish C. Tewari, Managing Director of the bank on the occasion of opening of its Mombasa Road Branch, Nairobi on 17th February 2016.

Annual General Meeting 2015

Shareholders and Board of Directors of the bank on the occasion of its 23rd Annual General Meeting at Nairobi, Kenya.

Signing of Financial Arrangement

Mr. Yatish C. Tewari, Managing Director, Bank of Baroda (Kenya) Ltd, addressing the gathering on the occasion of signing ceremony of financing arrangement with Kenya Bankers Association (KBA) / Integrated Payment Services Ltd (IPSL), while Mr. Habil Olaka, CEO, KBA (seated on right) , Mr. Michael Mbuthia, CIO, IPSL (seated on left), Mr. Joshua Oigara, Chairman, KBA & Group CEO of KCB (standing 2nd from right) and officials of the Bank of Baroda (Kenya) Ltd & KBA look on.

During the signing of Financing Arrangement by (R-L) Mr. Habil Olaka, CEO Kenya Bankers Association, Mr. Yatish C. Tewari, Managing Director, Bank of Baroda (Kenya) Ltd & Mr. Michael Mbuthia, CIO Integrated Payment Services Ltd (IPSL).

Refurbishment of Thika Branch

The refurbished, Thika Branch of Bank of Baroda (Kenya) Ltd was inaugurated by Mr. Rajiv S. Abhyankar , Chief General Manager (International Operations), Bank of Baroda, India and also the Director of the bank on 3rd February 2016 in the presence of Mr. Yatish C. Tewari, Managing Director of the bank.

Mr. Rajiv S. Abhyankar, Chief General Manager (International Operations), Bank of Baroda, India & Director of Bank of Baroda (Kenya) Ltd and Mr. Yatish C. Tewari, Managing Director of the Bank with Stakeholders on the occasion of inauguration of refurbished Thika Branch on 3rd February 2016.

Corporate Social Responsibility (CSR)

Bank officials, seen ,donating the computers, stationery and food items for the children and old women of 'Lavarna Children Home for Orphanage and old Mamas' at Thika in an event under the aegis of its CSR program during July 2015.

Participation in Kenya Homes EXPO Exhibition at KICC, Nairobi

Mr. Philip Burh, Assistant General Manager & Director (Executive), Bank of Baroda (Kenya) Ltd. along with Branch Heads & Senior officials from the Head Office of the Bank seen, inaugurating the Bank's stall at KENYA HOMES EXPO exhibition at KICC. Nairobi on 22nd October 2015.

Celebration of World Hindi Day

Chief Guest- H.E. Ms. Suchitra Durai, High Commissioner of India to Kenya & Mr. Yatish C. Tewari, Managing Director, Bank of Baroda (Kenya) Ltd with esteemed customers & Staff members of the bank, on the occasion of celebration of World Hindi Day on 10th January 2016 in the premises of its Sarit Centre branch, Nairobi.

Together we can... Together we will...

"Team Baroda"

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