ORIENTAL
COMMERCIAL BANK LTD

Discover Banking Pleasure

Annual Report and Financial Statements 2015

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Company Information

FOR THE YEAR ENDED 31ST DECEMBER 2015

Board of directors	Shanti V. Shah - Chairman Prabhulal J. Shah Nalinkumar M. Shah Jitendrakumar C. Patel Ramesh M. Thakkar Rupen M. Haria R. B. Singh - Managing Director, Resigned 1st August 2015
Company secretary	Joseph Kamau P.O. Box 14357 - 00800 Nairobi, Kenya.
Registered office	L.R. No.1870/1569, Apollo Centre, 2nd Floor Ring Road, Westlands P.O. Box 14357 - 00800 Nairobi, Kenya.
Independent auditor	RSM Eastern Africa Certified Public Accountants 1st Floor, Pacis Centre, Slip Road, Off Waiyaki Way, Westlands P.O. Box 349 - 00606 Nairobi, Kenya.
Principal correspondents	Standard Chartered Bank, New York, United States of America Standard Chartered Bank, London, United Kingdom Standard Chartered Bank, Frankfurt, Germany ICICI Bank, Mumbai, India Commonwealth Bank of Australia, Sydney

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the 2016 Annual General Meeting of the Company will be held at Apollo Centre (next to Nakumatt Ukay), 5th Floor, Chyullu Hills, Ring Road, Westlands, Nairobi, on Wednesday, 27th July 2016 at 11am to conduct the following Ordinary Business:-

ORDINARY BUSINESS

1. To table proxies, note the presence of a quorum and record apologies.
2. To receive and adopt the Annual Report and Financial Statements for the year ended 31st December 2015 together with the Directors and Auditors Reports therein.
3. To note that Directors do not recommend payment of dividend.
4. To elect Directors:
   i) In accordance with clauses 89, and 91 of Table A Mr. NM Shah, and Mr. JC Patel retire by rotation and being eligible, offer themselves for re-election.
   ii) Mr. JG Shah and Mr. SD Gregory Directors appointed during the year retire in accordance with Article 98 of the Company's Articles of Association and being eligible offer themselves for election.
   iii) Mr. VD Mehta who was appointed director during the year subject to CBK approval offers himself for election at the meeting.
5. To approve the remuneration of the Directors.
6. To reappoint the auditors.

SPECIAL BUSINESS

7. Update on acquisition of shares by M Holdings Limited.
8. Any other business which due notice has been received.

By Order of the Board

J Kamau
Company Secretary
Dated: 27th June 2016

Note:

1) A shareholder entitled to attend and vote at the meeting may appoint one or more proxies (who need not be members) to attend and vote in his stead. Proxy forms must be received at the Head Office of the Company, 2nd Floor, Wing B, Apollo Centre, Ring Road, Westlands, Nairobi, PO Box 14357-00800 Nairobi not later than 48 hours before the time for holding the meeting.
2) Any shareholder wishing to propose a director for election at the Annual General Meeting should send the proposal to the Board signed by the proposer and the person seconding the proposal, so as for it to be received at the Registered Office at the address shown in Note (1) above, at least 10 days before the date of the meeting.
3) In accordance with Articles 128 and 132 of the Company's Articles of Association, shareholders are requested to obtain the full Annual Report and Financial Statements for the year ended 31 December 2015 at the Bank's website: www.morientalbank.co.ke

Any shareholder interested in printed copy of the reports may obtain it at any of the Bank's branches.

Chairman's Report

Shanti V. Shah

Chairman

I am pleased to present Bank's Annual Report and the Financial Statements for the year ended 2015.

Economic and Banking Scenario

Last year was a challenging year for the country. The country's GDP is estimated to have grown by 5.6% during 2015 down from the initial 6.9% and a subsequent revision to 6.5% by IMF. Though a growth rate of 5.6% can be considered good against the world economic growth of around 3%, an insight into the year poses some mixed outcomes with regard to the performance of the economy given the abrupt changes in some macroeconomic variables which are core to the economic growth. To start with, the inflation rates were on the uptrend hitting a high of 8.01% as at the end of December. On the forex front, the Kenya Shilling had a weakening bias against the major world currencies for the first three quarters of the year. To cool the forex market, Central Bank of Kenya had to increase the Central Bank Rate (CBR) in June, 2015 from 8.5% to 10% and subsequently to 11.5% in July, 2015. The said increase in CBR and an increase in T-Bill rates to over 21% p.a. did cool the forex market, but lead to high deposit and lending rates which have resulted into defaults by the borrowers and the consequent rise in the Non- Performing Loans of the banks. This has, indeed, adversely impacted the profitability of the banks.

Our Bank's Performance

Against the challenging economic environment characterized by weakening Kenya Shilling, rising treasury rates resulting into high deposit rates, we decided not to increase our lending rates and decided to absorb the increases in deposit rates. This naturally impacted our profits adversely but helped in retaining our clientele. We append below our financial highlights for the year 2015:---

- Core Capital
  The core capital of the Bank increased to Ksh 2031 M as on 31.12.2015 from Ksh 1387 M as on 31.12.2014. The increase was mainly due to infusion of funds by our new partners.

- Customer Deposits
  The customer deposits of the Bank as on 31.12.2015 stood at Ksh 6218 M as against 6231 M as on 31.12.2014.

- Customer Advances
  Loans and advances as on 31.12.2015. increased to Ksh 5245 M from Ksh 4628 M as on 31.12.2014.

- Profit After Tax
  The profit for the year 2015 was Ksh 42.9 M against Ksh 71.9 M in 2014 mainly due to a hefty increase in deposit rates in the last quarter of 2015 with no corresponding increase in our lending rates. The increase in Non-Performing loans also impacted our profits.

- Liquidity
  The liquidity of the Bank was strong at 43.1% against the minimum of 20% prescribed by the Central Bank of Kenya. In absolute terms, Bank was sitting on liquid assets of Ksh 2683 M against deposits of 6218 M as on 31.12.2015.

Proposed 51% stake by M Holdings Ltd
M Holdings Ltd, have entered into an agreement with us to take 51% equity stake in our Bank —34% by fresh infusion of funds and another 17% by means of an open offer to acquire shares from the existing shareholders of the Bank. They have already taken 34% stake by bringing in requisite funds and the name of the bank has been changed to M Oriental Bank Ltd w.e.f. 21.06.2016. M Holdings would shortly be coming out with an open offer to acquire shares from the existing shareholders to increase their stake by another 17% stake in the Bank.

Outlook for the current year
The current year had shocking news by way of placement of Chase Bank Ltd under statutory management by the Central Bank of Kenya due to liquidity and corporate governance issues. However, Central Bank has been quick in allowing Kenya Commercial Bank Ltd to take control of the Chase Bank and gradually take a majority stake in the Bank. This has calmed the panic created in the market following the placement of Chase Bank under Statutory management. Though banking sector was affected by the above said panic, our high liquidity levels and our relationship with our clients helped us to come out of the situation with great honour as we continued lending to other banks and none of our funds were blocked in any of the banks put under statutory management.

Though the current year is expected to be quite challenging for the commercial banks in Kenya, we expect to fare better in view of the following factors:--
- We did not have any liquidity issues after placement of two banks under statutory management.
- The legacy Non- Performing loans and the ones the Bank categorised in the last couple of years have adequate securities and we are sanguine about major recoveries during the current year.
- The Bank follows high corporate governance standards and Central Bank of Kenya has upgraded our rating to Satisfactory.
- With the coming on Board of M holdings and the banking expertise of Bank M of Tanzania, our business is expected to take a quantum jump.

Appreciation
I take this opportunity to express my sincere gratitude to all our esteemed clients for their continued support and the confidence they have reposed in us during challenging times. We would like to assure them of our continued commitment to provide the best banking experience at all times.

During the year, Mr. R. B. Singh who was Managing Director of the Bank for a period of 7 years and had steered the bank to this stable position, resigned and Mr. Rakesh Kashyap who has been in the Bank as General Manager for the last 7 years took over as Chief Executive of the Bank. I on behalf of the Board of Directors thank Mr. Singh for steering the bank exceptionally well during his tenure and wish him good luck in all his future assignments.

I would also like to thank our local banks, Central Bank of Kenya and foreign correspondents viz. Standard Chartered Bank Ltd, New York, London and Frankfurt, ICICI, Mumbai and Commonwealth Bank of Australia, Perth for their continued support.

Finally, I wish to thank my fellow directors, management and staff of the Bank for their able stewardship of the Bank.

Shanti V. Shah
Chairman

Board of Directors

Standing from right:

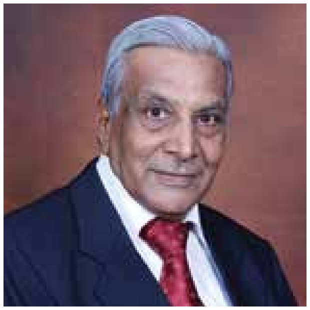
Shanti V. Shah, Rupen M. Haria, RameshThakkar, Nalinkumar M. Shah, JitendraKumar C. Patel
Prabhulal J. Shah(Not in the picture).

Shanti V. Shah

Shanti Shah holds a Bachelor of Commerce degree. He is a highly successful and a very well known industrialist, based in Nakuru. He has been the Chairman of the board since 2008. He is also a director of Valley Bakery Ltd and Buds and Bloom Ltd among other companies.

Jitendrakumar C. Patel

J.C. Patel is a highly experienced C.P.A(K). He is the managing partner of Jessie & Associates, (Certified Public Accountants). He has been a Director of Oriental Commercial Bank Limited since 2008. He is an independent director of Intra Africa Assurance Co. Limited and Trade Direct Limited. He also sits in the board of various charitable organisations.



Prabhulal J. Shah

P.J. Shah is a highly successful and a well known businessman based in Mombasa. He has been a Director of Oriental Commercial Bank Limited since 2002. He is the managing director of Maritime Freight Co Limited and a director of Apollo Life Assurance Limited and Apollo Investments Limited among other companies.

Ramesh Thakkar

Ramesh Thakkar, born in Nakuru, is a prominent Businessman and Accountant since 1967. A director of Voi Industries Limited and various other companies. He is a Social Worker involved in many Charitable Social and Government organizations. Director of the Oriental Commercial Bank Limited since June, 2010

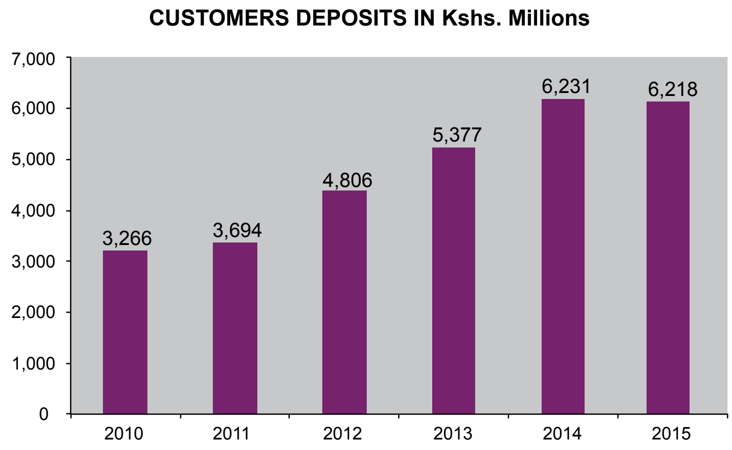
Board of Directors Members' Profiles

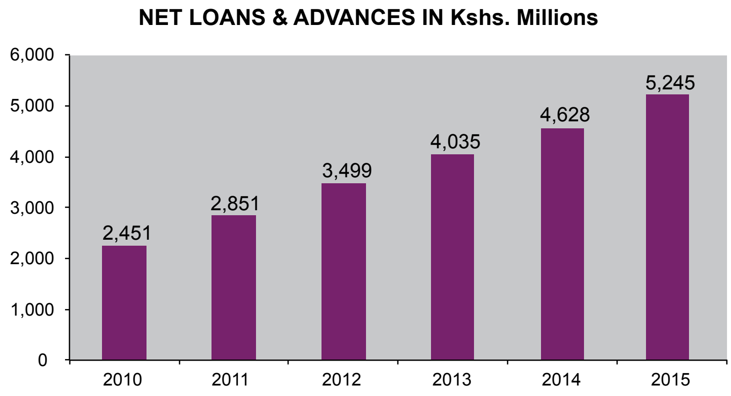
Nalinkumar M. Shah
N.M. Shah is a highly successful businessman from a well established and old business house, based in Nakuru. He is also the chairman and C.E.O. of Emerg Investments Limited and Ibrahim Karimbux Limited among other companies.

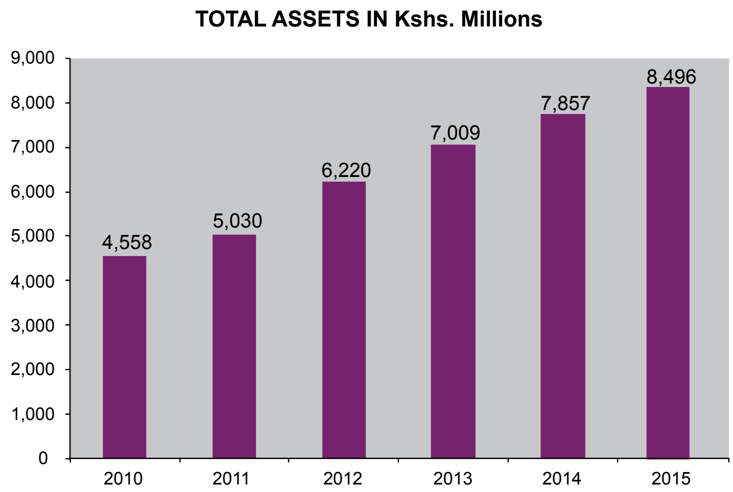
Rupen M. Haria
He is a highly successful businessman with a sound reputation in the society and business circles. He was appointed as a Director on 29th June 2012. He brings a wealth of experience to the Board being the M.D. of Harleys Ltd (a highly reputable pharmaceutical company) and a director of Rahans Ltd and Universal Corporation Ltd among other companies.

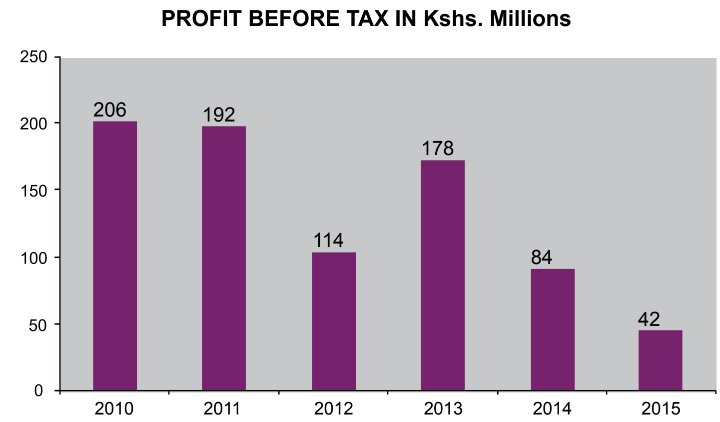
Rakesh Kashyap - Ag. Chief Executive Officer
A senior banker, working with the bank since April 2009. He took charge of the bank from Mr. R.B. Singh from 1st August 2015.

Joseph Kamau
Joseph Kamau is a Certified Public Secretary with vast experience in both listed public companies and private companies


CUSTOMERS DEPOSITS IN Kshs. Millions
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
3,266
3,694
4,806
5,377
6,231
6,218
2010
2011
2012
2013
2014
2015


NET LOANS & ADVANCES IN Kshs. Millions
6,000
5,000
4,000
3,000
2,000
1,000
0
2,451
2,851
3,499
4,035
4,628
5,245
2010
2011
2012
2013
2014
2015


TOTAL ASSETS IN Kshs. Millions
9,000
8,000
7,000
6,000
5,000
4,000
3,000
2,000
1,000
0
4,558
5,030
6,220
7,009
7,857
8,496
2010
2011
2012
2013
2014
2015


PROFIT BEFORE TAX IN Kshs. Millions
250
200
150
100
50
0
206
192
114
178
84
42
2010
2011
2012
2013
2014
2015

Corporate Governance Statement

FOR THE YEAR ENDED 31ST DECEMBER 2015

Corporate governance involves a set of relationships between a broad group of stakeholders, including shareholders, Board of Directors, management, employees, customers, suppliers, regulators and the general public that guides the way companies are directed and controlled. The Board of Directors is alive to the importance of good corporate governance and is fully committed to achieving and sustaining the highest standards of corporate governance.

Shareholders

The shareholders' roles are firstly to appoint the Directors and hold the Board accountable and responsible for efficient and effective governance of the Bank. Secondly they also appoint the Independent Auditors of the Bank.

Board of Directors

The Board meets regularly and had four sittings during the year 2015 (as per attached attendance schedule). Matters requiring urgent attention were resolved through circular resolutions. Apart from the regular Board meetings, communication between the Executive Management and the Board is on a continuous basis mainly by way of Board memoranda and electronic mail which are circulated to all Directors.

The Board has delegated the authority of day to day management to the CEO but retains the overall responsibility for financial and operating decisions as indicated on the statement of directors' responsibilities. The Board has access to the Company Secretary. To ensure effectiveness, the Board has set up various committees which operate within and in accordance with clearly set terms of reference. The committees report to the Board at periodic intervals and on circulation.

These committees are:-

1. Board Audit Committee

The role of the Board Audit Committee is to assist the board of directors in fulfilling its oversight responsibilities for the financial reporting process. It is also responsible for continually evaluating the effectiveness of internal control systems and regularly receives reports from internal and external auditors and management's corrective actions in response to the findings. The committee meets on a quarterly basis and its members are:
(i) Jitendrakumar C. Patel - Chairman
(ii) Nalinkumar M. Shah - Member
(iii) Rupen M. Haria - Member
(iv) Ramesh Thakkar

2. Board Risk and Compliance Committee

The Board Risk and Compliance Committee monitors all risk exposures against defined thresholds and appetite. The committee also monitors legal and regulatory changes in the external environment and oversees compliance with relevant laws, regulations and directives. The committee meets on a quarterly basis and its members are:
(i) Ramesh Thakkar - Chairman
(ii) Nalinkumar M. Shah - Member
(iii) Jitendrakumar C. Patel - Member
(iv) Rupen M. Haria - Member

3. Board Credit Committee

The function of this committee is to appraise and approve credit applications within the limits set by the Board and review of the quality of loans portfolio ensuring adequate loan loss provisions are held in line with the prudential guidelines. The committee also oversees and reviews the overall lending policies of the Bank. The committee meets as and when need arises. Members of this committee are:
(i) Jitendrakumar C. Patel - Chairman
(ii) Shanti V. Shah - Member
(iii) Rupen M. Haria - Member
(iv) Nalinkumar M. Shah - Member

4. Directors Operations Committee

The committee oversees general operations of the Bank. It acts as the main link between the Board and the management ensuring the implementation of strategic and operational plans including budgets and assets and liability management. The Committee meets as and when need arises. Members of this committee are:
(i) Shanti V. Shah - Chairman
(ii) Nalinkumar M. Shah - Member
(iii) Jitendrakumar C. Patel - Member

Board Evaluation

The Board has had regular communication on its composition and effectiveness. Through the communications, directors are called upon on the functions requiring their expertise. This is taken into account in peer review performance.

A Board assessment and peer review on performance was undertaken for the year ended 31st December 2015. This performance evaluation is an annual exercise aimed at ensuring that the Board remains efficient and effective while discharging its responsibilities.

A detailed report has been separately submitted to Central Bank of Kenya as per Prudential Guidelines.

Management committees

For effective delegation the CEO has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities which operate within prescribed Terms of Reference as approved by the Board. These Committees include Asset and Liabilities Committee (ALCO), Executive Credit Committee, Management Committee and Human Resource Committee.

Corporate Governance Statement (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2015

Tabulated below are the committees, their membership, frequency of meetings and functions.

	Asset and Liabilities Committee	Executive Credit Committee	Management Committee
Chairman	Managing Director / CEO	Managing Director / CEO	Managing Director / CEO
Members	General Manager - Credit General Manager - Treasury General Manager - Operations Manager - Treasury Manager - Credit Manager - Risk & Compliance Head - Finance Head - Internal audit Manager - Operations Manager - IT	General Manager - Credit General Manager - Treasury General Manager - Operations Manager - Credit Manager - Risk & Compliance	General Manager - Credit General Manager - Treasury General Manager - Operations Manager - Treasury Manager - Credit Manager - Risk & Compliance Manager - Finance Manager - Internal audit Manager - Operations Manager - IT Branch Managers
Frequency of meetings	Monthly	Weekly	Quarterly
Main functions	Management of statement of financial position and liquidity	Appraisal and approval of credit applications	Strategy decision making

The Bank is a public limited company and fully complies with the Banking Act and the Central Bank of Kenya Prudential Guidelines. The Bank distributes its annual report and financial statements and also publishes quarterly reports and notices in the national dailies to ensure that the shareholders are fully informed of the Bank's performance. No individual shareholder has direct or indirect control powers to control the institution and all shareholders have access to the Bank and it's Company Secretary who responds to their correspondences. In accordance with the Companies Act the shareholders have access to the shares register.

Board Meeting Attendance

Date of Meeting	S.V. Shah	N.M. Shah	Rupen Haria	P.J. Shah	J.C. Patel	R.M. Thakkar	R.B. Singh*
5/13/15	✓	✓	x	✓	✓	✓	✓
6/25/15	✓	✓	✓	x	✓	✓	✓
9/7/15	✓	✓	✓	✓	x	✓	x
11/25/15	✓	✓	✓	x	✓	x	x
Total meetings attended	**4**	**4**	**3**	**2**	**3**	**3**	**2**
Percentage attendance	**100%**	**100%**	**75%**	**50%**	**75%**	**75%**	**50%**

* Mr. R.B. Singh resigned from the Board effective 1st August 2015.

Shanti V. Shah
Chairman

Rakesh Kashyap
Ag. Chief Executive Officer

Report of the Directors

FOR THE YEAR ENDED 31ST DECEMBER 2015

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

Incorporation
The Bank is domiciled in Kenya where it is incorporated as a company limited by shares under the Kenyan Companies Act. The address of the registered office is set out on page 1.

Principal activities
The Bank is licensed under the Banking Act and provides banking, financial and related services.

Results and dividends
The net profit for the year of Shs 42,902,000 (2014: Shs 71,947,000) has been added to retained earnings. The directors do not recommend the payment of a dividend (2014: Nil).

Directorate
The directors who held office during the year and to the date of this report are set out on page 1.

Auditor
The company's auditor, RSM Eastern Africa, has expressed its willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act, subject to approval of the Central Bank of Kenya in accordance with Section 24 (1) of the Banking Act.

By order of the board

…………………………………..
Chairman

Nairob 8th March 2016

Statement of Directors' Responsibilities

FOR THE YEAR ENDED 31ST DECEMBER 2015

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

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

i) designing, implementing and maintaining internal control relevant to the preparation and fair pre sentation of the financial statements;
ii) selecting and applying appropriate accounting policies; and
iii) making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the company as at 31st December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.
Nothing has come to the attention of the directors to indicate that the company will not remain a going concern for at least twelve months from the date of this statement.

Approved by the board of directors on 8th March 2016 and signed on its behalf by:

……………………………………………
Chairman

……………………………………………
Acting Chief Executive Officer

Report of the Independent Auditor To the Member of Oriental Commercial Bank Limited

Report on the financial statements

We have audited the accompanying financial statements of Oriental Commercial Bank Limited, set out on pages 17 to 59 which comprise the balance sheet as at 31st December 2015, and the profit and loss account, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on 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 auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Report on other legal requirements

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

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

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

iii) the company's balance sheet and profit and loss account are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report was FCPA Ashif Kassam, Practising Certificate No. 1126.

RSM Eastern Africa

RSM EASTERN AFRICA
Certified Public Accountants
Nairobi

8th March 2016

Profit and Loss Account

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 Shs '000	2014 Shs '000
Interest income	4	1,092,764	945,497
Interest expense	5	(673,302)	(556,759)
Net interest income		**419,462**	**388,738**
Fee and commission income	6	57,259	72,531
Fee and commission expense	6	(2,331)	(1,491)
Net fee and commission income		**54,928**	**71,040**
Net trading income	7	24,429	16,038
Gain on disposal of financial assets at fair value	8	-	497
Changes in fair value of financial assets at fair value	9	(1,939)	(13,338)
Other income	10	6,158	10,665
Total income		**503,038**	**473,640**
Employee benefits expense		(167,083)	(156,075)
Other expenses		(206,548)	(174,560)
Net impairment losses on loans and advances	11	(87,754)	(58,913)
Profit before tax expense	**12**	**41,653**	**84,092**
Tax income/(expense)	13	1,249	(12,145)
Profit and total comprehensive income for the year attributable to the owners of the bank		**42,902**	**71,947**
Earnings per share attributable to the owners of the bank			
Basic and diluted (Shs per share)	**14**	**0.51**	**0.87**

Balance Sheet

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 Shs '000	2014 Shs '000
ASSETS			
Cash and balances with Central Bank of Kenya	15	572,544	678,037
Deposits and balances due from banking institutions	16	689,815	299,247
Loans and advances to customers	17	5,245,063	4,627,523
Government securities at amortised cost	18	1,420,370	1,676,948
Other financial assets at amortised cost	18	26,041	32,943
Financial assets at fair value	19	53,404	53,435
Other receivables	20	68,015	93,892
Intangible assets	21	2,726	1,617
Property and equipment	22	92,881	69,631
Deferred income tax	23	325,491	324,242
Total assets		**8,496,350**	**7,857,515**
LIABILITIES			
Deposits from customers	24	6,217,683	6,231,436
Other payables	25	38,582	29,636
Total liabilities		6,256,265	6,261,072
SHAREHOLDERS' EQUITY			
Share capital	26	2,052,673	1,645,513
Shareholders' contributions pending allotment	26	8,849	8,849
Share premium	26	193,580	-
Regulatory reserve	27	208,778	209,164
Accumulated losses		(223,795)	(267,083)
Total shareholders' equity		2,240,085	1,596,443
Total liabilities and shareholders' equity		**8,496,350**	**7,857,515**

The financial statements on pages 8 to 38 were approved for issue by the board of directors on 8th March 2016 and were signed on its behalf by:

Chairman **Ag. Chief Executive Officer**

Director **Director**

Statement of Changes in Equity

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	Share capital Shs '000	Shareholders' contributions pending allotment Shs '000	Share premium Shs '000	Regulatory reserve Shs '000	Accumulated losses Shs '000	Total Shs '000
At 1st January 2014		1,645,513	8,849	-	208,969	(338,835)	1,524,496
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	71,947	71,947
Transfer from regulatory reserve	27	-	-	-	195	(195)	-
Total comprehensive income for the year		**-**	**-**	**-**	**195**	**71,752**	**71,947**
At 31st December 2014		**1,645,513**	**8,849**	**-**	**209,164**	**(267,083)**	**1,596,443**
At 1st January 2015		**1,645,513**	**8,849**	**-**	**209,164**	**(267,083)**	**1,596,443**
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	42,902	42,902
Transfer to regulatory reserve	27	-	-	-	(386)	386	-
Total comprehensive income for the year		-	-	-	(386)	43,288	42,902
Allotment of new shares	26	407,160	-	193,580	-	-	600,740
At 31st December 2015		**2,052,673**	**8,849**	**193,580**	**208,778**	**(223,795)**	**2,240,085**

Statement of Cash Flows

FOR THE YEAR ENDED 31ST DECEMBER 2015

	Note	2015 Shs '000	2014 Shs '000
Cash flows from operating activities			
Interest receipts		1,065,590	945,497
Interest payments		(662,801)	(514,609)
Net fees and commission receipts		54,928	71,040
Net trading income		24,429	16,038
Other income		6,134	11,138
Payments to employees and suppliers		(357,006)	(315,017)
Recoveries from loans previously written off		-	19,496
Cash flows generated from operating activities before changes in operating assets and liabilities		131,274	233,583
Decrease/(increase) in operating assets and liabilities:			
- Cash Reserve Ratio		8,597	(63,833)
- Financial assets at amortised cost		291,610	(556,491)
- Financial assets at fair value		(1,908)	(9,136)
- Loans and advances		(706,250)	(670,651)
- Other receivables		29,902	(36,646)
- Customer deposits		(24,253)	812,030
- Other payables		9,745	4,996
Net cash used in operating activities		(261,283)	(286,148)
Cash flows from investing activities			
Purchase of property, plant and equipment	22	(53,573)	(11,187)
Purchase of intangible assets	21	(2,299)	-
Proceeds from disposal of property, plant and equipment		87	500
Net cash used in investing activities		(55,785)	(10,687)
Cash flows from financing activities			
Proceeds from allotment of new shares		610,740	-
Net cash generated from financing activities		610,740	-
Net increase/(decrease) in cash and cash equivalents		293,672	(296,835)
Cash and cash equivalents at 1st January		647,276	944,111
Cash and cash equivalents at 31st December	28	940,948	647,276

1. Summary of significant accounting policies

The significant accounting policies adopted in the preparation of these financial statements are set out below:

a) Basis of preparation

The financial statements are prepared on a going concern basis and in compliance with International Financial Reporting Standards (IFRS). They are presented in Kenya Shillings, which is also the functional currency (see(c) below), rounded to the nearest thousand (Shs'000).
The financial statements comprise a profit and loss account (statement of comprehensive income), balance sheet (statement of financial position), statement of changes in equity, statement of cash flows and notes.

Measurement basis

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

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Transfers between levels of the fair value hierarchy are recognised by the company at the end of the reporting period during which the change occurred.

1. Summary of significant accounting policies

b) New and revised standards

(i) Adoption of new and revised standards

IFRS 9 - Financial Instruments will eventually replace IAS 39 - Financial Instruments: Recognition and Measurement. The effective date is 1st January 2018. The chapters of IFRS 9 dealing with recognition, classification, and measurement were published in November 2009, for financial assets, and in October 2010, for financial liabilities, and have been adopted by the company with effect from 1st January 2010. The remaining chapters have been issued subsequently, and have not been adopted. 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. The impact on the company’s financial statements once adopted cannot yet be assessed.

The following amendments to standards became effective for the first time in the financial year beginning 1st January 2015 and have been adopted by the bank. None of them has had an effect on the bank’s financial statements:

- Amendment to IFRS 8 (Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments’ assets to the entity’s assets are required only if the segment assets are reported regularly.

- Amendments to IAS 19 titled Defined Benefit Plans: Employee Contributions (issued in November 2013) – The amendments, applicable retrospectively to annual periods beginning on or after 1 July 2014, clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

- Amendment to IAS 16 and IAS 38 (Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013) – The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how the gross carrying amount and the accumulated depreciation/amortisation are treated where an entity uses the revaluation model.

- Amendment to IAS 24 (Annual Improvements to IFRSs 2010–2012 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies how payments to entities providing management services are to be disclosed.

- Amendment to IFRS 13 (Annual Improvements to IFRSs 2011–2013 Cycle, issued in December 2013) - The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that the portfolio exception in IFRS 13 - allowing an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis - applies to all contracts (including non- financial) within the scope of IAS 39 / IFRS 9.

- Amendment to IFRS 3 (Annual Improvements to IFRSs 2011–2013 Cycle, issued in December 2013) - The amendment, applicable prospectively to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 excludes from its scope the accounting for the formation of any joint arrangement in the financial statements of the joint arrangement itself.

1. Summary of significant accounting policies (continued)

b) New and revised standards (continued)

(i) Adoption of new and revised standards (continued)

- Amendment to IAS 40 (Annual Improvements to IFRSs 2011–2013 Cycle, issued in December 2013 - The amendment, applicable to annual periods beginning on or after 1 July 2014, clarifies that IFRS 3 and IAS 40 are not mutually exclusive: while IAS 40 assists preparers to distinguish between investment property and owner-occupied property, IFRS 3 helps them to determine whether the acquisition of an investment property is a business combination.

ii) New and revised standards and interpretations which have been issued but are not effective

The bank has not applied the following new and revised standards and interpretations that have been published but are not yet effective for the year beginning 1st January 2015.

- Amendments to IAS 16 and IAS 38 titled Clarification of Acceptable Methods of Depreciation and Amortisation (issued in May 2014) – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances. They are prospectively effective for annual periods beginning on or after 1 January 2016.

- IFRS 15 Revenue from Contracts with Customers (issued in May 2014) - The new standard, effective for annual periods beginning on or after 1 January 2018, replaces IAS 11, IAS 18 and their interpretations (SIC-31 and IFRIC 13, 15 and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance.

- Amendment to IAS 19 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) -The amendment, applicable to annual periods beginning on or after 1 January 2016, clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- Amendment to IFRS 5 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable prospectively to annual periods beginning on or after 1 January 2016, adds specific guidance when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners, or vice versa, and for cases where held-for-distribution accounting is discontinued.

1. Summary of significant accounting policies (continued)

b) New and revised standards (continued)

ii) New and revised standards and interpretations which have been issued but are not effective (continued)

- Amendment to IFRS 7 (Annual Improvements to IFRSs 2012–2014 Cycle, issued in September 2014) - The amendment, applicable to annual periods beginning on or after 1 January 2016, adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

- Amendments to IAS 1 titled Disclosure Initiative (issued in December 2014) – The amendments, applicable to annual periods beginning on or after 1 January 2016, clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

The Directors do not plan to apply any of the above until they become effective. Based on their assessment of the potential impact of application of the above, they do not expect that there will be a significant impact on the company's financial statements.

c) Translation of foreign currencies

On initial recognition, all transactions are recorded in the functional currency (the currency of the primary economic environment in which the bank operates), which is Kenya Shillings. Transactions in foreign currencies during the year are converted into the functional currency using the exchange rate prevailing at the transaction date. Monetary assets and liabilitie at the balance sheet date denominated in foreign currencies are translated into the functional currency using the exchange rate prevailing as at that date. The resulting foreign exchange gains and losses from the settlement of such transactions and from year-end translation are recognised on a net basis in the profit and loss account in the year in which they arise, except for differences arising on translation of non-monetary available-for-sale financial assets, which are recognised in other comprehensive income.

d) Revenue recognition

Revenue is derived substantially from banking business and related activities and comprises interest income, fee and commission income and trading income, and is recognised only when it can be reliably measured and it is probable that the economic benefits associated with the transaction will flow to the bank. The specific revenue recognition policies for interest income, fee and commission income and trading income are set out in (e), (f) and (g) below.

e) Net interest income and expense

Interest income and expense on financial assets or liabilities carried at amortised cost are recognised in the profit and loss account using the effective interest method.The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on the initial recognition of the financial asset or liability and is not revised subsequently. When estimating the future cash flows all contractual cash flows from

1. Summary of significant accounting policies (continued)

e) Net interest income and expense (continued)

the financial asset or liability are taken into consideration with the exception of the estimates of future credit losses. This includes all fees paid or received between parties to the contract, transaction costs and discounts or premiums received or paid. Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is thereafter recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

f) Fee and commission income

Fee and commission income and expenses that are integral to the effective interest rate on financial assets or liabilities are included in the measurement of the effective interest rate. Other fee and commission income, including servicing fees,investment management fees and syndication fees are recognised as the related services are performed. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Other fee and commission expenses relate mainly to transactions and services, which are expensed as the services are rendered.

g) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes and foreign exchange differences. Foreign exchange income is recognised at the time of effecting the transactions and includes income from spot and forward deals and translation gains/losses.

h) Offsetting

Items of assets and liabilities are not offset unless there is a legally enforceable right to set off and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously. Items of income and expenses are presented on a net basis only for gains and losses arising from a group of similar transactions such as foreign exchange trading activities.

i) Income taxes

Income tax expense is the aggregate amount charged/(credited) in respect of current tax and deferred tax in determining the profit or loss for the year. Tax is recognised in the profit and loss account except when it relates to items recognised directly in equity,in which case it is also recognised directly in equity.

1. Summary of significant accounting policies (continued)

i) Income taxes (continued)

Current tax

Current income tax is the amount of income tax payable on the taxable profit for the year, and any adjustment to tax payable in respect of prior years, determined in accordance with the Kenyan Income Tax Act.

Deferred income tax

Deferred income tax is provided in full on all temporary differences except those arising on the initial recognition of an asset or liability, other than a business combination, that at the time of the transaction affects neither the accounting nor taxable profit or loss. Deferred income tax is determined using the liability method on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes, using tax rates and laws enacted or substantively enacted at the balance sheet date and expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which temporary differences can be utilised. Recognised and unrecognised deferred tax assets are reassessed at the end of each reporting period and, if appropriate, the recognised amount is adjusted to reflect the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

j) Share capital and share premium

Ordinary shares are recognised at par value and classified as ‘share capital’ in equity. Any amounts received over and above the par value of the shares issued are classified as ‘share premium’ in equity.

k) Earnings per share

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary equity holders of the company (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the period.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary equity holders of the company and the weighted average number of ordinary shares outstanding for the after-tax effect of all dilutive potential ordinary shares.

l) Financial instruments

i) Financial assets

Initial recognition

All financial assets are recognised initially using the trade date accounting which is the date the company becomes a party to the contractual provisions of the instrument, with the exception of loans and advances which are recognised on the day they are disbursed. On initial recognition all financial assets are measured at fair value plus, in the case of assets classified as ‘at amortised cost’, transaction costs that are directly attributable to the acquisition of the financial asset.

1. Summary of significant accounting policies (continued)

l) Financial instruments (continued)

i) Financial assets (continued)

Classification and measurement

The bank classifies and measures its financial assets as follows:

- those financial assets that are held within a business model whose objective is to hold assets in order to collect contract cash flows, and for which the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified and measured at amortised cost;

- all other financial assets are classified and measured at fair value.

All financial assets have been classified as 'at amortised cost', other than equity investments.

Amortised cost

Amortised cost is the amount at which the financial asset or liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (See Note 1 (a))

Reclassification

Financial assets are reclassified when, and only when, the company changes its business model for managing financial assets. Assets that are transferred between departments of the company with different business models are not reclassified.

Impairment

At the balance sheet date, all financial assets carried at amortised cost are individually assessed for impairment. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. Financial assets are considered impaired when there is a default or delinquency by a borrower, restructuring of a loan or advance on terms that the company would not otherwise consider, indications that the borrower might not be able to continue as a going concern or is about to compound with his creditors or facing bankruptcy prospects, the disappearance of an active market for a security, or changes in the payment status of borrowers or issuers either individually or in a group.

1. Summary of significant accounting policies (continued)

I) Financial instruments (continued)

i) Financial assets (continued)

Impairment losses on assets carried at amortised cost are measured as the difference between the carrying amount of the financial asset and the present value of the estimated cash flows discounted at the asset's original effective interest rate. In the case of loans and advances to customers, the estimated cash flows from the realisation of security held are also taken into account. Losses are recognised in the profit and loss account and reflected as a provision against the financial asset. When a subsequent event causes the amount of impairment loss to decrease or increase, the decrease or increase is recognised in the profit and loss account. Where the financial asset is deemed uncollectible, it is written off against the related provision for impairment. Subsequent recoveries of amounts previously written off are credited to the profit and loss account in the year of recovery.

Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Gains and losses

All gains and losses on financial assets are recognised in profit or loss except for available for sale financial assets where changes in fair value subsequent to initial recognition are recognised in other comprehensive income and presented in the available for sale fair value reserve in equity.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the financial asset have expired or the company has transferred substantially all risks and rewards of ownership. Any interest in a transferred financial asset that is created or retained by the company is recognised as a separate financial asset. Where the company enters into transactions whereby it transfers a financial asset recognised on its balance sheet including repurchase transactions, but retains all risks and rewards of the transferred asset, the transferred asset is not derecognised from the balance sheet.

Where a transfer of a financial asset that is derecognised results in a new financial asset or the assumption by the company of a new financial liability, the company recognises the new financial asset or financial liability using the recognition principles applicable to its financial assets and financial liabilities.

Where the financial asset is derecognised in its entirety, the difference between the carrying value of the financial asset and the consideration received together with any gain or loss previously recognised in other comprehensive income,is recognised in the profit and loss account.

1. **Summary of significant accounting policies (continued)**

ii) Financial liabilities

Initial recognition

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost.

Classification and measurement

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method.

Derecognition

Financial liabilities are derecognised only when the obligation specified in the contract is discharged or cancelled or expires.

iii) Sale and repurchase agreements

Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counter party liability included in amounts due to banking institutions.

Treasury Bills purchased from the Central Bank of Kenya under agreements to resell (Reverse Repos) are not negotiable or discountable during their tenure and are presented as 'balances with Central Bank of Kenya' until they are repurchased.

The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreement using the effective interest method.

m) Regulatory reserve

Banking institutions are required to comply with Central Bank of Kenya Prudential Guideline CBK/PG/04 - Risk Classification of Assets and Provisioning which sets out amongst other issues, provisioning guidelines for loans and advances to customers based on performance. Where the impairment provision calculated using CBK/PG/04 exceeds the impairment provision calculated in accordance with the company's accounting policy, the excess is shown as an appropriation of retained earnings, within equity.

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the bank provides money directly to a debtor with no intention of trading the receivable. Loans and advances are initially measured at fair value plus increamental direct transaction costs, and subsequently measured at the amortised cost using the effective interest method.

1. Summary of significant accounting policies (continued)

n) Leases

Leases of assets where a significant proportion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight line basis over the lease period. Prepaid operating lease rentals are recognised as assets and are subsequently amortised over the lease period.

The company has not entered into any finance leases, either as lessor or lessee.

o) Post-employment benefit obligations

The company operates a defined contribution retirement benefits plan for its employees, the assets of which are held in a separate trustee administered scheme managed by an insurance company. A defined contribution plan is a plan under which the company pays fixed contributions into a separate fund, and has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current or prior periods. The company's contributions are charged to the profit and loss account in the year to which they relate.

The company and the employees also contribute to the National Social Security Fund (NSSF), a national defined contribution scheme. Contributions are determined by local statute and the company's contributions are charged to the profit and loss account in the year to which they relate.

p) Short term employee benefits

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognised as an employment cost accrual.

q) Property, plant and equipment

All categories of property, plant and equipment are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure directly attributable to the acquisition of the assets. Computer software, including the operating system, that is an integral part of the related hardware is capitalised as part of the computer equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only 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. Repairs and maintenance expenses are charged to the profit and loss account in the year in which they are incurred.

Depreciation is calculated using the straight line method to write down the cost of each asset to its residual value over its estimated useful life using the following annual rates:

1. Summary of significant accounting policies (continued)

q) Property, plant and equipment (continued)

	Rate %
Furniture, fittings and equipment	10-25
Computers, copiers & faxes	25
Motor vehicles	25

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit.

r) Intangible assets

Software licence costs and computer software that is not an integral part of the related hardware are initially recognised at cost, and subsequently carried at cost less accumulated amortisation and accumulated impairment losses. Costs that are directly attributable to the production of identifiable computer software products controlled by the company are recognised as intangible assets. Amortisation is calculated using the straight line method to write down the cost of each licence or item of software to its residual value over its estimated useful life using an annual rate of 33.3%.

s) Impairment of non-financial assets

Non-financial assets that are carried at amortised cost are reviewed at the end of each reporting period for any indication that an asset may be impaired. If any such indication exists, an impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

t) Cash and cash equivalents

Cash and cash equivalents for the purposes of the cash flow statement comprise cash in hand, unrestricted balances with the Central Bank of Kenya, government securities and loans and advances to banks with maturities of three months or less from the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, less deposits from banking institutions. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya. Cash lows from Repo agreements are included as part of cash flows

u) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are accounted for as off balance sheet ransactions 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 the profit and loss account in the year in which it is determined.

2. Significant judgements and key sources of estimation uncertainty

In the process of applying the accounting policies adopted by the company, the directors make certain estimates and judgements that may affect the carrying values of assets and liabilities in the next financial period. Such estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the current circumstances. The directors evaluate such estimates and judgements at each financial reporting date to ensure that they are still reasonable under the prevailing circumstances based on the information available.

a) Significant judgements made in applying the company’s accounting policies

The judgements made by the directors in the process of applying the company’s accounting policies that have the most significant effect on the amounts recognised in the financial statements include:

i) Classification of loans and advances, including whether or not the loan or advance is impaired.
ii) Estimate of useful lives of assets.

b) Key sources of estimation uncertainty

Key assumptions about the future made by the directors that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year include:

i) Impairment losses: estimates made in determining the impairment losses on financial assets. Such estimates include the determination of the net realisable value or the recoverable amount of the asset. The provision for impairment losses and the recoverable amount of loans and advances that are impaired is set out in Note 3(a)(i) below.

ii) The deferred tax asset on tax losses carried forward have been recognised based the sucessful achivement of the Bank’s business plan resulting in future taxable profits that will be available for utilisation against the tax losses as at the end of the year.

3. Risk management objectives and policies

a) Financial risk management

The company’s activities expose it to a variety of financial risks including credit, liquidity and market risks. The company’s overall risk management policies are set out by the board and implemented by the management and involve analysis,evaluation acceptance and management of some degree of risk or a combination of risks. Taking risk is core to the banking business, and such a business undertaking. The company’s aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects of such risks on the company’s financial performance.

The company’s risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls and to monitor the risks and adherence to limits by means of reliable and up-to-date nformation systems.

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

The company regularly reviews its risk management policies and systems to reflect changes in markets, products and services offered, and emerging best practice. The company, through its training programme and management standards and procedures, aim to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The board has established a Board Risk and Compliance Committee and an Asset and Liability Committee (ALCO), which are responsible for developing and managing the company's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Board Audit Committee, through the Internal Audit Department, is responsible for monitoring compliance with the company's risk management policies and procedures and for reviewing the appropriateness of the risk management framework in line with the risks faced by the company.

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation and arises principally from the company's loans and advances to customers, to banking institutions, and investment securities. Management and control of credit risk is centralised at the credit and treasury departments of the company.

<u>Loans and advances to customers</u>
The maximum exposure to credit risk from loans and advances to customers is Shs 5,245 million (2014: Shs 4,628 million), which is 65% (2014: 62%) of total financial assets.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral against loans and advances in the form of mortgage interests over property, other registered securities over assets and guarantees. The following factors are considered when assessing credit risk of loans and advances to customers:

- the probability of default by borrowers on their contractual obligations;
- current exposures to the borrowers and likely future developments, from which the company derives its exposure to risk; and
- the likely recovery ratio on the defaulted obligations.

3. Risk management objectives and policies (continued)

i) Credit risk (continued)

Loans and advances to customers (continued)

The bank structures the level of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. In addition, the Kenyan Banking Act also sets the maximum exposure to a single party or group. It also sets the maximum exposure to insiders and places a ceiling lending to insiders. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product and industry sector are approved as and when required by the credit committee. The exposure to any one borrower is further restricted by sub-limits covering on and off balance sheet exposures in relation to trading items.

The company monitors default of individual borrowers by using internal rating methods, which are based on Central Bank of Kenya Prudential Guideline CBK/PG/04. As per the Prudential Guideline, loans and advances are graded into the following categories:

- Normal
- Watch
- Substandard
- Doubtful
- Loss

Management assesses the credit quality of each borrower, taking into account their financial position, past experience and other factors. Individual limits are set based on internal or external information and in accordance with guidelines set by the management. The utilisation of credit limits is regularly monitored and corrective action taken, where necessary.

The bank also uses credit-related commitments as a control and mitigation measure for credit risk on loans and advances. The primary purpose of these instruments is to ensure that funds are available to a customer as and when required. Guarantees and letters of credit carry the same credit risk as loans and advances.

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 company 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 company monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3. Risk management objectives and policies (continued)

i) Credit risk (continued)

Loans and advances to customers (continued)

The company's exposure to credit risk on loans and advances to customers is analysed as follows:

	2015 Shs '000	2014 Shs '000
Past due and individually impaired (sub-standard and doubtful)		
Gross loans and advances	733,594	458,807
Less: impairment provision	(66,572)	(168,837)
	667,022	289,970
Past due but not impaired (watch)		
Between 31 - 90 days	322,770	285,274
	322,770	285,274
Fully performing (normal)		
Gross loans and advances	4,255,271	4,052,279
Net loans and advances	5,245,063	4,627,523

The company holds collateral against loans and advances to customers in the form of residential and commercial property, plant and machinery, and pledged deposits. The fair value of collateral held is estimated at Shs. 8,088 million (2014: Shs 9,866 million), which includes Shs 825 million (2014: Shs 766 million) in respect of impaired loans and advances.

In certain cases, the company, in an effort to recover a past due or impaired loan and advance, renegotiates the repayment terms with the individual customers. Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgment of the credit committee, indicate that payment will most likely continue. These policies are kept under continuous review.

Letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct advance or loan.

3. Risk management objectives and policies (continued)

i) Credit risk (continued)

Other financial assets

Credit risk on loans and advances to banking institutions is managed by dealing with institutions, taking into account internal ratings and placing limits on deposits that can be held with each institution.

Due to the inherent nature of Government securities, these are considered to have minimal credit risk. For other assets which are not material, credit risk is not managed.

The company's maximum exposure to credit risk on other financial assets is analysed as follows:

	2015 Shs '000	2014 Shs '000
Neither past due nor impaired		
Balances with Central Bank of Kenya	435,226	326,373
Loans and advances to banking institutions	689,815	299,247
Government securities at amortised cost	1,420,370	1,676,948
Other financial assets at amortised cost	26,041	32,943
Financial assets at fair value	53,404	53,435
Other receivables	47,915	80,830
On balance sheet exposure	2,672,771	2,469,776
Letters of credit	42,200	38,316
Guarantees	739,491	390,486
Total exposure	3,454,462	2,898,578

No impairment provisions are held against other financial assets.

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) Liquidity risk

Liquidity risk is the risk that the company will encounter difficulty in meeting obligations associated with financial liabilities. The company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the company's reputation. This responsibility rests with the Assets and Liabilities Committee (ALCO).

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of liquidity risk. It is unusual for banks to ever be completely matched since business transacted is often on 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 liquidity 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 reinvestment of maturing funds can be predicted with a high level of certainty. The bank maintains a portfolio of short- term liquid assets, made up of loans and advances to banking institutions and balances with Central Bank of Kenya to manage the day-to-day liquidity requirements. Management reviews the liquidity ratio of liquid assets to customer deposits on a daily basis and performs scenario testing to ensure that sufficient liquidity is maintained to meet maturing 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 46% (2014: 45%) during the year. The bank has not defaulted on its Cash Reserve Ratio requirements.

The liquidity ratio at the balance sheet date was:

	2015 Shs '000	2014 Shs '000
Liquid assets	2,682,729	2,654,232
Deposits	6,217,683	6,231,436
Liquidity (%)	**43.1**	**42.6**

The scenario testing at 31st December 2015 indicated a liquidity ratio of 31 % (2014: 34%) in the worst case scenario.

The table below analyses financial liabilities into the relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date.

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

ii) Liquidity risk (continued)

At 31st December 2015	Up to 1 month Shs '000	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years Shs '000	Total Shs '000
Financial liabilities					
Deposits from customers	3,232,435	2,490,200	483,443	11,605	6,217,683
Other payables	38,582	-	-	-	38,582
Total financial liabilities	**3,271,017**	**2,490,200**	**483,443**	**11,605**	**6,256,265**

At 31st December 2014	Up to 1 month Shs '000	1 - 3 months Shs '000	3 - 12 months Shs '000	1 - 5 years Shs '000	Total Shs '000
Financial liabilities					
Deposits from customers	1,260,506	4,315,824	655,106	-	6,231,436
Other payables	29,636	-	-	-	29,636
Total financial liabilities	**1,290,142**	**4,315,824**	**655,106**	**-**	**6,261,072**

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

iii) Market risk (continued)

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in market price and 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 objectives of market risk management is to manage and control market risk exposures within acceptable limits,while optimising the return on risk. Overall the management of market risk rests with the Assets and Liability Committee (ALCO).

The Treasury Department is responsible for the development of detailed risk management policies, subject to review and approval by the board, and for the day to day implementation of these policies.

Market risks arise mainly from trading and non-trading activities. Trading portfolios include those positions arising from market-making transactions where the company 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 portfolio risks also include foreign exchange risk and risks arising from the company's government and other investment securities carried at amortised cost.

<u>Interest rate risk</u>

The bank is exposed to various risks associated with the effects of fluctuations 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 bank is exposed to cash flow interest rate risk on its variable rate financial instruments carried at amortised cost (loans and advances, call deposits and savings accounts, and government securities carried at amortised cost). If market interest rates were to increase/decrease by one percentage point, with all other factors remaining constant, post-tax profit would be higher/lower by Shs 34,265,000 (2014: Shs 29,590,000) in respect of cash flow interest rate risk.

<u>Currency risk</u>

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 company'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. This position is reviewed on a daily basis by the management.

3. Risk management objectives and policies (continued)

a) Financial risk management (continued)

iii) Market risk (continued)

Currency risk (continued)

The significant currency positions are detailed below:

At 31st December 2015	US	GB £	Euros	Indian Rupee	Others	Total
	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000	Shs '000
Assets						
Cash in hand	10,314	2,781	4,034	-	1	17,130
Cash and balances with Central Bank of Kenya	22,114	5,655	24,553	-	-	52,322
Deposits and balances due from banking institutions	41,242	33,479	16,205	4,086	1,447	96,459
Loans and advances to customers	115,544	-	9,558	-	-	125,102
Total assets	**189,214**	**41,915**	**54,350**	**4,086**	**1,448**	**291,013**
Liabilities						
Deposits from customers	104,613	28,366	44,656	-	164	177,799
Total liabilities	**104,613**	**28,366**	**44,656**	**-**	**164**	**177,799**
Net balance sheet position	**84,601**	**13,549**	**9,694**	**4,086**	**1,284**	**113,214**
Off balance sheet net notional position	-	-	-	-	-	-
At 31st December 2014						
Total assets	211,545	113,758	24,092	10,415	2,492	362,302
Total liabilities	204,915	100,252	27,210	-	1,608	333,985
Net balance sheet position	**6,630**	**13,506**	**(3,118)**	**10,415**	**884**	**28,317**
Off balance sheet net notional position	-	-	-	-	-	-

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, post-tax profit would have decreased by Shs 7,925,000 (2014: Shs 1,982,000). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

3. Risk management objectives and policies (continued)

b) Capital management

The company's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheet, are:

i) To comply with the capital requirements set by the Central Bank of Kenya;

ii) To safeguard the company's ability to continue as a going concern while at the same time maximise the returns to the shareholders and benefit the other stakeholders; and

iii) To maintain a strong capital base to support the development of its business.

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

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 securities issued by the Government of Kenya have a zero risk weighting, which means that no capital is required to guidelines, such assets must be supported by capital equal to 100% of their carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet credit related commitments such as guarantees and acceptances, performance bonds, documentary credit etc, 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 a mounts are then weighted for credit risk using the same percentages as for balance sheet assets. Core capital (Tier 1) consists of paid-up share capital, retained profits less investments in equity instruments of other financial institutions. Supplementary capital (Tier 2) includes general provisions appropriated from revenue reserves, up to a maximum of 1.25% of total risk weighted assets.

3. Risk management objectives and policies (continued)

b) Capital management (continued)

	Balance sheet nominal amount		Risk weighted amount	
	2015 Shs '000	2014 Shs '000	2015 Shs '000	2014 Shs '000
Cash in hand and balances with Central Bank of Kenya	572,544	678,037	-	-
Placements and deposits with banking institutions	689,815	299,247	137,963	59,849
Loans and advances to customers	5,245,063	4,627,523	4,372,663	3,930,939
Government securities at amortised cost	1,420,370	1,676,948	-	-
Other financial assets at amortised cost	26,041	32,943	26,041	32,943
Other financial assets at fair value	53,404	53,435	53,404	53,435
Other receivables	68,015	93,892	68,015	93,892
Property, plant and equipment	92,881	69,631	92,881	69,631
Intangible assets	2,726	1,617	2,726	1,617
Deferred tax asset	325,491	324,242	325,491	324,242
	8,496,350	**7,857,515**	**5,079,184**	**4,566,548**
Off-balance sheet positions			469,757	428,802
Total credit risk weighted assets			**5,548,941**	**4,995,350**
Less: market risk qualifying assets			53,404	53,435
Adjusted credit risk weighted assets			5,495,537	4,941,915
Market risk equivalent assets			487,120	483,872
Operation risk equivalent assets			189,805	302,565
Total risk weighted assets			**6,172,462**	**5,728,352**

3. Risk management objectives and policies (continued)

b) **Capital management (continued)**

	2015 Shs '000	**2014 Shs '000**
Tier 1 capital	2,031,307	1,387,279
Tier 2 capital	77,156	71,604
Total capital	2,108,463	1,458,883
Total deposit liabilities	6,217,683	6,231,436

	2015 %	**2014 %**	**2015 %**	**2014 %**
Core capital to total risk weighted assets	33	24	10.5	10.5
Total capital to total risk weighted assets	34	25	14.5	14.5
Core capital to deposit liabilities	33	22	8.0	8.0

The Kenyan Banking Act also sets out the minimum core capital requirement of Shs 1 Billion (2014: Shs 1 Billion) which the bank fully complied with.

4. Interest Income

	2015 Shs '000	2014 Shs '000
Loans and advances to customers	811,782	728,149
Interest income on impaired loans and advances	48,029	36,748
Placements with and loans and advances to banking institutions	59,609	31,353
Financial assets at amortised cost	173,344	149,247
	1,092,764	**945,497**

5. Interest expense

	2015 Shs '000	2014 Shs '000
Customer deposits	672,256	555,624
Deposits from other banking institutions	1,046	1,135
	673,302	**556,759**

6. Net fee and commission income

	2015 Shs '000	2014 Shs '000
Fee and commission income:		
Loans and advances	35,262	52,063
Other fees and commissions	21,997	20,468
	57,259	72,531
Fee and commission expense:		
Other	(2,331)	(1,491)
	54,928	**71,040**

7. Net trading income

	2015 Shs '000	2014 Shs '000
Net foreign exchange trading income	16,136	14,452
Net foreign exchange gain	8,293	1,586
	24,429	**16,038**

8. Gain on disposal of financial assets at fair value

Investment in quoted equities	-	497

9. Changes in fair value of financial assets at fair value

Equity investments	**(1,939)**	**(13,338)**

10. Other income

Dividend income from financial assets at fair value	2,726	1,588
Profit on disposal of property and equipment	24	-
Other sundry income	3,408	9,077
	6,158	**10,665**

11. Net impairment losses on loans and advances

Net increase in specific provision charged to profit and loss account (Note 17(b))	87,754	78,409
Recoveries from loans and advances written off	-	(19,496)
Charge to the profit and loss account	**87,754**	**58,913**

Financial Notes (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2015

12. Profit before tax expense

(a) Items charged	2015 Shs '000	2014 Shs '000
The following items have been charged in arriving at profit before tax expense:		
Employee benefits expense (Note 12(b))	167,083	156,075
Depreciation of property and equipment	30,260	30,481
Operating lease rentals expense	41,641	31,984
Amortisation of intangible assets	1,190	3,962
Auditor's remuneration		
Current year	2,635	2,192
(b) Employee benefits expense		
The following items are included in employee benefits expense:		
Retirement benefit costs		
Defined contribution scheme	4,497	4,007
National Social Security Fund	231	231

13. Income tax expense

	2015 Shs '000	2014 Shs '000
Current income tax	-	-
Deferred income tax (Note 23)	(1,249)	12,145
Income tax expense	(1,249)	12,145

13. Income tax expense (continued)

The tax on the company's profit before income tax differs from the theoretical amount that would arise using th statutory income tax rate as follows:

	2015 Shs '000	2014 Shs '000
Profit before income tax	41,653	84,092
Tax calculated at a rate of 30% (2014: 30%)	12,496	25,227
Tax effect of:		
Income not subject to tax	(14,447)	(16,282)
Expenses not deductible for tax purposes	702	3,200
Income tax expense	(1,249)	12,145

14. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of shares in issue during the year.

	2015 Shs '000	2014 Shs '000
Net profit attributable to shareholders	42,902	71,947
Weighted average number of ordinary shares in issue during the year ('000)	84,005	82,276
Basic earnings per share	0.51	0.87

There were no potentially dilutive shares outstanding at 31st December 2015 and 31st December 2014. Diluted earnings per share is therefore the same as basic earnings per share.

Financial Notes (continued)

FOR THE YEAR ENDED 31ST DECEMBER 2015

15. Cash and balances with Central Bank of Kenya

	2015 Shs '000	2014 Shs '000
Cash in hand	137,318	201,664
Balances with Central Bank of Kenya:		
Restricted balances (Cash Reserve Ratio)	321,411	330,008
Unrestricted balances	113,815	(3,635)
Reverse Repos	-	150,000
	572,544	**678,037**

The Cash Reserve Ratio is non-interest bearing and is based on the value of customer deposits adjusted in accordance with Central Bank of Kenya requirements. As at 31st December 2015 the Cash Reserve Ratio requirement was 5.17% (2014: 5.30%) of all customer deposits. These funds are not available to finance the company's day to day operations.

16. Deposits and balances due from banking institutions

	2015 Shs '000	2014 Shs '000
Balances with banking institutions in Kenya	593,355	163,050
Balances with banking institutions abroad	96,460	136,197
	689,815	**299,247**

17. Loans and advances to customers

	2015 Shs '000	2014 Shs '000
a) Loans and advances to customers		
Overdrafts	2,302,463	2,379,844
Commercial loans	3,009,172	2,416,516
Gross loans and advances to customers	5,311,635	4,796,360
Less: Provision for impaired loans and advances (Note 17(b))	(66,572)	(168,837)
Net loans and advances	**5,245,063**	**4,627,523**
b) Impairment losses on loans and advances		
At 1st January	168,837	127,176
Interest income on impaired loans and advances	(48,029)	(36,748)
Net increase in provision for impairment charged to profit and loss account (Note 11)	87,754	78,409
Provisions utilised during the year for write off	(141,990)	-
At 31st December	**66,572**	**168,837**

Loans and advances have been written down to their recoverable amount. Non performing loans and advances on which impairment have been recognised amount to Shs 734 million (2014: Shs 459 million). These are included in the balance sheet net of provisions at Shs 667 million (2014: Shs 290 million). In the opinion of the directors, sufficient securities are held to cover the exposure on such loans and advances

17. Loans and advances to customers (continued)

c) Concentration of risk

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

	2015 Shs '000	2014 %	2014 Shs '000	2014 %
Manufacturing	27,973	2	12,388	1
Wholesale, retail trade and hotels	234,533	4	216,723	5
Transport and communications	77,824	1	145,227	3
Agriculture	47,788	1	90,039	2
Business services	3,694,157	70	3,077,464	64
Building, construction and real estate	721,145	14	741,485	15
Social, community and personal service	164,840	3	125,409	3
Others	343,375	5	387,625	7
	5,311,635	100	4,796,360	100

18. Financial assets at amortised cost

	2015 Shs '000	2014 Shs '000
Government securities - Treasury bills	484,566	758,451
Government securities - Treasury bonds	935,804	918,497
	1,420,370	1,676,948
Corporate bonds	26,041	32,943

18. Financial assets at amortised cost (continued)

	2015 Shs '000	2014 Shs '000
Maturing:		
- Within 1 year	596,959	808,399
- Over 1 year	823,411	868,549
	1,420,370	1,676,948

Included in the above is a Treasury Bond with a carrying amount of Shs 490 million and (2014: Shs 444 million) that is held by the Central Bank of Kenya under lien as security for Letters of Credit.

The fair value of the Treasury Bonds and Corporate Bonds carried at amortised cost at the balance sheet date, based on quoted prices (undjusted) in active markets for identical assets was Shs 856 million (2014: Shs 844 million) and Shs 24 million (2014: Shs 37 million) respectively.

19. Financial assets at fair value:

	2015 Shs '000	2014 Shs '000
Equity investments	53,404	53,435

The fair values of the equity investments are based on quoted prices (unadjusted) in active markets for identical assets (Level 1).

20. Other receivables

	2015 Shs '000	2014 Shs '000
Clearing account	33,232	41,030
Prepayments	20,100	13,062
Other receivables	14,683	39,800
	68,015	93,892

21. Intangible assets

	Software costs 2015 Shs '000	2014 Shs '000
Cost		
At 1st January	8,713	17,893
Write off	-	(9,180)
Additions	2,299	-
At 31st December	11,012	8,713
Amortisation		
At 1st January	7,096	12,606
Write off	-	(9,472)
Charge for the year	1,190	3,962
At 31st December	8,286	7,096
Net book amount	2,726	1,617

The amortisation charge is included in 'other expenses' in the profit and loss account.

22. Property and equipment

	Computers, Copiers & fax	Motor vehicles	Furniture, fitting & equipment	Total
Cost	**Shs '000**	**Shs '000**	**Shs '000**	**Shs '000**
At 1st January 2014	48,558	9,595	196,979	255,132
Additions	2,213	3,245	5,729	11,187
Write offs	(35,735)	(2,121)	(64,654)	(102,510)
Disposals	-	(1,056)	-	(1,056)
At 31st December 2014	15,036	9,663	138,054	162,753
Depreciation				
At 1st January 2014	43,359	5,859	116,212	165,430
Write offs	(36,208)	(2,004)	(63,932)	(102,144)
Disposals	-	(645)	-	(645)
Charge for the year	3,116	1,056	26,309	30,481
At 31st December 2014	10,267	4,266	78,589	93,122
Net Book Value	4,769	5,397	59,465	69,631
At 31st December 2014				
Cost	15,036	9,663	138,054	162,753
Accumulated depreciation	(10,267)	(4,266)	(78,589)	(93,122)
	4,769	5,397	59,465	69,631
Cost				
At 1st January 2015	15,036	9,663	138,054	162,753
Additions	2,014	-	51,559	53,573
Disposals	(87)	-	-	(87)
At 31st December 2015	16,963	9,663	189,613	216,239
Depreciation				
At 1st January 2015	10,267	4,266	78,589	93,122
Disposals	(24)	-	-	(24)
Charge for the year	2,140	2,248	25,872	30,260
At 31st December 2015	12,383	6,514	104,461	123,358
Net Book Value	4,580	3,149	85,152	92,881
At 31st December 2015				
Cost	16,963	9,663	189,613	216,239
Accumulated depreciation	(12,383)	(6,514)	(104,461)	(123,358)
	4,580	3,149	85,152	92,881

23. Deferred income tax

Deferred income tax is calculated using the enacted tax rate of 30% (2014: 30%). Deferred tax assets and liabilities, and the deferred tax (charge) in the profit and loss account is attributable to the following items:

	At 1st January 2015 Shs '000	(Charge) to profit & loss Shs '000	At 31st December 2015 Shs '000
Year ended 31st December 2015			
Deferred income tax asset			
Property and equipment	10,170	2,559	12,729
Intangible assets	205	(103)	102
Staff leave accrual	1,272	331	1,603
Provisions for losses	50,651	11,918	62,569
Tax losses carried forward	261,944	(13,456)	248,488
	324,242	1,249	325,491

	At 1st January 2014 Shs '000	(Charge) to profit & loss Shs '000	At 31st December 2014 Shs '000
Year ended 31st December 2014			
Deferred income tax asset			
Property and equipment	4,739	5,431	10,170
Intangible assets	-	205	205
Staff leave accrual	1,436	(164)	1,272
Provisions for losses	38,153	12,498	50,651
Tax losses carried forward	292,059	(30,115)	261,944
	336,387	(12,145)	324,242

The company has an express approval from the National Treasury to carry the tax losses forward for a further for four (4) years, effective 30th June 2014.

Arising in:	**Tax losses**	**Expiring**
2010	828,293,268	30th June 2018

The deferred tax asset on tax losses carried forward has been recognised based on the projected future taxable profits that will be available against which the losses can be utilised.

24. Deposits from customers

	2015 Shs '000	2014 Shs '000
Call deposits	30,150	31,836
Current and demand accounts	467,532	477,042
Savings accounts	329,263	337,244
Term deposits	5,390,738	5,385,314
	6,217,683	6,231,436

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

	2015 Shs '000	2015 %	2014 Shs '000	2014 %
Individuals	4,569,807	73.5%	4,772,850	76.6%
Non-profit institutions	169,530	2.7%	105,822	1.7%
Private companies	1,316,601	21.2%	1,335,956	21.4%
Insurance companies	161,745	2.6%	16,808	0.3%
	6,217,683	100.0%	6,231,436	100.0%

Included in customer deposits were deposits amounting to Shs 596,902,000 (2014: Shs 626,199,000) that were held as collateral for loans and advances.

25. Other payables

	2015 Shs '000	2014 Shs '000
Outstanding bankers cheques	13,564	19,403
Staff leave accrual	5,345	4,240
Sundry creditors	19,673	5,993
	38,582	29,636

26. Share capital

	No. of Ordinary Shares	Issued and paid up capital Shs '000	Share premium Shs'000
At 1st January 2015	82,275,659	1,645,513	-
Ordinary shares issued during the year	20,358,000	407,160	193,580
At 31st December 2015	102,633,659	2,052,673	193,580

The total number of authorised ordinary shares is 175,000,000 (2014: 175,000,000) with a par value of Shs 20 each.

The share premium account arose in 2015 on issue of shares at a premium and is not distributable.

Shareholders' contributions pending allotment

The shareholders' contributions pending allotment relates to amounts received from shareholders in the past which the bank does not have sufficient details to make an allotment.

27. Regulatory reserve

	2015 Shs '000	2014 Shs '000
At 1st January	209,164	208,969
Transfer from retained earnings	(386)	195
At 31st December	208,778	209,164

The regulatory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance represents the excess of impairment provisions determined in accordance with Prudential Regulations over the impairment provisions recognised in accordance with the company's accounting policy. The reserve is not distributable.

28. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the f ollowing:

	2015 Shs '000	2014 Shs '000
Cash in hand (Note 15)	137,318	201,664
Unrestricted cash balances with Central Bank of Kenya (Note 15)	113,815	(3,635)
Reverse Repos	-	150,000
Placements with and loans and advances to banking institutions (Note 16)	689,815	299,247
	940,948	647,276

29. Off balance sheet contingencies and commitments

a) Contingent liabilities

In common with the banking business, the company conducts business involving acceptances, guarantees, performance bonds and letters of guarantees. The majority of these facilities are offset by corresponding obligations from third parties. At the year end, the contingencies were as follows:

	2015 Shs '000	2014 Shs '000
Letters of credit and acceptances	42,200	38,316
Guarantees	739,491	390,486
	781,691	428,802

29. Off balance sheet contingencies and commitments (continued)

Nature of contingent liabilities

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

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

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

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

b) Commitments

Undrawn formal stand-by facilities, credit lines and other commitments to lend at 31st December 2015 totalled Shs 477,847,000 (2014: Shs 487,031,000).

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.

c) Operating lease commitments

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

	2015 Shs '000	**2014 Shs '000**
Not later than 1 year	41,514	18,697
Later than 1 year and not later than 5 years	146,848	67,304
	188,362	86,001

d) Capital commitments

Office renovations	-	14,000

30. Related party transactions

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 (Note 29) include guarantees and letters of credit of Shs 118,401,000 (2014: Shs 60,829,000) which have been issued to related companies.

The following transactions were carried out with related parties:

	Directors		Related companies	
	2015	2014	2015	2014
	Shs '000	Shs '000	Shs '000	Shs '000
a) Outstanding loans and advances				
At 1st January	18,285	-	264,949	212,845
Advances during the year	-	18,120	80,889	555,607
Interest charged during the year	1,330	550	19,261	48,629
Repayments during the year	(19,615)	(385)	(19,261)	(552,132)
At 31st December	-	18,285	345,838	264,949
Contingent liabilities	-	45,829	118,401	15,000

As at 31 December 2015, loans and advances to staff amounted to Shs 16,051,000 (2014: Shs 15,511,000).

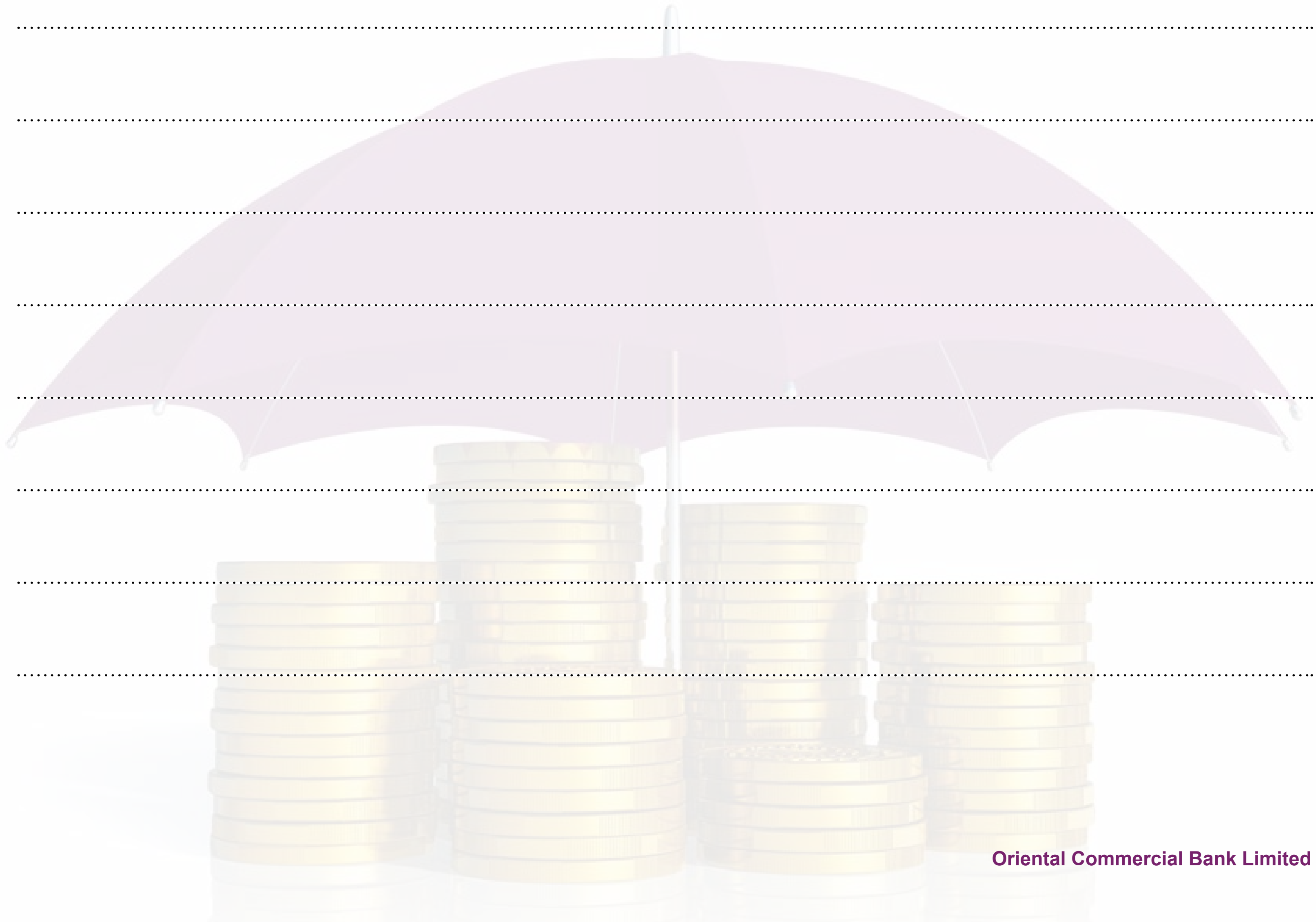
The loans and advances to related parties are performing and are fully secured. No provisions have been recognised in respect of the loans and advances to directors, related parties or staff.

	Directors		Related companies	
	2015	2014	2015	2014
	Shs '000	Shs '000	Shs '000	Shs '000
b) Deposits				
At 1st January	67,087	107,860	48,794	39,726
Deposits received during the year	298,147	263,132	1,469,330	649,608
Interest paid during the year	5,090	9,060	11,893	16,074
Withdrawals during the year	(324,296)	(312,965)	(1,399,731)	(656,614)
At 31st December	46,028	67,087	130,286	48,794

c) Directors' remuneration (key management compensation)

	2015	2014
Directors' remuneration		
- As executives	8,310	13,800
- Fees	4,562	5,352
	12,872	19,152

Notes



Appendix 1

The Secretary,

Proxy Form

I/We ____

being a member/members of M Oriental Commercial Bank Limited hereby appoint ____________________

____

of ____

and failing him ____

and failing him, the Chairman of the meeting as my/our proxy to vote for me/us and on my/our behalf at the Annual General Meeting of the Company to be held on Wednesday, 27th July 2016, at 11am and at any adjournment thereof.

As witness my/our hand(s) this ____________________ day of ____________________ 2016.

Signatures: ____________________

____

IMPORTANT NOTES:

1. *If you are unable to attend this meeting personally this form of proxy should be completed and returned to the Secretary, at the Registered Office, Apollo Centre, 2nd. Floor, Ring Road, Westlands, Nairobi. PO Box 14357-00800 Nairobi.*
   To be valid the proxy form must be received at the Registered Office not later than 10am on Monday, 25th July 2016 Alternatively duly signed proxy forms may be scanned and emailed to mobl.proxy@moriental.co.ke in pdf format not later than 10am on 25th July 2016. In this case the original has to be presented at the registration desk.

2. *If the shareholder is a corporation, this form must be under its common seal or under the hand of an officer or attorney duly authorised in writing.*

3. *A person appointed to act as a proxy need not be a member of the Company.*

4. *In case of joint holders, the signature of any one holder will be sufficient but the names of all joint holders should be stated.*

ORIENTAL
COMMERCIAL BANK LTD

Discover Banking Pleasure

Our Branches

Head Office & Westlands Branch
Apollo Centre, 2nd Floor
Ring Road, Westlands
P.O.Box 14357 - 00800, Nairobi, Kenya
Tel: (020) 3743278/87, 3743289/98
Cell: 0733 610410, 0714 611466
info@orientalbank.co.ke

Koinange Street Branch
Finance House, Koinange Street
P.O.Box 44080 - 00100, Nairobi, Kenya
Tel: (020) 2228461/2
Cell: 0733 333291, 0722 209585
Fax: (020) 2219469
koinange@orientalbank.co.ke

Nakumatt Mega Branch
Uhuru Highway, Opposite
Nyayo Stadium
P.O.Box 62080 - 00200, Nairobi, Kenya
Tel: (020) 551668/9
Cell: 0731 015080, 0703 114677
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mega@orientalbank.co.ke

Thika Road Mall Branch
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Muya House, Kenyatta Street
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Tel: (053) 2062871
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eldoret@orientalbank.co.ke

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kitale@orientalbank.co.ke

Nakuru Branch
AFC Building, Kijabe Row
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Mombasa Branch
Hassanali Building, Nkrumah Road
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Regulated by the Central Bank of Kenya