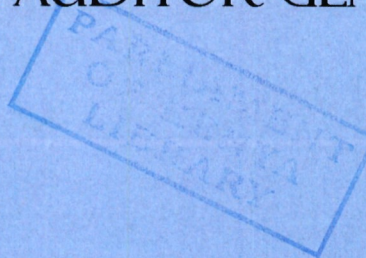


REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL



*Paper laid
by LOM
28/4/2016*

REPORT

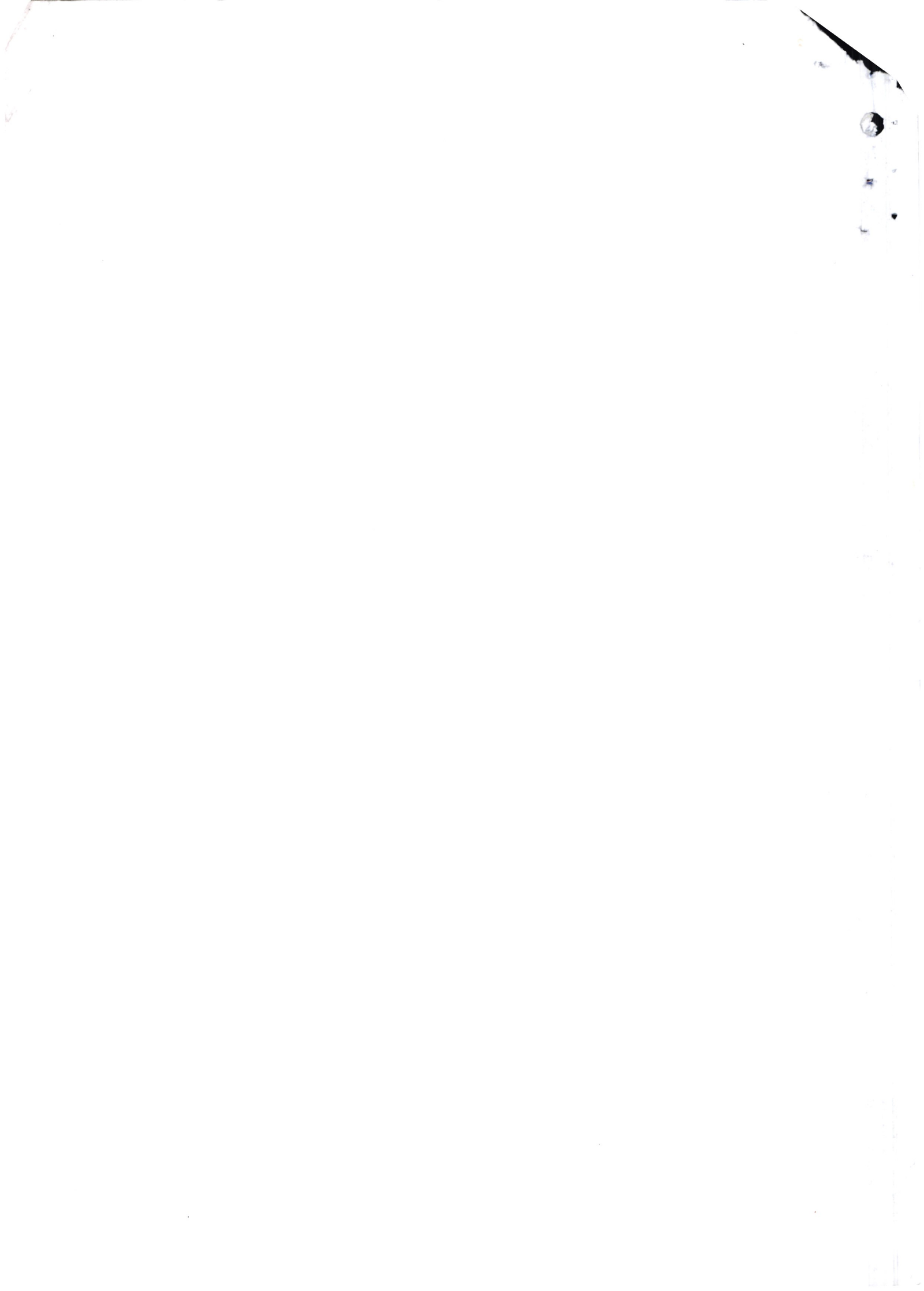
OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
DEVELOPMENT BANK OF KENYA
LIMITED**

**FOR THE YEAR ENDED
31 DECEMBER 2015**



REPUBLIC OF KENYA



OFFICE OF THE AUDITOR-GENERAL

*Paper levied
by LOM
28/4/2016*

REPORT

OF

THE AUDITOR-GENERAL

ON

**THE FINANCIAL STATEMENTS OF
DEVELOPMENT BANK OF KENYA
LIMITED**

**FOR THE YEAR ENDED
31 DECEMBER 2015**

DEVELOPMENT BANK OF KENYA LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

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Company statement of changes in equity	19
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Registered office

Finance House
Loita Street
PO Box 30483, 00100
Telephone (254) 020 340401/2/3
Telefax (254) 020 250399
Telex 22662
Email: dbk@devbank.com
Telegrams DEVBANK.KE
Nairobi
Kenya

Subsidiary

Small Enterprises Finance Company Limited (SEFCO)
PO Box 34045, 00100
Telephone (254) 020 340401/2/3
Telex 22662
Nairobi
Kenya

Shareholders

Industrial & Commercial Development Corporation (ICDC)
PO Box 45519, 00100
Nairobi
Kenya

Trans-Century Limited
PO Box 42588, 00100
Nairobi
Kenya

Directors

The directors who served during the year and to the date of this report are:

Prof. H.K. Mengech	Chairman
K. Gatabaki	
Prof. J.H. Kimura	
Z. G. Mbugua	

Industrial & Commercial Development Corporation (ICDC)
Principal Secretary to the Treasury of Kenya

Secretary

C.A. Otieno (Mrs)
Finance House
Loita Street
PO Box 30483, 00100
NairobiGPO

Senior officers

V.J.O. Kidiwa
J.K. Kiniti

Chief Executive
Head of Finance & Administration

Auditors

PricewaterhouseCoopers (PwC) *On behalf of:*
PwC Towers
Waiyaki Way/ Chiromo Road
PO Box 43963 - 00100
Nairobi GPO

The Auditor-General
Kenya National Audit Office
Anniversary Towers
University Way
PO Box 30084 - 00100
Nairobi GPO

Correspondent banks

Standard Chartered Bank
One Madison Avenue
New York, 10010-3603
USA

Commerzbank AG
D – 60261
Frankfurt am Main,
Germany

Nedbank
PO Box 1144
Johannesburg 2000, GTG
South Africa

ICICI Bank Limited
ICICI Bank Towers
Bandra-KurlaComplex
Mumbai 400051
Maharashtra, India
Tel: + 91 22 26531414

ING BHF Bank
Bockenheimer
Landstrasse 10
D – 60323
Frankfurt Am Main -
Germany

Bank of Communications China
188 Yin Cheng Zhong Road
Shangai 200120 - China
Tel : + 86 21 58408478

Development Bank of Kenya Limited
Five year financial summary
For the year ended 31 December 2015

Five-year Group financial review

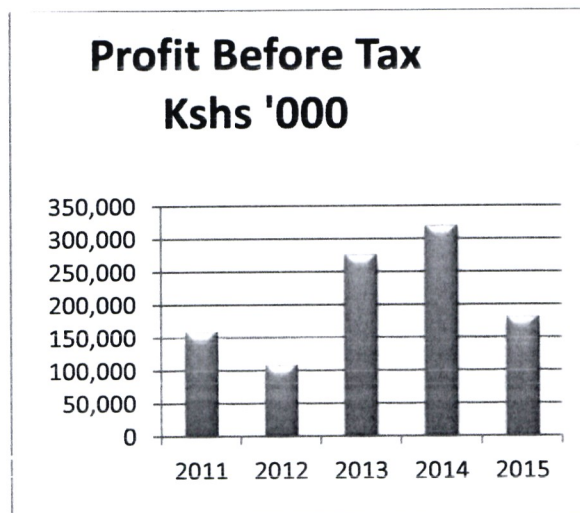
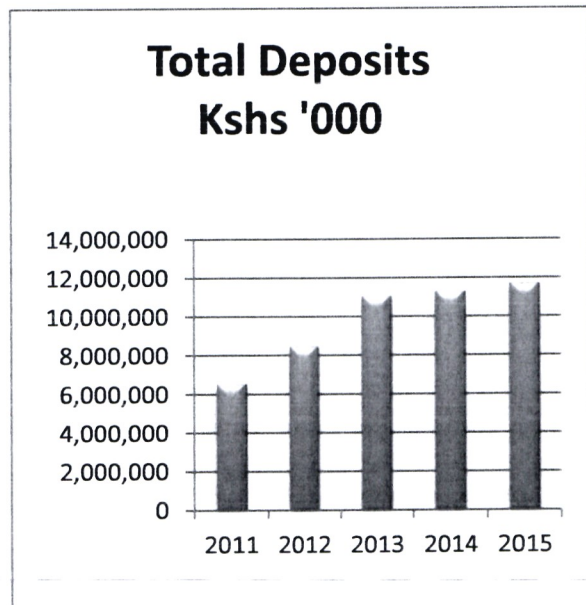
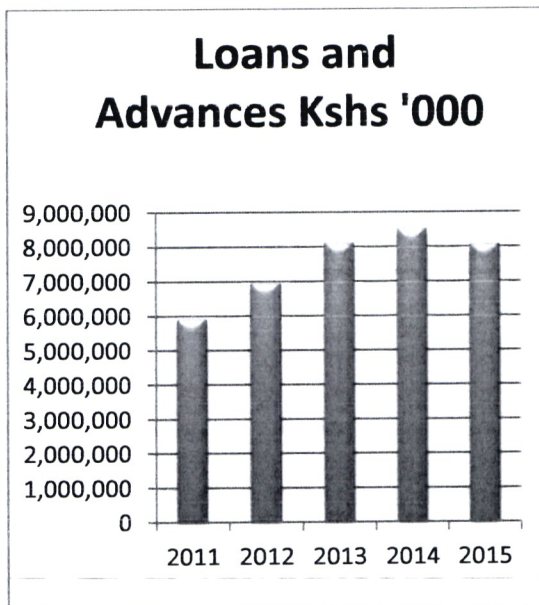
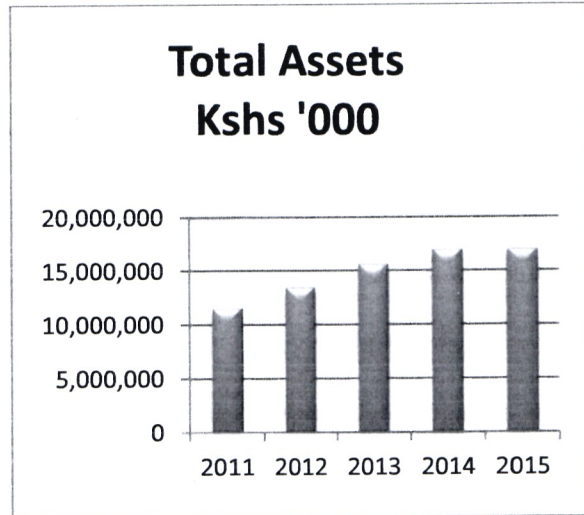
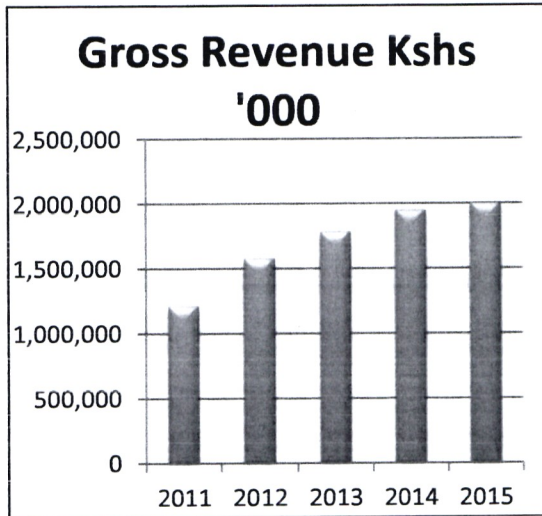
	2015	2014	2013	2012	2011
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
Gross revenue	1,990,760	1,941,074	1,779,696	1,574,665	1,210,509
Profit before tax	180,468	319,326	275,289	106,259	159,001
Profit after tax	121,620	220,592	189,433	73,779	109,168
Gross loans and advances	8,868,029	9,225,833	8,646,163	7,300,320	6,247,942
Less impairment losses on loans and advances	(824,091)	(698,201)	(537,696)	(368,700)	(346,148)
Loans and advances to customers (net of impairment)	8,043,938	8,527,632	8,108,467	6,931,620	5,901,794
Total deposits	11,690,687	11,292,787	11,046,404	8,454,744	6,544,356
Loan capital	2,132,846	2,618,047	2,393,478	3,056,855	3,110,310
Shareholders' equity	2,853,950	2,772,330	1,830,359	1,640,936	1,567,147
Total assets	16,942,552	16,944,142	15,574,646	13,411,458	11,517,988

KEY RATIOS

Basic Earnings Per Share (EPS)	2.33*	12.64	10.90	4.25	6.28
Return on Assets (ROA)	1.1%	1.9%	1.8%	0.8%	1.4%
Return on Equity (ROE)	6.3%	11.7%	15.1%	6.5%	10.1%
Capital Adequacy Ratio	23.90%	25.7%	22.4%	20.9%	23.7%

*During the year, the Bank issued 34,750,000 bonus shares paid out of retained earnings. Total number of shares in issue 52,125,000 (2014: 17,375,000)

KEY PERFORMANCE INDICATORS



Introduction

It is my pleasure to present to you the audited Financial Statements for the Bank and its wholly owned subsidiary for the year ended December 2015. Whereas 2014 was characterized by a stable macro-economic environment, in 2015, the country experienced significant economic shocks, especially in the financial sector. The Kenyan shilling came under severe stress emanating from the ever growing external trade deficit resulting in a rapid depreciation against major foreign currencies. The year also saw the regulator, Central Bank of Kenya (CBK) place two banks under either statutory management or liquidation in quick succession. The closure of the two banks created a confidence crisis within the financial sector that was more directed at the small-tier banks. At the same time there has been sustained pressure on banks to lower their lending rates irrespective of the rising cost of funds.

Being a small Bank, Development Bank of Kenya's performance was no doubt affected by the unforeseen shocks described above. The Balance sheet was static at the Kshs 16.9 billion reported in 2014. Profit before tax was however down to Kshs 180.5 million compared to Kshs 319.3 million achieved in 2014.

Economic Overview

The Kenyan economy grew by 5.3% in 2014, a decline from the previous year's growth of 5.7%. The downturn in output was attributed to insecurity during the year that led to major western countries issuing travel advisories on Kenya thereby reducing the number of tourists visiting the country and bad weather that affected agricultural output negatively. In 2015, the economy grew by 4.9%, 5.5% and 5.8% in quarters one, two and three respectively, compared to 4.7%, 6.0% and 5.2% for similar quarters in 2014. Most of the growth resulted from improvements in Agricultural output, construction and financial services together with wholesale and retail trade.

In their recent review, taking into account the reported growth through quarter three, the World Bank downgraded expansion prospects for the country this year to a GDP output of 5.4% from their previous estimate of 6.0%. The Bretton woods institution lists volatile exchange rates and high interest rate as key hurdles to growth of the economy. Furthermore, whereas the heavy spending on infrastructure projects is likely to spur some GDP expansion, the current inflationary fiscal path exposes the country to more economic shocks.

Developments in the Banking Sector

As has been mentioned, the Central Bank of Kenya placed two Banks under either liquidation or statutory management between August and October 2015. Dubai Bank was placed under liquidation in August while Imperial Bank was placed under statutory management in October 2015. These reduced the number of banks operating in the country to 41, 1 mortgage financing company, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus.

For the 10 months to October 2015, profits for the sector grew by 5.3%, from Kshs 116.2 billion in October 2014 to Kshs 122.4 billion for the same period to October 2015.

According to Central Bank of Kenya statistics, total assets of the Banks grew from Kshs 3,129.3 billion in October to Kshs 3,591.1 billion in October 2015 which translates to an annual growth of 14.8%. The key assets of the banking sector were loans and advances, government securities and balances at Central Bank at 60.1%, 18.0% and 6.4% respectively. The aggregate loan portfolio for the sector grew by 16.2% through October to Kshs 2,244.0 billion. The quality of the portfolio, as measured by the proportion of non-performing loans to gross loans declined marginally from 2.6% in 2014 to 2.7% in October 2015.

The DBK's Performance

The bank recorded a lower profit before tax of Kshs 180.5 million compared to the previous year's outcome of Kshs 319.3 million. The decrease in profits was mainly attributable to lower net interest income compared 2014. As discussed earlier, after the CBK closed two banks in a row, market liquidity dropped significantly giving rise to increased cost of deposits which is the main source of funding for the Bank. This phenomena single-handedly caused a huge decline in net interest margins and consequently the net interest income.

Despite the tough financial environment experienced late in 2015, the Bank was able to hold its net assets level at the previous balance sheet size of Kshs 16.9 billion.

The gross loan portfolio decreased by 4% from Kshs 9.2 billion to Kshs 8.8 billion achieved in 2014. The quality of the loan book as measured by the percentage of Non-performing loans to gross loans worsened from 14.9% to 21.3%. After adjusting for additional provisions against non-performing loans, the net loans closed lower at Kshs 8.1 billion compared to Kshs 8.5 billion. This translates to annualized decrease rate of 4.7%. The bulk of credit was advanced to the real estate and trade investments as shown below.

SECTOR	Portfolio 2015	Portfolio 2014
Agriculture	9.0%	7.3%
Manufacturing	13.8%	11.8%
Building		
Construction	2.9%	2.2%
Trade	19.0%	18.2%
Tourism, Restaurants & Hotels	3.7%	1.3%
Transport		
Communication	3.6%	2.7%
Real Estate	33.9%	35.9%
Financial Services	0.4%	2.2%
Personal Households	13.7%	18.4%
TOTAL	100.0%	100.0%

The primary sources of funding for the bank were deposits and long term loans. Total deposits grew from Kshs 11.2 billion to Kshs 11.7 billion which is a 3.5% increase, while borrowed funds reduced from Kshs 2.6 billion to Kshs 2.1 billion.

Appreciation

Finally, I take this opportunity to extend my appreciation to our esteemed customers and partners for their continued support and the confidence they have demonstrated in us. I also wish to thank my fellow directors, management and staff of the bank for their able stewardship of the bank without which it would have been difficult to achieve such great results.

H.N.K MENGECH (PROF.)
CHAIRMAN

The Shareholders being the ultimate owners of the Bank appoint a Board of Directors to conduct the business of the bank on their behalf. The Board executes its responsibilities through Management and Board Committees that it creates from time to time. The responsibilities for daily operations are delegated to a management team appointed by the Board. A clear segregation of responsibilities between the Board and management is always maintained. The Board makes all policy decisions while management implements the decisions of the Board.

Board of Directors

The current Board is made up of seven directors inclusive of a non-executive chairman.

Board and Management Committees

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

	Composition & Membership	Chairman	Members	Main Functions
Executive Committee	Senior Management	CEO	V. Kidiwa J. Kiniti J. Mananda P. Pertet D. Kamunde B. Kakule W. Ogada O. Sechero M. Mwambire K. Gonna C. A. Otieno (Mrs)	Strategy decision making in accordance with powers conferred upon by the Board
Board Audit Committee	Three Non-Executive Directors, and Senior Management	Non-Executive Director	Prof. J. Kimura J. Kiarri K. Gatabaki V. Kidiwa F Ouma C. A. Otieno (Mrs) J. Kiniti	Strengthening the control environment, financial reporting and audit function
Assets and Liabilities Committee	Senior Management	CEO	V. Kidiwa J. Kiniti J. Mananda C. A. Otieno (Mrs) D. Kamunde C. Mulwa	Management of assets and investments
Board Credit Committee	Executive Directors, and Senior Management	Non-Executive Director	K. Gatabaki Z. G. Mbugua K. Wanderi V. Kidiwa J. Mananda C. A. Otieno (Mrs)	Appraisal and approval of credit applications
Debt Collection Committee	Senior Management	CEO	V. Kidiwa J. Kiniti O. Sechero J. Mananda C. A. Otieno (Mrs)	Monitoring and reviewing non-performing portfolio

	Composition & Membership	Chairman	Members	Main Functions
Automation Committee	Four Non-Executive Directors and Senior Management	Non-Executive Director	Prof. J. Kimura K. Gatabaki Z. G. Mbugua V. Kidiwa J. Kiniti C. A. Otieno (Mrs)	Develops the long-term automation plan for the board's approval
Human Resources	Three Non-Executive Directors and Senior Management	Non-Executive Director	Prof. H. K. Mengech K.Gatabaki M.Mbithi V. Kidiwa C. A. Otieno (Mrs)	Management & development of human resources
Strategy Committee	Four Non-Executive Directors and Senior Management	Non-Executive Director	Prof. J. Kimura K.Gatabaki Z. G. Mbugua K.Wanderi V. Kidiwa J Kiniti J. Mananda C. A. Otieno (Mrs)	Overall Bank Strategy Policy Formulation and implementation
Board Risk & Compliance	Three Non-Executive Directors and Senior Management	Non-Executive Director	K. Gatabaki Prof. J. Kimura J. Kiarrii V. Kidiwa P Pertet C. A. Otieno (Mrs)	To ensure quality integrity and reliability of the institution's risk management

Board attendance

Prudential regulations require that every Board member attend a minimum of 75% of all Board meetings. Below is an extract from the attendance register for the Board meetings held in 2015:

Names	Jan 26th	Feb 3rd	Mar 4th	Apr 29th	May 19th	Jun 18th	Aug 4th	Aug 20th	Sept 21st	Nov 5th	Dec 10th	% Attendance
Prof.H.K. Mengech	X	X	X	X	X	X	X	X	X	X	X	100
KunguGatabaki	X	X	X	X	X	X	X	X	X	X	X	100
Prof. J.H. Kimura	X	X	X	X	X	X	-	X	X	X	X	91
Z.G. Mbugua	X	-	X	X	X	X	X	X	X	-	X	82
Peter Kimurwa*	X	X	X	X	X	X	-	-	-	-	-	55
MbathaMbithi	X	X	X	X	X	X	X	X	X	X	X	100
Joseph Kiarrii	X	X	X	X	X	X	X	X	X	X	X	100
Kennedy Wanderi*	-	-	-	-	-	-	X	X	X	-	X	36

* Mr Peter Kimurwa left ICDC in August 2015 and was replaced by Mr Kennedy Wanderi.

Directors Evaluation Report

It is a requirement that the performance of every Director and the Chairman of the Board be evaluated once every year. Evaluation of directors' performance is underway and is expected to be complete before 31 March 2016.

The directors have pleasure in presenting their report together with the audited financial statements for the year ended 31 December 2015, which disclose the state of affairs of the Group and the Company.

1. Principal activities

The Company is engaged in the business of development and commercial banking. The Company is licensed under the Kenyan Banking Act.

2. Results

The results for the year are set out on page 15.

3. Dividend

The directors do not recommend a dividend payment for the year ended 31 December 2015 (2014: KShs 40,000,000).

4. Directors

The directors who served during the year are set out on page 1.

5. Operations by the subsidiary company (Small Enterprises Finance Company Limited)

The subsidiary company has ceased financing new development projects and is currently pursuing recovery of existing project loans and advances.

6. Auditors

The Auditor-General is responsible for the statutory audit of the Company's books of account in accordance with Section 14 and 39(i) of the Public Audit Act. This Act empowers the Auditor-General to appoint other auditors to carry out the audit on his behalf.

PricewaterhouseCoopers, who were appointed by the Auditor-General, carried out the audit of the Bank's financial statements for the year ended 31 December 2015.

7. Approval of financial statements

The financial statements were approved at a meeting of the directors held on 7th March 2016.

By order of the Board


Company Secretary

Date:

Development Bank of Kenya Limited
Statement of Director's Responsibilities
For the year ended 31 December 2015

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of its profit or loss for that year. It 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 misstatements whether due to fraud or error. They also accept responsibility for:

- (i) Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;
- (ii) Selecting and applying appropriate accounting policies; 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 financial position of the Group and the Company at 31 December 2015 and of the Group financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the board of directors on 7th March 2016 and signed on its behalf by:



Director



Director

REPUBLIC OF KENYA

Telephone: +254-20-342330
Fax: +254-20-311482
E-mail: oag@oagkenya.go.ke
Website: www.kenao.go.ke



P.O. Box 30084-00100
NAIROBI

OFFICE OF THE AUDITOR-GENERAL

REPORT OF THE AUDITOR-GENERAL ON DEVELOPMENT BANK OF KENYA LIMITED FOR THE YEAR ENDED 31 DECEMBER 2015

REPORT ON THE FINANCIAL STATEMENTS

The accompanying financial statements of Development Bank of Kenya Limited set out on pages 15 to 77, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information have been audited on my behalf by PricewaterhouseCoopers, auditors appointed under Section 23 of the Public Audit Act, 2015 and in accordance with the provisions of Article 229 of the Constitution of Kenya. The auditors have duly reported to me the results of their audit and on the basis of their report, I am satisfied that all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit were obtained.

Management's Responsibility for the Financial Statements

The directors of Development Bank of Kenya are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as directors determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

The directors are also responsible for the submission of the financial statements to the Auditor-General in accordance with the provisions of Section 47 of the Public Audit Act, 2015.

Auditor-General's Responsibility

My responsibility is to express an opinion on these financial statements based on the audit and report in accordance with the provisions of Section 48 of the Public Audit Act, 2015 and submit the audit report in compliance with Article 229(7) of the Constitution of Kenya. The audit was conducted in accordance with International Standards on Auditing. Those standards require compliance with ethical requirements and that the audit be planned and performed to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Development Bank of Kenya – Annual Report and Financial Statements for the year ended 31 December 2015

An audit involves performing procedures to obtain 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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.

I believe that the audit evidence obtained is sufficient and appropriate to provide a basis for my audit opinion.

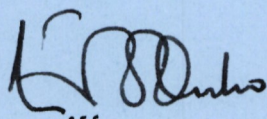
Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Development Bank of Kenya as at 31 December 2015, and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards and comply with the Companies Act, Cap 486 of the Laws of Kenya.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the Kenyan Companies Act, I report based on the audit, that:

- (i) I have obtained all the information and explanations which, to the best of my knowledge and belief, were necessary for the purpose of the audit;
- (ii) In my opinion, proper books of account have been kept by the Bank, so far as appears from the examination of those books ; and
- (iii) The Bank's statement of financial position and statement of comprehensive income are in agreement with the books of account.



FCPA Edward R. O. Ouko, CBS
AUDITOR-GENERAL

Nairobi

06 April 2016

Consolidated statement of comprehensive income
For the year ended 31 December 2015


	Note	2015 KShs'000	2014 KShs'000
Interest income	5	1,902,489	1,837,286
Interest expense	6	<u>(1,358,092)</u>	<u>(1,153,472)</u>
Net interest income		544,397	683,814
Non-interest income	7	<u>88,271</u>	<u>103,788</u>
Operating income		632,668	787,602
Impairment losses on loans and advances	17	(127,146)	(166,227)
Non-interest expenses	8	<u>(325,054)</u>	<u>(302,049)</u>
Profit before income tax	10	180,468	319,326
Income tax expense	11	<u>(58,848)</u>	<u>(98,734)</u>
Profit for the year		121,620	220,592
Other comprehensive income net of tax	18	<u>-</u>	<u>721,379</u>
Total comprehensive income		<u><u>121,620</u></u>	<u><u>941,971</u></u>
Earnings per share (KShs per share)	13	<u>2.33</u>	<u>12.69</u>
Dividends per share (KShs per share)	12	<u>-</u>	<u>2.30</u>

The notes set out on pages 21 to 77 form an integral part of these financial statements.


**Consolidated statement of financial position
 As at 31 December 2015**

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Bank of Kenya	14	698,633	926,188
Investment in government securities	15	5,137,455	5,682,584
Deposits and balances due from banking institutions	16	1,882,624	766,998
Net loans and advances to customers	17	8,043,938	8,527,632
Equity investments	18	805,499	805,499
Other assets	20	71,993	79,517
Tax recoverable		54,931	613
Deferred tax asset	21	2,613	-
Prepaid operating lease rentals	22	3,934	3,995
Property and equipment	23	240,932	151,116
TOTAL ASSETS		<u>16,942,552</u>	<u>16,944,142</u>
LIABILITIES			
Deposits from banks	24	2,037,893	2,844,524
Deposits from customers	25	9,652,794	8,448,263
Loan capital	26	2,132,846	2,618,047
Deferred tax liability	21	-	1,351
Other liabilities	27	265,069	259,627
		<u>14,088,602</u>	<u>14,171,812</u>
EQUITY			
Share capital	28	1,042,500	347,500
Retained earnings		715,039	1,405,526
Statutory reserves		374,752	257,645
Proposed Dividend		-	40,000
Other reserves		721,659	721,659
		<u>2,853,950</u>	<u>2,772,330</u>
TOTAL LIABILITIES AND EQUITY		<u>16,942,552</u>	<u>16,944,142</u>

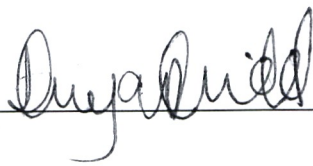
The financial statements set out on pages 15 to 77 were approved by the Board of Directors on 7th March 2016 and were signed on its behalf by:



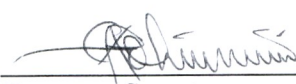
 Director



 Director



 Director




 Company Secretary

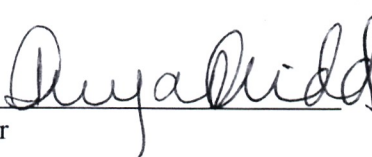
The notes set out on pages 21 to 77 form an integral part of these financial statements.

**Company statement of financial position
 As at 31 December 2015**

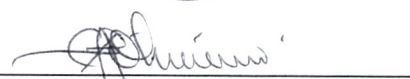
ASSETS	Notes	2015 KShs'000	2014 KShs'000
Cash and balances with Central Bank of Kenya	14	698,633	926,188
Investment in government securities	15	5,110,306	5,661,449
Deposits and balances due from banking institutions	16	1,882,624	766,998
Net loans and advances to customers	17	8,043,938	8,527,632
Equity investments	18	805,499	805,499
Investment in subsidiary	19	32,048	32,048
Other assets	20	71,845	79,302
Tax recoverable		50,553	-
Deferred tax asset	21	2,402	-
Prepaid operating lease rentals	22	3,934	3,995
Property and equipment	23	240,932	151,116
TOTAL ASSETS		16,942,714	16,954,227
LIABILITIES			
Deposits and balances due to banking institutions	24	2,037,893	2,844,524
Customers' deposits	25	9,665,110	8,464,547
Loan capital	26	2,132,846	2,618,047
Deferred tax liability	21	-	1,532
Tax payable		-	4,052
Other liabilities	27	263,245	257,924
		14,099,094	14,190,626
EQUITY			
Share capital	28	1,042,500	347,500
Retained earnings		704,709	1,396,797
Statutory reserves		374,752	257,645
Proposed Dividend		-	40,000
Other reserves		721,659	721,659
		2,843,620	2,763,601
TOTAL LIABILITIES AND EQUITY		16,942,714	16,954,227

The financial statements set out on pages 15 to 77 were approved by the Board of Directors on 7th March 2016 and were signed on its behalf by:


 Director


 Director

X 
 Director


 Company Secretary

The notes set out on pages 21 to 77 form an integral part of these financial statements.

**Consolidated statement of changes in equity
 For the year ended 31 December 2015**

	Share capital	Statutory reserves	Other reserves	Retained earnings	Proposed dividends	Total
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January 2014	347,500	269,167	280	1,213,412	-	1,830,359
Comprehensive income for the year						
Profit for the year	-	-	-	220,592	-	220,592
Transfer to statutory reserves	-	(11,522)	-	11,522	-	-
Other comprehensive income	-	-	721,379	-	-	721,379
Net of tax	-	-	-	-	-	-
Total comprehensive income for the year	-	(11,522)	721,379	232,114	-	941,971
Transactions with owners						
Proposed dividends	-	-	-	(40,000)	40,000	-
Total transactions with owners	-	-	-	(40,000)	40,000	-
At 31 December 2014	347,500	257,645	721,659	1,405,526	40,000	2,772,330
At 1 January 2015	347,500	257,645	721,659	1,405,526	40,000	2,772,330
Comprehensive income for the year						
Profit for the year	-	-	-	121,620	-	121,620
Transfer to statutory reserves	-	117,107	-	(117,107)	-	-
Transfer to share capital	695,000	-	-	(695,000)	-	-
Total comprehensive income for the year	695,000	117,107	-	(690,487)	-	121,620
Transactions with owners						
Dividends Paid	-	-	-	-	(40,000)	(40,000)
Proposed dividends	-	-	-	-	-	-
Total transactions with owners	-	-	-	-	(40,000)	(40,000)
At 31 December 2015	1,042,500	374,752	721,659	715,039	-	2,853,950

The notes set out on pages 21 to 77 form an integral part of these financial statements.

**Bank statement of changes in equity
 For the year ended 31 December 2015**

	Share capital KShs'000	Statutory reserves KShs'000	Other reserves KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
At 1 January 2014	347,500	269,167	280	1,205,326	-	1,822,273
Comprehensive income for the year						
Profit for the year	-	-	-	219,949	-	219,949
Transfer to statutory reserves	-	(11,522)	-	11,522	-	-
Other comprehensive income net of tax	-	-	721,379	-	-	721,379
Total comprehensive income for the year	-	(11,522)	721,379	231,471	-	941,328
Transactions with owners						
Proposed dividends	-	-	-	(40,000)	40,000	-
Total transactions with owners	-	-	-	(40,000)	40,000	-
At 31 December 2014	<u>347,500</u>	<u>257,645</u>	<u>721,659</u>	<u>1,396,797</u>	<u>40,000</u>	<u>2,763,601</u>
At 1 January 2015	347,500	257,645	721,659	1,396,797	40,000	2,763,601
Comprehensive income for the year						
Profit for the year	-	-	-	120,019	-	120,019
Transfer to statutory reserves	-	117,107	-	(117,107)	-	-
Transfer to share capital	695,000	-	-	(695,000)	-	-
Total comprehensive income for the year	<u>695,000</u>	<u>117,107</u>	<u>-</u>	<u>(692,088)</u>	<u>-</u>	<u>120,019</u>
Transactions with owners						
Dividend paid	-	-	-	-	(40,000)	(40,000)
Proposed dividends	-	-	-	-	-	-
Total transactions with owners	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(40,000)</u>	<u>(40,000)</u>
At 31 December 2015	<u>1,042,500</u>	<u>374,752</u>	<u>721,659</u>	<u>704,709</u>	<u>-</u>	<u>2,843,620</u>

The notes set out on pages 21 to 77 form an integral part of these financial statements.

**Consolidated statement of cash flows
 For the year ended 31 December 2015**

	Notes	2015 KShs'000	2014 KShs'000
Operating activities			
Profit before taxation		180,468	319,326
Depreciation	23	21,229	20,832
Amortisation of prepaid operating lease rentals	22	61	61
Profit on disposal of property and equipment		(11)	-
Interest charged on loan capital	6	24,575	39,440
Tax paid		(117,130)	(138,867)
Cash flows from operating activities before changes in operating assets and liabilities		109,192	240,792
Changes in working capital items			
Decrease/(increase) in net loans to customers		483,694	(419,165)
Increase in deposits held for regulatory purposes	14	(40,323)	(23,320)
Decrease/(increase) in investments in treasury bonds		545,129	(832,516)
Decrease/(increase) in other assets		7,524	(7,978)
Increase in customer's deposits		1,204,531	45,272
Increase /(decrease) in other liabilities		5,442	(4,540)
Net cash generated /(used) in operations		2,315,189	(1,001,455)
Cash flows from investing activities			
Purchase of property and equipment	23	(111,115)	(6,805)
Proceeds from sale of property and equipment		81	-
Net cash used in investing activities		(111,034)	(6,805)
Cash flows from financing activities			
Interest paid on loan capital		(24,575)	(39,440)
Dividend paid		(40,000)	-
Loans received		-	1,000,000
Loans repaid		(485,201)	(775,431)
Net cash (used in)/generated from financing activities		(549,776)	185,129
Net increase/(decrease) in cash and cash equivalents		1,654,379	(823,131)
Opening cash and cash equivalents balances		(1,578,366)	(755,235)
Closing cash and cash equivalents balances	29	76,013	(1,578,366)

The notes set out on pages 21 to 77 form an integral part of these financial statements.

Notes

1. Reporting entity

Development Bank of Kenya Limited (the “Bank” or the “Company”) is incorporated as a limited company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows:

Finance House
Loita Street
PO Box 30483, 00100
Nairobi

The Group is primarily engaged in the business of development and commercial banking. The Company is licensed under the Kenyan Banking Act. Industrial and Commercial Development Corporation (ICDC), which owns 89.3% of the shares of the Company is 100% owned by the Government of Kenya.

2. Summary of significant accounting policies

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

(a) Basis of preparation

(i) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS and the Kenya Companies Act.

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

(ii) Basis of measurement

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 Company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the Bank using valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs (e.g. by use of the market comparable approach that reflects recent transaction prices for similar items or discounted cash flow analysis). Inputs used are consistent with the characteristics of the asset / liability that market participants would take into account.

Notes (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Basis of measurement (continued)

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

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

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

Level 3 – fair values measurements are derived from valuation techniques that include inputs for assets or liabilities that are not based on observable market data (unobservable inputs).

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

(iii) Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS's requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation and critical judgement in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements as described in Note 3.

(iv) Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Group

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

Notes (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Changes in accounting policies and disclosures (continued)

New and revised standards and interpretations not yet adopted by the Group

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

- IFRS 9, '*Financial instruments*', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The group is yet to assess the full impact of IFRS 9.
- IFRS 15, '*Revenue from contracts with customers*', which replaces IAS 11, IAS 18 and their interpretations (SIC 13 and IFRIC 13, 15, and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and markets. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing concept of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2018. The group is currently assessing the impact of the amendment on its financial statements.

Notes (continued)

2. Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(iv) Changes in accounting policies and disclosures (continued)

New and revised standards and interpretations not yet adopted by the Group (continued)

- IFRS 16, 'Leases', will replace the current IAS 17 standard on leases. The new standard requires that for lessees all leases, regardless of whether they are operating or financial in nature, will be on balance sheet and accounted for as "financial leases". IFRS 16 will significantly change the way lessees account for leases, however lessor accounting remains largely the same and the classification as a finance lease or operating lease is still a consideration. This means that straight-lining of operating leases will remain for lessors. The effective date is 1 January 2019.
- Amendments to IAS 1 titled "Disclosure initiative" applicable to annual periods beginning on or after 1 January 2016 which clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

(b) Consolidation principles

The consolidated financial statements include the financial statements of Development Bank of Kenya Limited (DBK) and its wholly owned subsidiary company, Small Enterprises Finance Company Limited (SEFCO), which is controlled by the bank. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All inter-company balances and transactions have been eliminated on consolidation.

(c) Foreign currency translation

(i) Functional and Presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which entity operates ('the Functional Currency'). The consolidated financial statements presented in Kenya shillings, which is the Group's presentation currency. All financial information presented in these consolidated financial statements has been rounded off to the nearest thousand Kenya shillings.

(ii) Transactions and balances

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

Notes (continued)

2. Summary of significant accounting policies (continued)

(c) Foreign currency translation (continued)

(ii) Transactions and balances (continued)

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

(d) Revenue recognition

Income is recognised on an accrual basis.

i. Interest

Interest income and expense are recognised in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.

The calculation of the effective interest rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Interest income and expense presented in the statement of comprehensive income include:

- interest on financial assets and liabilities at amortised cost on an effective interest rate basis and interest on available-for-sale investment securities on an effective interest basis
- interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Fair value changes on other derivatives held for risk management purposes, and other financial assets and liabilities carried at fair value through profit or loss, are presented in net income on other financial instruments carried at fair value in profit or loss.

ii. Fees and commission income

Fees and commission income that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment are recognised as the related services are performed.

iii. Dividend income

Dividend income is recognised in profit or loss on the date that the dividend is received.

Notes (continued)

2. Summary of significant accounting policies (continued)

(e) Recognition and measurement of financial instruments

(i) Classification

A financial instrument is a contract that gives rise to both a financial asset of one enterprise and a financial liability of another enterprise. These are classified as follows:

Financial assets at fair value through profit or loss: This category has two subcategories; financial assets held for trading, and those designated at fair value through profit or loss at inception. Financial instruments reclassified in this category are those that the Group holds principally for the purpose of short-term profit taking. These comprise mainly certain Treasury bonds.

Loans and receivables are created by the bank providing money to a debtor with no intention of trading the receivable. Loans and receivables comprise loans and advances to banks and customers with fixed or determinate payment that are not quoted in active market.

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

Available-for-sale assets are the non-derivative financial assets that are designated as available for sale or are not classified as held for trading purposes, loans and receivables or held to maturity. These include cash and balances with the Central Bank of Kenya.

(ii) Recognition

The Group recognises financial assets held for trading and available-for-sale assets on the date it commits to purchase the assets. From this date any gains and losses arising from changes in fair value of the assets are recognised.

Held-to-maturity, loans and receivables are recognised on the date they are transferred to the Group.

Notes (continued)

2. Summary of significant accounting policies (continued)

(e) Recognition and measurement of financial instruments (continued)

(iii) Measurement

Financial instruments are measured initially at cost, including transaction costs.

Subsequent to initial recognition all trading instruments and all available-for-sale assets are measured at fair value, except that any instrument that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is stated at cost, including transaction costs, less impairment losses.

All non-trading financial liabilities, loans and receivables and held-to-maturity assets are measured at amortised cost less impairment losses. Amortised cost is calculated on the effective interest rate method. Premiums and discounts, including initial transaction costs, are included in the carrying amount of the related instrument and amortised based on the effective interest rate of the instrument. Portfolio impairments computation model is adjusted to reflect political risk.

Gains and losses arising from a change in the fair value of available-for-sale assets is recognised as equity until the instrument is derecognised or impaired at which time the cumulative gain or loss is recognised in profit or loss and trading instruments gains or losses are recognised in profit or loss in the period it arises.

(iv) Derecognition

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

Available-for-sale assets and assets held for trading that are sold are derecognised and corresponding receivables from the buyer for the payment are recognised as of the date the bank commits to sell the assets. The bank uses the specific identification method to determine the gain or loss on derecognition.

Held-to-maturity instruments and originated loans and receivables are derecognised on the date they are transferred by the bank.

Notes (continued)

2. Summary of significant accounting policies (continued)

(f) Identification and measurement of impairment of financial assets

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

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

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

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends. Default rate, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

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

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

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.

However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

Notes (continued)

2. Summary of significant accounting policies (continued)

(g) Impairment for non-financial assets

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

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

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

(h) Operating leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating lease arrangements (whether prepaid or postpaid) are charged to profit or loss on a straight line basis over the period of the lease.

(i) Property and equipment

(i) Recognition and measurement

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

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

(ii) Subsequent costs

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

(iii) Disposal of property and equipment

Gains and losses on disposal of property and equipment are determined by reference to the carrying amount and are recognised in profit or loss in the year in which they arise.

Notes (continued)

2. Summary of significant accounting policies (continued)

(i) Property and equipment (continued)

(iv) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

The estimated useful lives for the current and comparative periods are as follows:

Buildings on leasehold land	over the lease period
Furniture and equipment	8 years
Computers	3 years
Motor vehicles	4 years
Leasehold improvements	6 years

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

(j) Taxation

(i) Current income tax

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

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

(ii) Deferred income tax

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

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

Notes (continued)

2. Summary of significant accounting policies (continued)

(k) Employee benefits

(i) Post-employment benefits

The majority of the Group's employees are eligible for retirement benefits under a defined contribution plan.

Obligations for contributions to the defined contribution plan are recognised as an expense in profit or loss as incurred. Any difference between the charge to profit or loss income and the contributions payable is recorded in the statement of financial position under other assets or liabilities.

(ii) Leave

All employees are entitled to such leave as is determined by the Bank from time to time. All annual leave must be taken in the year it is earned subject to a maximum of 15 days carried forward. The bank does not compensate staff leave days carried forward in excess of 15 days unless sanctioned and supported by the head of department.

Leave days not taken within policy are accrued for at the individual staff salary scale.

(l) Cash and cash equivalents

For the purpose of presentation of the cash flows in the financial statements the cash and cash equivalents include cash and balances with Central Bank of Kenya net of cash ratio reserve, net balances from banking institutions, uncleared effects and investment in government securities with a maturity of three months or less from the date of acquisition.

(m) Dividends

Dividends are recognised as a liability in the period in which they are declared. Proposed dividends are disclosed as a separate component of equity.

(n) Provisions

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

(o) Offsetting of financial assets and liabilities

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

Notes (continued)

2. Summary of significant accounting policies (continued)

(p) Financial guarantees

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

(q) Earnings per share

The Group presents basic Earnings Per Share (EPS) data for its ordinary share. Basic EPS is calculated by dividing the profit or loss attributable for ordinary shareholders of the Bank by the number of ordinary shares outstanding during the period.

3. Critical accounting estimates and judgements

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

(a) Allowances for credit losses

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about counterparty's financial situation and the net realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions

(b) Income taxes

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

Notes (continued)

3. Critical accounting estimates and judgements (continued)

(c) Fair value of financial instruments

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

All financial instruments are initially recognised at fair value, which is normally the transaction price. In certain circumstances, the initial fair value may be based on a valuation technique which may lead to the recognition of profits or losses at the time of initial recognition. However, these profits or losses can only be recognised when the valuation technique used is based solely on observable market inputs.

Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value, with changes in fair value either reported within the statement of comprehensive income or within other comprehensive income until the instrument is sold or becomes impaired. Details of the type and classification of the Group's financial instruments are set out in note 4 and the accounting policy set out in note 2 to the accounts.

The fair values of quoted financial instruments in active markets are based on current prices. If the market for a financial instrument is not active, and for unlisted securities, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where representative prices are unreliable because of illiquid markets, the determination of fair value may require estimation of certain parameters, which are calibrated against industry standards and observable market data, or the use of valuation models that are based on observable market data.

The fair value for the majority of the Group's financial instruments is based on observable market prices or derived from observable market parameters.

Equity investments that do not have an observable market prices are fair valued by applying various valuation techniques, such as earnings multiples, net assets multiples, discounted cash flows, and industry valuation benchmarks. These techniques are generally applied prior to any initial public offering after which an observable market price becomes available. Disposal of such investments are generally by market trades or private sales.

(d) Impairment of property and equipment

Critical estimates are made by the directors in determining depreciation rates for property and equipment.

Notes (continued)

4. Financial risk management

Introduction and overview

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

- Credit risk;
- Liquidity risk;
- Market risks; and
- Operational risks.

Group's risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability (ALCO), Credit and Risk and Debt collection committees, which are responsible for developing and monitoring the Group's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the main Board on their activities.

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

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

(i) Credit risk

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

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

Notes (continued)

4. Financial risk management (continued)

(i) Credit risk (continued)

Management of credit risk

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

- Formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- Establishing the authorisation structure for the approval and renewal of credit facilities;
- Reviewing and assessing credit risk. Group credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties and industries for loans and advances;
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group Risk;
- Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken; and
- Providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. Each business unit is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee.

Notes (continued)

4. Financial risk management (continued)

(i) Credit risk (continued)

Exposure to credit risk

Loans and advances to customers

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Individually impaired				
Grade 5: Loss	55,748	-	56,641	-
Grade 4: Doubtful	1,849,384	1,849,384	1,272,243	1,272,243
Grade 3: Substandard	20,447	20,447	50,022	50,022
	<u>1,925,579</u>	<u>1,869,831</u>	<u>1,378,906</u>	<u>1,322,265</u>
Allowances for impairment	<u>(743,175)</u>	<u>(687,427)</u>	<u>(622,577)</u>	<u>(565,936)</u>
Carrying amounts	<u><u>1,182,404</u></u>	<u><u>1,182,404</u></u>	<u><u>756,329</u></u>	<u><u>756,329</u></u>
Collectively impaired				
Grade 1: Normal	5,766,687	5,766,687	7,007,266	7,007,266
Grade 2: Watch	1,175,763	1,175,763	831,191	831,191
	<u>6,942,450</u>	<u>6,942,450</u>	<u>7,838,457</u>	<u>7,838,457</u>
Allowances for impairment	<u>(80,916)</u>	<u>(80,916)</u>	<u>(75,624)</u>	<u>(75,624)</u>
Carrying amounts	<u><u>6,861,534</u></u>	<u><u>6,861,534</u></u>	<u><u>7,762,833</u></u>	<u><u>7,762,833</u></u>
Past due and not impaired				
Grade 1: Normal	1,384,832	1,384,832	1,680,382	1,680,382
Grade 2: Watch	1,122,284	1,122,284	801,556	801,556
	<u>2,507,116</u>	<u>2,507,116</u>	<u>2,481,938</u>	<u>2,481,938</u>
Past due comprises				
1-30 Days	1,384,832	1,384,832	1,680,382	1,680,382
31-60 Days	1,122,284	1,122,284	801,556	801,556
	<u>2,507,116</u>	<u>2,507,116</u>	<u>2,481,938</u>	<u>2,481,938</u>
Neither past due nor impaired				
Grade 1: Normal	4,393,789	4,393,789	5,326,884	5,326,884
Grade 2: Watch	53,479	53,479	29,635	29,635
	<u>4,447,268</u>	<u>4,447,268</u>	<u>5,356,519</u>	<u>5,356,519</u>

Notes (continued)

4. Financial risk management (continued)

(i) Credit risk (continued)

Impaired loans and securities

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

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write-off policy

The Group writes off a loan balance (and any related allowances for impairment losses) when Group Credit determines that the loans are uncollectible. This is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Notes (continued)

4. Financial risk management (continued)

(i) Credit risk (continued)

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

	Gross KShs'000	Net KShs'000
31 December 2015		
Grade 3: Individually Impaired	20,447	-
Grade 4: Individually Impaired	1,849,384	1,182,404
Grade 5: Individually Impaired	55,748	-
	<u>1,925,579</u>	<u>1,182,404</u>
31 December 2014		
Grade 3: Individually Impaired	50,022	48,612
Grade 4: Individually Impaired	1,272,243	707,717
Grade 5: Individually Impaired	56,641	-
	<u>1,378,906</u>	<u>756,329</u>

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against investment securities, and no such collateral was held at 31 December 2015 or 2014.

An estimate of the fair value of collateral and other security enhancements held against financial assets is shown below:

	2015 KShs'000	2014 KShs'000
Loans and advances to customers		
Against individually impaired		
Property	<u>982,250</u>	<u>635,374</u>
Against collectively impaired		
Property	12,678,374	12,880,264
Debt securities	2,126,795	2,119,959
Equities	3,200	197,136
Others	<u>2,151,680</u>	<u>2,610,419</u>

Notes (continued)

4. Financial risk management (continued)

(i) Credit risk (continued)

	2015	2014
	KShs'000	KShs'000
Against past due but not impaired		
Property	3,395,200	6,270,508
Debt securities	-	323,145
Equities	-	197,136
Others	494,611	86,378
	<u> </u>	<u> </u>
Against neither past due nor impaired		
Property	9,283,174	-
Debt securities	2,126,795	1,796,814
Equities	3,200	-
Others	1,657,069	2,524,041
	<u> </u>	<u> </u>

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

Concentration by Sector	2015	2014
	KShs'000	KShs'000
Agriculture	797,451	674,371
Manufacturing	1,223,143	1,084,665
Building and construction	256,055	206,502
Trade	1,885,905	1,626,901
Tourism, restaurants, and hotels	325,449	111,636
Transport and communication	316,383	248,747
Real estate	2,997,226	3,314,863
Financial services	-	199,634
Personal households	1,066,417	1,758,513
	<u> </u>	<u> </u>
	<u>8,868,029</u>	<u>9,225,832</u>

Notes (continued)

4. Financial risk management (continued)

(ii) Liquidity risk

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

Management of liquidity risk

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

Treasury receives information from other departments of the bank regarding cash requirements and integrates this information in form of projected cash flows. Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the bank as a whole.

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

Exposure to liquidity risk

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

	2015	2014
Average for the period	37.9%	32.8%
Maximum for the period	46.3%	39.1%
Minimum for the period	25.6%	27.9%

Notes (continued)

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

The table below shows the maturities profile of the Group's assets and liabilities using undiscounted cash flows on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance:

Residual contractual maturities of financial assets and financial liabilities for 2015

Group	0 to 1 month KShs'000	1 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Assets						
Cash and balances with Central Bank of Kenya	231,282	-	-	-	467,351	698,633
Investment in Government Securities	-	-	6,029	1,103,707	4,027,719	5,137,455
Due from other banks	1,474,019	380,068	-	28,537	-	1,882,624
Net loans and advances to customers	1,431,835	465,151	1,088,606	1,050,811	4,007,535	8,043,938
Equity investments	-	-	-	-	805,499	805,499
Total assets	3,137,136	845,219	1,094,635	2,183,055	9,308,104	16,568,149
Liabilities						
Due to banking institutions	380,283	429,623	1,227,987	-	-	2,037,893
Due to EIB	-	-	-	-	21,163	21,163
Customers' deposits	565,195	8,474,309	593,748	19,542	-	9,652,794
Loan capital	324,221	116,506	470,297	915,924	284,735	2,111,683
Total liabilities	1,269,699	9,020,438	2,292,032	935,466	305,898	13,823,533

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

Notes (continued)

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

Residual contractual maturities of assets and liabilities for 2014

Group	0 to 1 month KShs'000	1 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Assets						
Cash and balances with Central Bank of Kenya	499,160	-	-	-	427,028	926,188
Investment in Government Securities	-	-	351,986	530,623	4,799,975	5,682,584
Due from other banks	59,403	680,066	27,529	-	-	766,998
Net loans and advances to customers	934,305	871,767	1,008,990	1,151,891	4,560,679	8,527,632
Equity investments	-	-	-	-	805,499	805,499
Total assets	1,492,868	1,551,833	1,388,505	1,682,514	10,593,181	16,708,901
Liabilities						
Due to banking institutions	-	2,618,018	226,506	-	-	2,844,524
Due to EIB	-	-	-	-	21,163	21,163
Customers' deposits	387,329	6,375,440	1,669,304	16,190	-	8,448,263
Loan capital	-	293,423	509,398	1,268,368	525,695	2,596,884
Total liabilities	387,329	9,286,881	2,405,208	1,284,558	546,858	13,910,834

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

Notes (continued)

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

Residual contractual maturities of financial assets and financial liabilities for 2015

Bank	0 to 1 month KShs'000	1 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Assets						
Cash and balances with Central Bank of Kenya	231,282	-	-	-	467,351	698,633
Investment in Government Securities	-	-	-	1,103,707	4,006,599	5,110,306
Due from other banks	1,474,019	380,068	-	28,537	-	1,882,624
Net loans and advances to customers	1,431,835	465,151	1,088,606	1,050,811	4,007,535	8,043,938
Equity investments	-	-	-	-	805,499	805,499
Total assets	3,137,136	845,219	1,088,606	2,183,055	9,286,984	16,541,000
Liabilities						
Due to banking institutions	380,283	429,623	1,227,987	-	-	2,037,893
Due to EIB	-	-	-	-	21,163	21,163
Customers' deposits	565,195	8,486,625	593,748	19,542	-	9,665,110
Loan capital	324,221	116,506	470,297	915,924	284,735	2,111,683
Total liabilities	1,269,699	9,032,754	2,292,032	935,466	305,898	13,835,849

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

Notes (continued)

4. Financial risk management (continued)

(ii) Liquidity risk (continued)

Residual contractual maturities of assets and liabilities for 2014

Bank	0 to 1 month KShs'000	1 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Assets						
Cash and balances with Central Bank of Kenya	499,160	-	-	-	427,028	926,188
Investment in Government Securities	-	-	351,986	530,623	4,778,840	5,661,449
Due from other banks	59,403	680,066	27,529	-	-	766,998
Net loans and advances to customers	934,305	871,767	1,008,990	1,151,891	4,560,679	8,527,632
Equity investments	-	-	-	-	805,499	805,499
Total assets	1,492,868	1,551,833	1,388,505	1,682,514	10,572,046	16,687,766
Liabilities						
Due to banking institutions	-	2,618,018	226,506	-	-	2,844,524
Due to EIB	-	-	-	-	21,163	21,163
Customers' deposits	387,329	6,391,724	1,669,304	16,190	-	8,464,547
Loan capital	-	293,423	509,398	1,268,368	525,695	2,596,884
Total liabilities	387,329	9,303,165	2,405,208	1,284,558	546,858	13,927,118

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

Notes (continued)

4. Financial risk management (continued)

(iii) Market risk

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

Management of market risks

Overall authority for market risk is vested in ALCO. The Group separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios mainly are held by the Treasury Department, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Group is primarily exposed to interest rate risk and foreign exchange risk.

(a) Exposure to interest rate risk

This is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Group's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates is shown on the next page.

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a regular basis include a 100,50, and 25 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates (assuming no asymmetrical movement in yield curves and a constant statement of financial position) is as follows:

Yield Curve Parallel Shift	2015 KShs '000	2014 KShs '000
100 Basis points upward parallel shift	(6,316)	(6,523)
50 Basis points upward parallel shift	(3,234)	(3,344)
25 Basis points upward parallel shift	(1,636)	(1,693)
100 Basis points downward parallel shift	1,676	1,737
50 Basis points downward parallel shift	3,394	3,520
25 Basis points downward parallel shift	6,959	7,226

Notes (continued)

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Exposure to interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities for 2015 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Group	Effective interest rate	0 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya		-	-	-	-	698,633	698,633
Investments in Government securities	11.53	-	6,029	1,103,707	4,027,719	-	5,137,455
Due from banking institutions	5.62	1,729,271	-	28,537	-	124,816	1,882,624
Net loans and advances to customers	16.30	1,896,986	1,088,606	1,050,811	4,007,535	-	8,043,938
Total assets		3,626,257	1,094,635	2,183,055	8,035,254	823,449	15,762,650
Liabilities							
Due to banking institutions	2.01	809,906	1,227,987	-	-	-	2,037,893
Customers' deposits	15.28	9,039,504	593,748	19,542	-	-	9,652,794
Loan capital	6.52	440,727	470,297	915,924	305,898	-	2,132,846
Total liabilities		10,290,137	2,292,032	935,466	305,898	-	13,823,533

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Notes (continued)

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Exposure to interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities for 2014 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Group

	Effective interest rate	0 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	926,188	926,188
Investments in Government securities	11.52	-	351,986	530,623	4,799,975	-	5,682,584
Due from banking institutions	2.68	739,469	27,529	-	-	-	766,998
Net loans and advances to customers	13.92	1,806,072	1,008,990	1,151,891	4,560,679	-	8,527,632
Total assets		2,545,541	1,388,505	1,682,514	9,360,654	926,188	15,903,402
Liabilities							
Due to banking institutions	3.87	2,618,018	226,506	-	-	-	2,844,524
Customers' deposits	9.05	6,762,769	1,669,304	16,190	-	-	8,448,263
Loan capital	6.67	293,423	509,398	1,268,368	525,695	-	2,596,884
Total liabilities		9,674,210	2,405,208	1,284,558	525,695	-	13,889,671

Notes (continued)

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Exposure to interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities for 2015 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Bank

	Effective interest rate	0 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya		-	-	-	-	698,633	698,633
Investments in Government securities	11.53	-	-	1,103,707	4,006,599	-	5,110,306
Due from banking institutions	5.62	1,729,271	-	28,537	-	124,816	1,882,624
Net loans and advances to customers	16.30	1,896,986	1,088,606	1,050,811	4,007,535	-	8,043,938
Total assets		3,626,257	1,088,606	2,183,055	8,014,134	823,449	15,735,501
Liabilities							
Due to banking institutions	2.01	809,906	1,227,987	-	-	-	2,037,893
Customers' deposits	15.28	9,051,820	593,748	19,542	-	-	9,665,110
Loan capital	6.52	440,727	470,297	915,924	305,898	-	2,132,846
Total liabilities		10,302,453	2,292,032	935,466	305,898	-	13,835,849

Notes (continued)

4. Financial risk management (continued)

(iii) Market risk (continued)

(a) Exposure to interest rate risk (continued)

The table below summarises the exposure to interest rate risks. Included in the table below are the Group's assets and liabilities for 2014 at carrying amounts categorised by the earlier of contractual repricing or maturity dates.

Group

	Effective interest rate	0 to 3 months KShs'000	3 to 12 months KShs'000	1 to 5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	926,188	926,188
Investments in Government securities	11.52	-	351,986	530,623	4,778,840	-	5,661,449
Due from banking institutions	2.68	739,469	27,529	-	-	-	766,998
Net loans and advances to customers	13.92	1,806,072	1,008,990	1,151,891	4,560,679	-	8,527,632
Total assets		2,545,541	1,388,505	1,682,514	9,339,519	926,188	15,882,267
Liabilities							
Due to banking institutions	3.87	2,618,018	226,506	-	-	-	2,844,524
Customers' deposits	9.05	6,779,053	1,669,304	16,190	-	-	8,464,547
Loan capital	6.67	293,423	509,398	1,268,368	525,695	-	2,596,884
Total liabilities		9,690,494	2,405,208	1,284,558	525,695	-	13,905,955

Notes (continued)

4. Financial risk management (continued)

(iii) Market risk (continued)

(b) Currency risk

The Group is exposed to currency risk through transactions in foreign currencies. The Group's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. In respect of monetary assets and liabilities in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate.

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

At 31 December 2015	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Assets					
Cash and balances with Central Bank of Kenya	47,383	2,170	7,396	-	56,949
Deposits and balances due from banking institutions	456,541	1,072	47,241	30	504,884
Net loans and advances to customers	1,051,797	-	734,061	-	1,785,858
Other assets	5,450	-	-	-	5,450
Total foreign currency assets	1,561,171	3,242	788,698	30	2,353,141
Liabilities					
Loan Capital	1,145,575	-	-	-	1,145,575
Deposits and balances due to banking institutions	429,012	2,804	784,876	-	1,216,692
Total foreign currency liabilities	1,574,587	2,804	784,876	-	2,362,267
Foreign currency exposure at 31 December 2015	(13,416)	438	3,822	30	(9,126)

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Notes (continued)

4. Financial risk management (continued)

(iii) Market risk (continued)

(b) Currency risk (continued)

At 31 December 2014

Assets

Cash and balances with Central Bank of Kenya
 Deposits and balances due from banking institutions
 Net loans and advances to customers
 Other assets

	USD KShs'000	GBP KShs'000	Euro KShs'000	Other KShs'000	Total KShs'000
Cash and balances with Central Bank of Kenya	69,066	2,323	26,430	-	97,819
Deposits and balances due from banking institutions	462,771	1,508	42,874	44	507,197
Net loans and advances to customers	1,027,149	-	479,069	-	1,506,218
Other assets	5,642	-	-	-	5,642

Total foreign currency assets

Total foreign currency assets	1,564,628	3,831	548,373	44	2,116,876
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Liabilities

Loan Capital
 Deposits and balances due to banking institutions

Loan Capital	1,183,229	-	-	-	1,183,229
Deposits and balances due to banking institutions	383,414	2,175	547,244	-	932,833

Total foreign currency liabilities

Total foreign currency liabilities	1,566,643	2,175	547,244	-	2,116,062
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Foreign currency exposure
 at 31 December 2014

Foreign currency exposure at 31 December 2014	(2,015)	1,656	1,129	44	814
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Notes (continued)

4. Financial risk management (continued)

(iv) Operational risk

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

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

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

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

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

Notes (continued)

4. Financial risk management (continued)

(v) Capital management

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the Group as a whole.

In implementing current capital requirements the Central Bank of Kenya requires the bank to maintain a prescribed ratio of total capital to total risk-weighted assets.

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

- Tier 1 capital, which includes ordinary share capital, share premium, perpetual bonds (which are classified as innovative Tier 1 securities), retained earnings, translation reserve and minority interests after deductions for goodwill and intangible assets, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes qualifying subordinated liabilities, collective impairment allowances and the element of the fair value reserve relating to unrealised gains on equity instruments classified as available-for-sale.

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

The Group has complied with all externally imposed capital requirements throughout the period. There have been no material changes in the Group's management of capital during the period.

The Group's regulatory capital position at 31 December was as follows:

	2015	2014
	KShs'000	KShs'000
Core capital (Tier 1)		
Paid up share capital	1,042,500	347,500
Retained earnings less Deferred Tax	702,306	1,396,796
Other Reserves	281	281
	<hr/>	<hr/>
Core Capital	1,745,087	1,744,577
Minimum Statutory Capital	1,000,000	1,000,000
	<hr/>	<hr/>
Excess Capital	745,087	744,577
	<hr/>	<hr/>
Supplementary capital (Tier 2)	272,764	265,100
	<hr/>	<hr/>
Total Capital	2,017,851	2,009,677
	<hr/>	<hr/>
Total risk weighted assets	7,743,444	6,780,387
	<hr/>	<hr/>

Notes (continued)

4. Financial risk management (continued)

(v) Capital management (continued)

Regulatory capital (continued)

Capital adequacy ratios

	2015	2014
Percentage of Core Capital to Risk Weighted Asset ratio	23.60%	25.70%
Minimum requirement	10.0%	10.50%
Percentage of Total Capital to Risk Weighted Asset	27.30%	29.6%
Minimum requirement	14.50%	14.50%
Percentage of Core Capital to Deposits ratio	14.90%	16.20%
Minimum requirement	10.50%	10.50%

Notes (continued)

4. Financial risk management (continued)

(vi) Fair value measurement

Financial assets and liabilities and their fair values

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

Group	Held for trading KShs'000	Held to maturity KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs '000
As at 31 December 2015							
Assets							
Cash and cash equivalents	-	-	-	-	698,633	698,633	698,633
Due from other banks	-	-	-	-	1,882,624	1,882,624	1,882,624
Investments in Government securities	90,065	5,047,390	-	-	-	5,137,455	5,137,455
Loans and advances to customers	-	-	8,043,938	-	-	8,043,938	8,043,938
Equity investments	-	-	-	805,499	-	805,499	805,499
Total assets	90,065	5,047,390	8,043,938	805,499	2,581,257	16,568,149	16,568,149
Liabilities							
Due to banking institutions	-	-	-	-	2,037,893	2,037,893	2,037,893
Customers' deposits	-	-	-	-	9,652,794	9,652,794	9,652,794
Loan capital	-	-	-	-	2,132,846	2,132,846	2,132,846
Total liabilities	-	-	-	-	13,823,533	13,823,533	13,823,533

Notes (continued)

4. Financial risk management (continued)

(vi) Fair value measurement (continued)

Financial assets and liabilities and their fair values

Group

As at 31 December 2014

Assets	Held for trading KShs'000	Held to maturity KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs '000
Cash and cash equivalents	-	-	-	-	926,188	926,188	926,188
Due from other banks	-	-	-	-	766,998	766,998	766,998
Investments in Government securities	97,902	5,584,682	-	-	-	5,682,584	5,682,584
Loans and advances to customers	-	-	8,527,632	-	-	8,527,632	8,527,632
Equity investments	-	-	-	805,499	-	805,499	805,499
Total assets	97,902	5,584,682	8,527,632	805,499	1,693,186	16,708,901	16,708,901
Liabilities							
Due to banking institutions	-	-	-	-	2,844,524	2,844,524	2,844,524
Customers' deposits	-	-	-	-	8,448,263	8,448,263	8,448,263
Loan capital	-	-	-	-	2,618,047	2,618,047	2,618,047
Total liabilities	-	-	-	-	13,910,834	13,910,834	13,910,834

Notes (continued)

4. Financial risk management (continued)

(vi) Fair value measurement (continued)

Financial assets and liabilities and their fair values

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

Bank	Held for trading KShs'000	Held to maturity KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs '000
As at 31 December 2015							
Assets							
Cash and cash equivalents	-	-	-	-	698,633	698,633	698,633
Due from other banks	-	-	-	-	1,882,624	1,882,624	1,882,624
Investments in Government securities	90,065	5,020,241	-	-	-	5,110,306	5,110,306
Loans and advances to customers	-	-	8,043,938	-	-	8,043,938	8,043,938
Equity investments	-	-	-	805,499	-	805,499	805,499
Total assets	90,065	5,020,241	8,043,938	805,499	2,581,257	16,541,000	16,541,000
Liabilities							
Due to banking institutions	-	-	-	-	2,037,893	2,037,893	2,037,893
Customers' deposits	-	-	-	-	9,665,110	9,665,110	9,665,110
Loan capital	-	-	-	-	2,132,846	2,132,846	2,132,846
Total liabilities	-	-	-	-	13,835,849	13,835,849	13,835,849

Notes (continued)

4. Financial risk management (continued)

(vi) Fair value measurement (continued)

Financial assets and liabilities and their fair values

Bank

As at 31 December 2014

Assets	Held for trading KShs'000	Held to maturity KShs'000	Loans and receivables KShs'000	Available-for-sale KShs'000	Other amortised cost KShs'000	Total carrying amount KShs'000	Fair value KShs '000
Cash and cash equivalents	-	-	-	-	926,188	926,188	926,188
Due from other banks	-	-	-	-	766,998	766,998	766,998
Investments in Government securities	97,902	5,563,547	-	-	-	5,661,449	5,661,449
Loans and advances to customers	-	-	8,527,632	-	-	8,527,632	8,527,632
Equity investments	-	-	-	805,499	-	805,499	805,499
Total assets	97,902	5,563,547	8,527,632	805,499	1,693,186	16,687,766	16,687,766
Liabilities							
Due to banking institutions	-	-	-	-	2,844,524	2,844,524	2,844,524
Customers' deposits	-	-	-	-	8,464,547	8,464,547	8,464,547
Loan capital	-	-	-	-	2,618,047	2,618,047	2,618,047
Total liabilities	-	-	-	-	13,927,118	13,927,118	13,927,118

Notes (continued)

5. Interest income

	2015	2014
	KShs'000	KShs'000
Loans and advances to customers	807,066	852,376
Overdrafts	407,939	342,843
Treasury bonds	642,620	627,558
Deposits and balances due from banking institutions	44,864	14,509
	<u>1,902,489</u>	<u>1,837,286</u>

Included within various captions under interest income for the year ended 31 December 2015 is a total of KShs 92,308,000 (2014: KShs77,335,000) accrued on impaired financial assets.

Included within interest income on investment securities for the year ended 31 December 2015 is KShs 640,175,715(2014:KShs596,606,132) relating to debt securities held-to-maturity.

6. Interest expense

	2015	2014
	KShs'000	KShs'000
Customer deposits	1,149,548	887,514
Loan capital and income notes	24,575	39,440
Deposits and balances due to banking institutions	183,969	226,518
	<u>1,358,092</u>	<u>1,153,472</u>

7. Non-interest income

Fee and commission income	36,190	33,246
(Loss)/gains on disposal of Government securities	(13,362)	11,198
Gains arising from dealing in foreign currencies	19,132	17,288
Rental income (Net of provisions)	46,049	40,132
Other income	262	1,924
	<u>88,271</u>	<u>103,788</u>

Notes (continued)

8. Operating expenses

	2015 KShs'000	2014 KShs'000
Salaries and employee benefits (Note 9)	179,084	170,052
Occupancy expenses	32,357	33,851
Deposit Protection Fund	16,214	14,181
Depreciation	21,229	20,832
Amortisation of prepaid operating lease rentals	61	61
Directors' emoluments	12,264	11,896
Professional and legal services	11,615	7,858
Telecommunication	3,056	2,309
Other expenses	49,174	41,009
	<u>325,054</u>	<u>302,049</u>

9. Salaries and employee benefits

	2015 KShs'000	2014 KShs'000
Salaries	142,746	134,964
Contributions to defined contribution plans	16,519	16,338
National Social Security Fund	834	519
Other staff costs	18,985	18,231
	<u>179,084</u>	<u>170,052</u>

10. Profit before taxation

Profit before taxation is arrived at after charging:

	2015 KShs'000	2014 KShs'000
Depreciation expense	21,229	20,832
Amortisation of prepaid operating lease rentals	61	61
Director's emoluments		
– Fees as non-executive	1,400	1,400
– Other*	10,864	10,496
Auditors' remuneration– Current year	2,350	2,350
	<u>21,229</u>	<u>20,832</u>

* Directors emoluments 'other' include sitting allowances, chairman's honorarium and director's travel expenses.

Notes (continued)

11. Taxation

	2015 KShs'000	2014 KShs'000
Current tax at 30%	62,812	102,713
Deferred tax debit (Note 21)	(3,964)	(3,979)
	<u>58,848</u>	<u>98,734</u>

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

	2015 KShs'000	2014 KShs'000
Accounting profit before tax	180,468	319,326
Computed tax using the applicable corporation tax rate of 30% (2014: 30%)	54,140	95,797
Non-deductible costs, on ineligible assets	4,708	2,937
Income tax expense	<u>58,848</u>	<u>98,734</u>

12. Dividend per share

The calculation of dividend per share is based on:

	2015	2014
Dividend proposed for the year (KShs'000)	-	40,000
Number of ordinary shares ('000)	52,125	17,375
Dividend per share (KShs)	<u>-</u>	<u>2.3</u>

13. Earnings per share

The calculation of basic earnings per share is based on:

Net profit for the year attributable to shareholders (KShs '000)	121,620	220,592
Number of ordinary shares ('000)	52,125	17,375
Earnings per share (KShs)	<u>2.33</u>	<u>12.69</u>

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

Notes (continued)

14. Cash and balances with Central Bank of Kenya

Group and Company	2015 KShs'000	2014 KShs'000
Cash on hand	76,905	73,145
Balances with Central Bank of Kenya:		
– Local currency cash reserve ratio	467,351	427,028
– Other	154,377	426,015
	<u>698,633</u>	<u>926,188</u>

The cash reserve ratio is non-interest earning and is based on the value of deposits as adjusted for Central Bank of Kenya requirements. At 31 December 2015, the cash reserve requirement was 5.25% (2014:5.25%) of all customer deposits. These funds are available to finance the bank's day-to-day operations in a limited way provided that on any given day the balance does not fall below the 3% minimum daily requirements and provided that the overall average in the month is at least 5.25%.

15. Investment in government securities

Group	2015 KShs'000	2014 KShs'000
Held to maturity		
<i>Treasury bonds:</i>		
Maturing within one year	6,029	351,986
Maturing after one year	5,041,361	5,232,696
Total held to maturity	<u>5,047,390</u>	<u>5,584,682</u>
Held for trading		
<i>Treasury bonds:</i>		
Maturing after one year	90,065	97,902
	<u>5,137,455</u>	<u>5,682,584</u>
Company		
Held to maturity		
<i>Treasury bonds:</i>		
Maturing within one year	-	351,986
Maturing after one year	5,020,241	5,211,561
Total held to maturity	<u>5,020,241</u>	<u>5,563,547</u>
Held for trading		
<i>Treasury bonds:</i>		
Maturing after one year	90,065	97,902
	<u>5,110,306</u>	<u>5,661,449</u>

The weighted average effective interest rate on government securities at 31 December 2015 was 11.53% (2014:11.52%).

Notes (continued)

16. Deposits and balances due from banking institutions

Group and Company

	2015 KShs'000	2014 KShs'000
Due within 90 days	1,854,087	739,469
Due between 3 months and 1 year	-	27,529
Due between 1 year and 5 year	<u>28,537</u>	<u>-</u>
Due within 90 days	<u><u>1,882,624</u></u>	<u><u>766,998</u></u>

The weighted average effective interest rate on placements with other banks at 31 December 2015 was 5.62% (2014: 2.68%).

17. Loans and advances to customers

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Overdrafts	3,562,188	3,562,188	2,284,119	2,284,119
Loans	5,041,090	4,985,342	6,726,463	6,669,822
Staff loans	<u>264,751</u>	<u>264,751</u>	<u>215,251</u>	<u>215,251</u>
	8,868,029	8,812,281	9,225,833	9,169,192
Less: Impairment losses reserves	<u>(824,091)</u>	<u>(768,343)</u>	<u>(698,201)</u>	<u>(641,560)</u>
	<u><u>8,043,938</u></u>	<u><u>8,043,938</u></u>	<u><u>8,527,632</u></u>	<u><u>8,527,632</u></u>
Maturing within one year	2,985,592	2,985,592	2,573,992	2,573,992
Over one year to three years	233,109	233,109	776,432	776,432
Over three years	<u>4,825,237</u>	<u>4,825,237</u>	<u>5,177,208</u>	<u>5,177,208</u>
	<u><u>8,043,938</u></u>	<u><u>8,043,938</u></u>	<u><u>8,527,632</u></u>	<u><u>8,527,632</u></u>

The weighted average effective interest rate on loans and advances to customers at 31 December 2015 was 16.30% (2014:13.92%).

Impairment losses reserves

Group	Specific impairment losses	Portfolio impairment losses	Total
	KShs'000	KShs'000	KShs'000
2015			
At 1 January 2015	622,577	75,624	698,201
Amounts written off during the year	(860)	-	(860)
Reversals on recovery during the year	(137,988)	-	(137,988)
Made during the year	<u>259,446</u>	<u>5,292</u>	<u>264,738</u>
At 31 December 2015	<u><u>743,175</u></u>	<u><u>80,916</u></u>	<u><u>824,091</u></u>

Notes (continued)

17. Loans and advances to customers (continued)

Impairment losses reserves (continued)

Group	Specific KShs'000	Portfolio KShs'000	Total KShs'000
2014			
At 1 January 2013	466,976	70,720	537,696
Amounts written off during the year	(5,412)	-	(5,412)
Reversals on recovery during the year	(152,664)	-	(152,664)
Made during the year	313,677	4,904	318,581
At 31 December 2014	622,577	75,624	698,201
Company			
2015			
At 1 January 2015	565,936	75,624	641,560
Amounts written off during the year	(215)	-	(215)
Reversals on recovery during the year	(137,516)	-	(137,516)
Made during the year	259,222	5,292	264,514
At 31 December 2015	687,427	80,916	768,343
2014			
At 1 January 2014	410,558	70,720	481,278
Amounts written off during the year	(5,412)	-	(5,412)
Reversals on recovery during the year	(152,664)	-	(152,664)
Made during the year	313,454	4,904	318,358
At 31 December 2014	565,936	75,624	641,560

Impairment losses on loans and advances charged to profit or loss

Group	2015 KShs'000	2014 KShs'000
Provisions during the year	264,738	318,581
Recovered during the year	(137,988)	(152,664)
Direct write offs	396	310
Recoveries of amounts previously written off	-	-
	<u>127,146</u>	<u>166,227</u>
Interest on impaired loans and advances which has not yet been received in cash	<u>92,307</u>	<u>77,335</u>

Impaired loans and advances

Loans and advances include an amount of KShs 1,175,428,000 (2014: KShs756, 329,000) net of impairment losses which have been classified as impaired loans and advances.

Estimated value of underlying collaterals amount to KShs 982,250,000 (2014: KShs 635, 374,000). The directors are of the opinion that recovery of the principal amounts thereof is not doubtful.

Notes (continued)

18. Equity investments

Group and Company

	2015 KShs'000	2014 KShs'000
Unquoted shares at cost:		
Chemelil Sugar Company Limited 150,000 ordinary shares of KShs 20 each	3,000	3,000
Pan African Paper Mills Limited 104,000 ordinary shares of KShs 20 each	2,080	2,080
Kenya Hotel Properties Limited 2,258,017 ordinary shares of KShs 20 each	802,499	802,499
Kenya United Steel Company Limited 180,000 ordinary shares of KShs 5 each	900	900
East Africa Sugar Industries Limited 100,000 ordinary shares of KShs 20 each	2,000	2,000
	<u>810,479</u>	<u>810,479</u>
Provision for impairment loss on investments		
East Africa Sugar Industries Limited	(2,000)	(2,000)
Pan African Paper Mills Limited	(2,080)	(2,080)
Kenya United Steel Company Limited	(900)	(900)
	<u>(4,980)</u>	<u>(4,980)</u>
	<u>805,499</u>	<u>805,499</u>

The above equity investments are accounted for at cost where there is no market or a reliable basis for fair valuing, otherwise they are carried at their fair values. The movement in the investments is as below:

	2015 KShs'000	2014 KShs'000
As at 1 January	805,499	46,153
Fair value adjustment	<u>-</u>	<u>759,346</u>
At 31 December	<u>805,499</u>	<u>805,499</u>

The fair value adjustment relates to the investment in Kenya Hotel Properties Limited. This gain was passed through other comprehensive income net of 5% capital gains tax.

Notes (continued)

19. Investment in subsidiary

Company	2015 KShs'000	2014 KShs'000
Shares at cost:		
Small Enterprises Finance Company Limited (SEFCO)	32,048	32,048

SEFCO is a wholly owned subsidiary of the bank. The subsidiary company is incorporated in Kenya.

20. Other assets

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Rent receivable	20,664	20,664	23,683	23,683
Uncleared effects	15,792	15,792	15,829	15,829
Prepayments	31,910	31,910	36,820	36,820
Other receivables	3,627	3,479	3,185	2,970
	71,993	71,845	79,517	79,302

21. Deferred tax asset/(liability)

Deferred income tax is calculated in full on all temporary differences under the liability method using a principal tax rate of 30% (2014: 30%). The movement on the deferred tax account is as follows:

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
At start of the year	(1,351)	(1,532)	32,637	32,486
Charged through profit or loss	3,964	3,934	3,979	3,949
Charged through other comprehensive income	-	-	(37,967)	(37,967)
	2,613	2,402	(1,351)	(1,532)

Notes (continued)

21. Deferred tax asset/(liability) (continued)

The deferred income tax assets and liabilities, deferred tax charge in the statement of profit or loss and deferred income tax charge through other comprehensive income are attributable to the following items:

Group

2014	At 1 January KShs'000	Charged to profit or loss KShs'000	Credited to other comprehensive income KShs'000	At 31 December KShs'000
Deferred income tax liabilities				
Fair value gain on equity investments	-	-	(37,967)	(37,967)
Deferred income tax assets				
Property and equipment	8,703	1,819	-	10,522
Portfolio impairment provisions on loans and advances	21,216	1,470	-	22,686
Other provisions	2,718	690	-	3,408
	32,637	3,979	-	36,616
	32,637	3,979	(37,967)	(1,351)
2015				
	At 1 January KShs'000	Charged to profit or loss KShs'000	Charge to other comprehensive income KShs'000	At 31 December KShs'000
Deferred income tax liabilities				
Fair value gain on equity investments	(37,967)	-	-	(37,967)
Deferred income tax assets				
Property and equipment	10,522	2,374	-	12,896
Portfolio impairment provisions on loans and advances	22,686	1,587	-	24,273
Other provisions	3,408	3	-	3,411
	36,616	3,964	-	40,580
	(1,351)	3,964	-	2,613

Notes (continued)

21. Deferred tax asset/(liability) (continued)

Company

2014	At 1 January KShs'000	Charged to profit or loss KShs'000	Credited to other comprehensive income KShs'000	At 31 December KShs'000
Deferred income tax liabilities				
Fair value gain on equity investments	-	-	(37,967)	(37,967)
Deferred income tax assets				
Property and equipment	8,703	1,819	-	10,522
Portfolio impairment provisions on loans and advances	21,216	1,470	-	22,686
Other provisions	2,567	660	-	3,227
	32,486	3,949	-	36,435
	32,486	3,949	(37,967)	(1,532)
2015	At 1 January KShs'000	Charged to profit or loss KShs'000	Charge to other comprehensive income KShs'000	At 31 December KShs'000
Deferred income tax liabilities				
Fair value gain on equity investments	(37,967)	-	-	(37,967)
Deferred income tax assets				
Property and equipment	10,522	2,374	-	12,896
Portfolio impairment provisions on loans and advances	22,686	1,587	-	24,273
Other provisions	3,227	(27)	-	3,200
	36,435	3,934	-	40,369
	(1,532)	3,934	-	2,402

Notes (continued)

22. Prepaid operating lease rentals

Group and Company	2015 KShs'000	2014 KShs'000
Cost		
At 1 January	6,000	6,000
Amortisation		
At 1 January	2,005	1,944
Amortisation for the year	<u>61</u>	<u>61</u>
At 31 December	<u>2,066</u>	<u>2,005</u>
Net carrying amount at 31 December	<u><u>3,934</u></u>	<u><u>3,995</u></u>

Notes (continued)

23. Property and equipment

Group and Company

2014

Cost

At 1 January 2014

Additions

At 31 December 2014

Depreciation

At 1 January 2014

Charge for the year

At 31 December 2014

Net book amount at 31 December

	Building KShs'000	Leasehold improvements KShs'000	Furniture and equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work inprogress KShs'000	Total KShs'000
At 1 January 2014	123,425	62,499	101,528	45,268	31,117	3,331	367,168
Additions	-	539	1,581	2,302	-	2,383	6,805
At 31 December 2014	123,425	63,038	103,109	47,570	31,117	5,714	373,973
At 1 January 2014	32,991	16,695	85,449	40,678	26,212	-	202,025
Charge for the year	1,356	10,556	3,508	2,870	2,542	-	20,832
At 31 December 2014	34,347	27,251	88,957	43,548	28,754	-	222,857
Net book amount at 31 December	89,078	35,787	14,152	4,022	2,363	5,714	151,116

Notes (continued)

23. Property and equipment (continued)

Group and Company 2015	Building KShs'000	Leasehold improvements KShs'000	Furniture and equipment KShs'000	Computers KShs'000	Motor vehicles KShs'000	Capital work in progress KShs'000	Total KShs'000
Cost							
At 1 January 2015	123,425	63,038	103,109	47,570	31,117	5,714	373,973
Additions	-	-	673	2,695	10,317	97,430	111,115
Disposals	-	-	-	(80)	-	-	(80)
At 31 December 2015	123,425	63,038	103,782	50,185	41,434	103,144	485,008
Depreciation							
At 1 January 2015	34,347	27,251	88,957	43,548	28,754	-	222,857
Charge for the year	1,356	10,546	3,638	2,879	2,810	-	21,229
Disposals	-	-	-	(10)	-	-	(10)
At 31 December 2015	35,703	37,797	92,595	46,417	31,564	-	244,076
Net book amount at 31 December	87,722	25,241	11,187	3,768	9,870	103,144	240,932

Notes (continued)

24. Deposits and balances due to other banks

Group and Company	2015 KShs'000	2014 KShs'000
Payable within 90 days	809,906	2,618,018
Payable between 3 months and one year	<u>1,227,987</u>	<u>226,506</u>
	<u><u>2,037,893</u></u>	<u><u>2,844,524</u></u>

The weighted average effective interest rate on deposits from other banks at 31 December 2015 was 2.01% (2014: 3.87%).

25. Deposits from customers

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
From government and parastatals	1,160,993	1,160,993	881,728	881,728
From private sector and individuals	<u>8,491,801</u>	<u>8,504,117</u>	<u>7,566,535</u>	<u>7,582,819</u>
	<u><u>9,652,794</u></u>	<u><u>9,665,110</u></u>	<u><u>8,448,263</u></u>	<u><u>8,464,547</u></u>

Included in the Company customers deposits is KShs 12,316,000 (2014: KShs 16,284,000) due to the subsidiary company. Interest paid on these deposits during the year amounted to KShs 161,000 (2014: KShs 151,000).

The weighted average effective interest rate on customer deposits at 31 December 2015 was 15.28% (2014: 9.05%).

26. Loan capital

Group and Company	2015 KShs'000	2014 KShs'000
East African Development Bank (EADB)	16,887	109,677
European Investment Bank	21,163	21,163
Industrial & Commercial Development Corporation (ICDC)	-	53,369
Oriental Commercial Bank	199,221	-
Standard Chartered Bank Kenya Limited	750,000	1,250,609
China Development Bank	<u>1,145,575</u>	<u>1,183,229</u>
	<u><u>2,132,846</u></u>	<u><u>2,618,047</u></u>

Notes (continued)

26. Loan capital (continued)

Repayments	2015 KShs'000	2014 KShs'000
Less than one year	565,727	802,821
Between one and five years	1,261,221	1,268,368
Over 5 years	305,898	546,858
	<u>2,132,846</u>	<u>2,618,047</u>

The weighted average effective interest rate on loan capital at 31 December 2015 was 6.52% (2014:6.67%).

27. Other liabilities

	2015		2014	
	Group KShs'000	Company KShs'000	Group KShs'000	Company KShs'000
Bills payable	9,080	9,080	10,331	10,331
Rent deposit	16,007	16,007	14,842	14,842
Deutsche Investitions-und EntwicklungsgesellschaftmbH (DEG) retained funds	122,959	122,959	120,531	120,531
Payable to Government of Kenya	65,281	65,281	65,281	65,281
Provisions and accruals	32,901	30,748	38,271	36,239
Other liabilities	18,841	19,170	10,371	10,700
	<u>265,069</u>	<u>263,245</u>	<u>259,627</u>	<u>257,924</u>

28. Share capital

	2015 KShs'000	2014 KShs'000
Authorised, issued and fully paid		
17,375,000 ordinary shares of KShs 20 each	347,500	347,500
34,750,000 ordinary shares of KShs 20 each	695,000	-
	<u>1,042,500</u>	<u>347,500</u>

The shareholders are entitled to receive dividends declared from time to time and are entitled to one vote per share at annual and other general meetings of the Company.

During the year, the Bank issued 34,750,000 bonus shares paid out of retained earnings. Total number of shares in issue 52,125,000 (2014: 17,375,000)

Notes (continued)

29. Cash and cash equivalents

	2015	2014
	KShs'000	KShs'000
Group		
Cash in hand (Note 14)	76,905	73,145
Balances with Central Bank of Kenya (Note 14)	154,377	426,015
Deposits and balances due from banks (Note 16)	1,882,624	766,998
Deposits and balances due to banks (Note 24)	<u>(2,037,893)</u>	<u>(2,844,524)</u>
	<u><u>76,013</u></u>	<u><u>(1,578,366)</u></u>

30. Contingencies

At any time the Group has outstanding commitments to extend credit. These commitments take the form of approved loans and overdraft facilities. At 31 December 2015, interest rates on loans and overdrafts ranged from 3.00% to 20.24% (2014:4.00% to 21.00%). The contractual amounts of commitments are set out below:

a) Commitments to extend credit with respect to:

	2015	2015
	KShs'000	KShs'000
Undrawn loans	474,720	197,632
Undrawn overdraft facilities	16,765	155,297
Unutilised guarantees and letters of credit	<u>13,047</u>	<u>5,580</u>
	<u><u>504,532</u></u>	<u><u>358,509</u></u>

At 31 December 2015, interest rate on facilities subject to commitments ranged from 3.00% to 20.24% (2014: 5.00% to 19.50%).

b) Commitments with respect to outstanding off-balance items

	2015	2014
	KShs'000	KShs'000
Guarantees	714,403	555,213
Acceptances	46,459	44,174
Letters of credit	70,556	62,283
Undelivered spots	<u>92</u>	<u>92</u>
	<u><u>831,510</u></u>	<u><u>661,762</u></u>

Notes (continued)

30. Contingencies (continued)

c) Nature of contingent liabilities

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

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

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

d) Litigations against Small Enterprises Finance Company Limited (SEFCO)

Litigations against the subsidiary company, SEFCO, arising from normal cause of business have been lodged by some customers. The likely outcome of these cases cannot be objectively determined as at the date of signing of these financial statements. However, the Directors do not anticipate that any liability will arise from these suits.

31. Operating leases

The Company leases out part of its building under operating leases. The operating lease rentals receivable are as follows:

	2015	2014
	KShs'000	KShs'000
Less than one year	31,261	28,159
Between one and five years	135,689	27,333
Over five years	42,845	146,580
	<u>209,795</u>	<u>202,072</u>

The leases typically run for an initial period of between two to six years with an option to renew the lease after that date. None of the leases include contingent rentals. During the year KShs 42,305,115 (2014: KShs 40,132,000) was recognised as rental income in the statement of comprehensive income and KShs 3,864,214 (2014: KShs 5,591,953) in respect of repairs and maintenance relating to the building.

Notes (continued)

32. Related party transactions

(a) Loans and advances to employees

	2015 KShs'000	2014 KShs'000
Balance at 1 January	215,251	207,987
Loans advanced during the year	108,566	49,513
Loans repayments received	(69,733)	(42,250)
Balance at 31 December	254,084	215,250

Interest earned on staff loans during the year amounted to KShs 14,746,481(2014:KShs13,708,625).

(b) Loan and advances to directors and their associates

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

	2015 KShs'000	2014 KShs'000
Gross amount at 1 January	451,050	384,263
Interest charged	47,923	43,755
Loans disbursed	168,838	66,415
Cash received	(162,104)	(43,383)
Net amount at 31 December	505,707	451,050

(c) Included in deposits is KShs 12,316,000 (2014: KShs16,284,000) due to a subsidiary company. Interest paid on these deposits during the year amounted to KShs 161,000 (2014: KShs 151,000).

(d) Compensation to senior management for the year ended 31 December 2015 amounted to KShs 59,690,894 (2014: KShs 49,067,876).

33. Assets pledged as security

Financial assets that may be repledged or resold by counterparties

As at 31 December 2015, Government securities amounting to KShs 1,112.2 million (2014: KShs 1,517.8 million) were pledged as security against loans from Standard Chartered Bank Kenya Limited and East African Development Bank and Oriental Commercial Bank. These transactions are conducted under terms that are usual and customary to standard lending, and securities borrowing and lending activities.

IDB CAPITAL LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the preparation and presentation of the financial statements of IDB Capital Limited set out on pages 22 to 63 which comprise the statement of financial position at 30 June 2016, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and the statement of cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

The Directors' responsibilities include: determining that the basis of accounting described in Note 2 is an acceptable basis for preparing and presenting the financial statements in the circumstances, preparation and presentation of financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Under the Kenyan Companies Act, 2015, the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the operating results of the Company for that year. It also requires the Directors to ensure the Company keeps proper accounting records which disclose with reasonable accuracy the financial position of the Company.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its operating results.

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 22 September 2016 and were signed on its behalf by:



Prof. Michael Bowen
Chairman



Wilfred Musau
Director

Date: 22 September 2016

IDB CAPITAL LIMITED

STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 KShs'000	2015 KShs'000
Interest income	6	121,504	91,318
Non-interest income	7	3,606	2,150
Other operating income	8	<u>620</u>	<u>-</u>
Total operating income		<u>125,730</u>	<u>93,468</u>
Other (loss)/income			
Net impairment loss on loans and advances	9	(11,953)	(1,030)
Other income	10	<u>1,495</u>	<u>843</u>
Total other loss		<u>(10,458)</u>	<u>(187)</u>
Total income		<u>115,272</u>	<u>93,281</u>
Operating expenses			
Staff costs	11	(53,629)	(51,196)
Administrative expenses	11	(29,006)	(25,636)
Operating lease expenses	11	(8,952)	(6,841)
Depreciation and amortisation	11	<u>(2,881)</u>	<u>(3,503)</u>
Total operating expenses		<u>(94,468)</u>	<u>(87,176)</u>
Profit before tax	12	20,804	6,105
Tax expense	13	<u>-</u>	<u>-</u>
Profit for the year attributable to the owners of the Company		<u>20,804</u>	<u>6,105</u>
Dividends:			
Final – proposed	14	<u><u>352</u></u>	<u><u>235</u></u>

The notes set out on pages 27 to 63 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 KShs'000	2015 KShs'000
Profit for the year		<u>20,804</u>	<u>6,105</u>
Other comprehensive income			
Actuarial loss on remeasurement on defined benefit assets	21	(<u>4,465</u>)	(<u>927</u>)
		(<u>4,465</u>)	(<u>927</u>)
Total comprehensive income for the year attributable to the owners of the Company		<u>16,339</u>	<u>5,178</u>
Earnings per share attributable to the owners of the Company			
Basic and diluted earnings per share (KShs)	15	<u>0.51</u>	<u>0.15</u>

The notes set out on pages 27 to 63 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2016

ASSETS	Note	2016 KShs'000	2015 KShs'000
Current assets			
Cash and bank balances	16	8,052	15,658
Deposits with financial institutions	17	210,445	331,362
Loans and advances to customers	18(d)	136,587	80,963
Current tax recoverable		32,157	26,870
Other assets	19	<u>4,955</u>	<u>10,254</u>
		392,196	465,107
Non-current assets			
Loans and advances to customers	18(d)	434,703	344,962
Financial assets (unquoted)	20	28,905	28,731
Defined benefit asset	21	925	2,874
Property, plant and equipment	22	8,447	4,573
Intangible assets	23	<u>2,342</u>	<u>1,193</u>
		475,322	382,333
TOTAL ASSETS		<u>867,518</u>	<u>847,440</u>
LIABILITIES AND EQUITY			
Current liabilities			
Other liabilities	25	<u>12,378</u>	<u>8,639</u>
Shareholders' funds			
Share capital	26	810,020	810,020
Retained earnings		44,768	28,546
Proposed dividends	14	<u>352</u>	<u>235</u>
Total equity		<u>855,140</u>	<u>838,801</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>867,518</u>	<u>847,440</u>

The financial statements on pages 22 to 63 were approved for issue by the board of directors on 22 September 2016 and were signed on its behalf by:



Prof. Michael Bowen
Chairman



Timothy Tiampati
Ag. Managing Director



Wilfred Musau
Director

The notes set out on pages 27 to 63 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2016

2015:	Note	Share capital KShs'000	Fair value reserve KShs'000	Retained earnings KShs'000	Proposed dividends KShs'000	Total KShs'000
At 1 July 2014		810,020	180,290	(156,687)	-	833,623
Profit for the year		-	-	6,105	-	6,105
Other comprehensive income		-	-	(927)	-	(927)
Transfer from fair value reserve to revenue reserve		-	(180,290)	180,290	-	-
Total comprehensive income for the year		-	(180,290)	185,468	-	5,178
Transactions with owners recorded directly in equity						
Proposed dividends for 2015		-	-	(235)	235	-
At 30 June 2015		810,020	-	28,546	235	838,801
2016:						
At 1 July 2015		810,020	-	28,546	235	838,801
Profit for the year		-	-	20,804	-	20,804
Other comprehensive income		-	-	(4,465)	-	(4,465)
Transfer		-	-	235	(235)	-
Total comprehensive income for the year		-	-	16,574	(235)	16,339
Transactions with owners recorded directly in equity						
Proposed dividends for 2016	14	-	-	(352)	352	-
At 30 June 2016		810,020	-	44,768	352	855,140

The fair value reserve balance relating to changes in fair value of available-for-sale financial assets was transferred to revenue reserve on disposal of shares in Almasi Beverages Limited.

The notes set out on pages 27 to 63 form an integral part of these financial statements.

IDB CAPITAL LIMITED

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2016

	Note	2016 KShs'000	2015 KShs'000
Cash flows from operating activities			
Profit for the year		20,804	6,105
Adjustments for:			
Depreciation of property, plant and equipment	22	2,088	2,659
Amortisation of intangible assets	23	793	844
Gain on disposal of property, plant and equipment	10	(1,296)	-
Write-off of property, plant and equipment		37	22
Exchange gain on retranslation of investments	20	(174)	(773)
Movements in defined benefit asset	21	(2,516)	(927)
Dividend income on financial assets (Unquoted)	8	(620)	-
Operating profit before changes in operating assets and liabilities		<u>19,116</u>	<u>7,930</u>
Changes in operating assets and liabilities			
Other assets		5,299	(3,315)
Defined benefit asset		-	545
Loans and advances to customers		(145,365)	29,772
Other liabilities		<u>3,739</u>	<u>1,320</u>
Cash generated from operating activities		(117,211)	36,252
Dividends received		620	-
Income tax paid		(5,287)	(2,663)
Net cash from operating activities		<u>(121,878)</u>	<u>33,589</u>
Cash flows from investing activities			
Proceeds from disposal of property plant and equipment		1,296	-
Purchase of property, plant and equipment	22	(5,999)	(469)
Purchase of intangible assets	23	(1,942)	-
Proceeds from disposal of financial assets		-	<u>182,726</u>
Net cash from investing activities		<u>(6,645)</u>	<u>182,257</u>
Net (decrease)/increase in cash and cash equivalents		(128,523)	215,846
Cash and cash equivalents at start of the year		<u>347,020</u>	<u>131,174</u>
Cash and cash equivalents at end of the year	27	<u>218,497</u>	<u>347,020</u>

The notes set out on pages 27 to 63 form an integral part of these financial statements.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016**

1. REPORTING

The Company is incorporated as a limited liability company in Kenya under the Kenyan Companies Act, and is domiciled in Kenya. The address of its registered office is as follows: 18th Floor, National Bank Building, Harambee Avenue, P.O. Box 44036 – 00100 Nairobi.

2. BASIS OF PREPARATION

(a) Statement of compliance

The financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS), the Public Finance Management Act and the Kenya Companies Act, 2015.

For the Kenyan Companies Act, 2015, reporting purposes, the balance sheet is represented by the statement of financial position and the profit or loss account by the statement of profit or loss and other comprehensive income, in these financial statements.

(b) Basis of measurement

The financial statements are prepared on a going concern basis under 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 Company uses market observable data as far as possible. If the fair value of an asset or a liability is not directly observable, it is estimated by the company 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 (i.e. as prices) or indirectly (i.e. 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.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

2. BASIS OF PREPARATION (Continued)

(c) Going concern

The Company recorded a net profit of KShs 20.8 million for the year ended 30 June 2016 (2015 – KShs 6.1 million) and, as of that date the Company had accumulated profits of KShs 44.8 million (2015 – KShs 28.5 million).

(d) Functional and presentation currency

These financial statements are presented in Kenya shillings (KShs), which is also the Company's functional currency. Except as indicated, financial information presented in Kenya shillings has been rounded to the nearest thousand.

(e) Use of estimates and judgements

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events, actual results may ultimately differ from those estimates.

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

In particular information about significant areas of estimation and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in Note 4.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements have been consistently applied to all the years presented are set out below:

(a) Revenue recognition

Revenue is derived substantially from interest earned from loans and advances to customers and bank deposits. The interest 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 Company.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Revenue recognition (continued)

The specific revenue recognition policies for interest income, fee income and dividend income are set out in below:

(i) *Net interest income*

Interest income is recognised in the profit and loss account on accrual basis for all interest bearing instrument taking into account the effective yield on the asset. When loans become impaired, they are written down to their recoverable amount and interest income is thereafter recognised based on the rate of interest that was used to discount the future cash flows for the purposes of measuring the recoverable amount.

(ii) *Fee income*

Fee and commission relate mainly to transactions and services, which are earned as the services are rendered.

(iii) *Dividend income*

Dividend income is recognised when the shareholder's right to receive payment is established.

(b) 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 Company 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 liabilities 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.

(c) 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.

(d) Income taxes

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Income taxes (continued)

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the relevant tax legislation. The current income tax charge is calculated on the basis of the tax enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred income tax assets are recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

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

(e) Share capital

Ordinary shares are recognised at par value and classified as 'share capital' in equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity net of tax effects.

(f) Dividends

Dividends on ordinary shares are recognised as a liability in the year in which they are declared. Proposed dividends are accounted for as a separate component of equity until they have been declared at an annual general meeting.

(g) 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.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments

(i) Classification

The Company classifies its financial instruments into the following categories:

- i) Loans and receivables, which comprise non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, and excludes assets which the entity intends to sell immediately or in the near term or those which the entity upon initial recognition designates as at fair value through profit or loss or as available-for-sale financial assets.
- ii) Available-for-sale financial assets, which comprise non-derivative financial assets that are designated as available-for-sale financial assets, and not classified under any of the other categories of financial assets.
- iii) Financial liabilities, which comprise all financial liabilities except financial liabilities at fair value through profit or loss.

Financial instruments held during the year were classified as follows:

- Demand and term deposits with banking institutions and trade and other receivables were classified as 'loans and receivables';
- Investments in quoted and non-quoted shares were classified as available-for-sale financial assets; and
- Trade and other liabilities were classified as financial liabilities.

(ii) Recognition and measurement

Financial assets

All financial assets are recognised initially using the trade date accounting which is the date the company commits itself to the purchase or sale. Financial assets carried at fair value through profit or loss are initially recognised at fair value and the transaction costs are expensed in the profit and loss account. All other categories of financial assets are recorded at the fair value of the consideration given plus the transaction cost.

Amortised cost is the amount at which the financial asset or liability is measured on 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.

The Company assesses at each balance sheet whether there is objective evidence that a financial asset is impaired.

If any such evidence exists, an impairment loss is recognised. Impairment loss is the amount by which the carrying amount of an asset exceeds its recoverable amount. In the case of held-to-maturity investments and loans and receivables, the recoverable amount is the present value of the expected future cash flows, discounted using the asset's effective interest rate.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial instruments (continued)

(ii) *Recognition and measurement - continued*

Changes in fair value for available-for-sale financial assets are recognised in other comprehensive income, except for impairment losses (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that asset previously recognised in profit or loss), which are recognised in the profit and loss account. In the year of sale, the cumulative gain or loss recognised in other comprehensive income is recognised in the profit or loss account as a reclassification adjustment.

Financial liabilities:

All financial liabilities are recognised initially at fair value of the consideration given plus the transaction cost with the exception of financial liabilities carried at fair value through profit or loss, which are initially recognised at fair value and the transaction costs are expensed in the profit and loss account.

Subsequently, all financial liabilities are carried at amortised cost using the effective interest method except for financial liabilities through profit or loss which are carried at fair value.

Derecognition

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

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

Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(i) 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.

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Post-employment benefit obligations

(i) *Defined Benefit Scheme*

The asset/liability recognised in the balance sheet in respect of the defined benefit scheme is the present value of the defined benefit obligations at the balance sheet date less the fair value of the plan assets. The defined obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates of high-quality corporate bonds that are denominated in the functional currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

The following components of defined benefit cost are included in profit or loss:

- The service cost of the defined benefit plan (comprising current service costs, past service costs (including curtailment gains or losses) at any gain or loss settlement).
- The net interest on the net defined benefit liability/asset.

Remeasurements of the net defined liability/asset are recognised in other comprehensive income, with no reclassification to profit or loss in a subsequent period. Remeasurements comprise actuarial gain/loss and the return on plan assets, excluding amounts included in net interest on the net defined benefit liability/asset.

With effective 31st December 2011 the scheme closed to new entrants. Member aged below 45 years as at 31 December 2011 ceased accrual in the scheme as at this date. In addition, members above 45 years had the option to continue accruing benefits in the scheme but all active members above 45 years opted to join the new defined contribution arrangement and therefore future accrual in the scheme ceased with effect from 1 January 2012. This change in the arrangement has triggered a curtailment under IAS 19, the impact of which has been determined and reflected in Note 21.

(ii) *Statutory defined contribution plan*

The company also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are by the requirements of local statute and are currently limited to KShs 200 per employee per month. The Company's contributions to the above schemes are charged to profit or loss in the year to which they relate.

(iii) *Termination benefits*

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Post-employment benefit obligations (continued)

(iv) *Short term employee benefits*

Employees' entitlements to annual leave are charged to the profit or loss as they fall due. A liability is recognised for the amount to be paid for the annual leave days outstanding and short term cash bonus plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(k) 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:

	Rate %
Furniture and fittings	12.50
Computers, copiers and faxes (under office equipment)	25.00
Computers hardware - server (under office equipment)	12.50
Office equipment - others	12.50
Furnishings (other assets)	12.50
Motor vehicles	16.70

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.

(l) Intangible assets

Software license 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 license or item of software to its residual value over its estimated useful life of five years.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Impairment of non-financial assets

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

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash inflows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro-rata basis. The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(n) Cash and cash equivalents

Cash and cash equivalents for the purposes of the statement of cash flows comprise cash in hand, balances 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, treasury bills and other eligible bills, amount due from banks.

(o) Provisions

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

(p) Contingent liabilities

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

(q) Comparatives

The comparative figures have been regrouped and reclassified to conform to current year presentation.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations

(i) *New standards, amendments and interpretations effective and adopted during the year*

- *Defined benefit plans – Employee contributions (Amendments to IAS 19)*

The amendments introduced reliefs that reduce the complexity and burden of accounting for certain contributions from employees or third parties. Such contributions are eligible for practical expedience if they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When contributions are eligible for practical expedience, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments apply retrospectively for annual periods beginning on or after 1 July 2014.

The adoption of these changes did not significantly affect the amounts and disclosures of the Company's defined benefits obligations, as the scheme was closed in 2011.

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016*

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

All Standards and interpretations will be adopted at their effective date (except for those Standards and Interpretations that are not applicable to the Company).

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 - continued*

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

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

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

The adoption of these changes will not affect the amounts and disclosures of the Company's transactions as the Company does not have joint ventures.

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

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interest in the joint operation will not be remeasured.

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

The adoption of these changes would not affect the amounts and disclosures of the Company's financial statements as the Company does not have joint operations.

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

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 - continued*

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

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

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

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

The adoption of these changes will not have a significant impact on the amounts and disclosures of the Company's property, plant and equipment and intangible assets.

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

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

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

The adoption of these changes will not have a significant impact on the amounts and disclosures of the Company's interest in other entities.

- *IFRS 14 Regulatory Deferral Accounts*

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

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 - continued*

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

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

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

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

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

The adoption of these changes will not have a significant impact amounts and disclosures of the Company's interests in other entities.

- *Disclosure Initiative (Amendments to IAS 1)*

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

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

The Company is currently in the process of evaluating the potential effect of this standard on the financial statements.

- *IFRS 15 Revenue from Contracts with Customers*

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

The standard contains a single model that applies to contracts with customers and two approaches to recognising revenue: at a point in time or over time.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 - continued*

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

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

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

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

- *IFRS 9: Financial Instruments (2014)*

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

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

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

The adoption of this standard is expected to have a significant impact on the financial statements of the Company and management is assessing the potential impact on its financial statements.

- *IFRS 16: Leases*

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) New standards, amendments and interpretations (continued)

(ii) *New and amended standards and interpretations in issue but not yet effective for the year ended 30 June 2016 - continued*

- *IFRS 16: Leases - continued*

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

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

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

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

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

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

The Company is assessing the potential impact on its financial statements.

4. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The Directors are responsible for selecting and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

(a) Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below:

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

4. SIGNIFICANT JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(a) Critical accounting estimates and assumptions (continued)

(i) Allowance for credit losses

Assets accounted for at amortised costs are evaluated for impairment on a basis described in accounting policy. The specific component of total allowances for impairment applies to loans and advances evaluated individually for impairment and are based upon management's best estimate of the present value of cash flows that are expected to be received. In estimating these cash flows, management makes judgements about a debtor's financial situation and the net realizable value of any underlying collateral. Estimate of cash flows considered recoverable are independently approved by the Credit Risk committee.

Collectively assessed impaired allowances cover credit losses inherent in portfolios of loans and advances with similar economic characteristics when there is objective evidence to suggest that they contain impaired loans and advances but the individual impaired items cannot yet be identified. In considering the collective loan loss allowances, management considers the historical loan loss rate and the emergence period. The accuracy of the allowance depends on how well these estimate future cash flows for specific debtor's allowances and the model assumptions and parameters used in determining collective allowances.

(ii) Carrying value of unquoted equity investments

Unquoted equity investments, are stated at cost in accordance with the Company's accounting policy, and where the carrying amount (cost) is less than the fair value, the unquoted investments are impaired.

(iii) Taxation

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

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

The Company tests annually whether the useful life and residual value estimates were appropriate and in accordance with its accounting policy. Useful lives and residual values of property and equipment have been determined based on previous experience and anticipated disposal values when the assets are disposed.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS **FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)**

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

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 lending business, operational risks and reputational risks are a normal consequence of 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.

Risk management framework

The board of directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The board has established the Asset and Liability (ALCO), Credit and Operational Risk committees, which are responsible for developing and monitoring Company 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 Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

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

(a) Credit risk

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

The board of directors has delegated responsibility of the management of credit risk to its Board Credit Committee. A separate entity credit management committee reporting to the Board Credit Committee is responsible for oversight of the Company's credit risk.

The Company's credit exposure at the reporting date from financial instruments held or issued for trading purposes is represented by the fair value of instruments with a positive fair value at that date, as recorded on the statement of financial position.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

The risk that the counter-parties to trading instruments might default on their obligation is monitored on an ongoing basis. In monitoring credit risk exposure, consideration is given to trading instruments with a positive fair value and to the volatility of the fair value of trading instruments over their remaining life.

To manage the level of credit risk, the Company deals with counter parties of good credit standing and when appropriate obtains collateral.

The Company also monitors concentrations of credit risk that arise by industry and type of customer in relation to the entity's loans and advances to customers by carrying a balanced portfolio. The Company has no significant exposure to any individual customer or counter-party.

To determine impairment of loans and advances, the Company assesses whether it is probable that it will be unable to collect all principal and interest according to the contractual terms of the loans and advances.

The carrying amount of financial assets represents the maximum exposure to credit risk. The maximum exposure of credit risk at the reporting date was:

	2016	2015
<i>Carrying amount:</i>	KShs '000	KShs '000
Loans and advances to customers - Net (Note 18)	571,290	425,925
Deposits with financial institution (Note 17)	210,445	331,622
Interest receivable on deposits (Note 19)	1,939	4,435
Cash at bank (Note 16)	<u>8,005</u>	<u>15,643</u>
Total	<u>791,679</u>	<u>777,625</u>

Loans and advances to customers

The maximum exposure to credit risk from loans and advances to customers is KShs 571 million (2015: KShs 426 million), which is 66% (2015: 50%) 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:

- Not limited to the client registered information;
- Business plan and feasibility study; and
- Cash flow projections.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

The Company 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. 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 Company monitors default of individual borrowers by using internal rating methods. Loans and advances are graded into the following categories:

- Normal
- Watch
- Substandard
- Doubtful
- Loss

	2016	2015
	KShs '000	KShs '000
<i>Individually impaired:</i>		
Grade 3: Impaired – Substandard	92,166	-
Grade 4: Impaired – Doubtful	-	-
Grade 5: Impaired – Loss	<u>6,459</u>	<u>6,759</u>
	98,625	6,759
Allowance for impairment	<u>(19,209)</u>	<u>(6,759)</u>
Carrying amount	<u>79,416</u>	<u>=</u>
<i>Collectively impaired:</i>		
Grade 2: Watch	148,618	-
Grade 1: Normal	<u>345,323</u>	<u>427,788</u>
	493,941	427,788
Portfolio impairment provision	<u>(2,067)</u>	<u>(1,863)</u>
Carrying amount	<u>491,874</u>	<u>425,925</u>
Total carrying amount	<u>571,290</u>	<u>425,925</u>

Impaired loans and securities

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Credit risk (continued)

Past due but not impaired loans

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

Loans with renegotiated terms

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

Allowances for impairment

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

Write off policy

The Company writes off a loan balance (and any related allowances for impairment losses) when the Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

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

<i>Loans and advances</i>	Gross KShs'000	Net KShs'000
30 June 2016:		
Grade 3: Individually impaired	92,166	79,416
Grade 4: Individually impaired	-	-
Grade 5: Individually impaired	<u>6,459</u>	<u>-</u>
	<u>98,625</u>	<u>74,416</u>
30 June 2015:		
Grade 3: Individually impaired	-	-
Grade 4: Individually impaired	-	-
Grade 5: Individually impaired	<u>6,759</u>	<u>6,759</u>
	<u>6,759</u>	<u>6,759</u>

The Company holds collaterals against loans and advances to customers in the form of a mortgage interests over property, other registered securities over assets, and guarantees. The fair value of collateral held against impaired loans is KShs 278.9 million at 30 June 2016.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) 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.

The Company continually assesses liquidity risk by identifying and monitoring changes in funding required to meet business goals and targets set in terms of the overall Company strategy. In addition, the Company holds a portfolio of liquid assets as part of its liquidity risk management strategy.

The liquidity ratios at the reporting date and during the reporting period (based on month end ratios) were as follows:

The liquidity ratio at the balance sheet date was:	2016	2015
At 30 June	1,561%	4,687%
Average for the year	2,204%	2,635%
Highest for the year	3,585%	5,115%
Lowest for the year	1,561%	1,305%

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.

	Up to 1 month KShs'000	1 - 3 months KShs'000	3 - 12 months KShs'000	1 - 5 years KShs'000	Total KShs'000
At 30 June 2016					
Financial liabilities					
Other liabilities	466	11,384	528	-	12,378
Total financial liabilities	<u>466</u>	<u>11,384</u>	<u>528</u>	<u>-</u>	<u>12,378</u>
At 30 June 2015					
Financial liabilities					
Other liabilities	8,639	-	-	-	8,639
Total financial liabilities	<u>8,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,639</u>

(c) Market risk

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.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

All trading instruments are subject to market risk, the risk that the future changes in market conditions may make an instrument less valuable or more onerous. The Company manages its use of trading instruments in response to changing market conditions. Exposure to market risk is formally managed in accordance with risk limits set by senior management and the asset liability committee. The authority for market risk is vested in the Investment Committee. The Company is primarily exposed to interest rate risk and currency risk.

(i) Interest rate risk

This is the risk of loss from fluctuations in the future cash flows of fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps. A summary of the Company's interest rate gap position reflecting assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates is shown below:

	Effective interest rate	Interest bearing KShs'000	Non-interest bearing KShs'000	Total KShs'000
At 30 June 2016				
Assets				
Cash in hand		-	47	47
Bank deposits and balances	14%	210,445	8,005	218,450
Loans and advances to customers	14.5%	472,665	98,625	571,290
Equity investments (Unquoted)		-	28,905	28,905
Current tax recoverable		-	32,157	32,157
Other assets			4,955	4,955
At 30 June 2016		683,110	172,694	855,804
Equity and liabilities				
Other liabilities			12,378	12,378
At 30 June 2016		-	12,378	12,378
Interest rate sensitivity – 2016		683,110	160,316	843,426
At 30 June 2015				
Assets				
Cash and bank		-	15,658	15,658
Bank deposits	11.47%	331,362	-	331,362
Loans and advances to customers	16.66%	425,925	-	425,925
Equity investments (Unquoted)		-	28,731	28,731
Other assets		-	10,254	10,254
At 30 June 2015		757,287	54,643	811,930
Equity and liability				
Other liabilities			8,639	8,639
At 30 June 2015		-	8,639	8,639
Interest rate sensitivity – 2015		757,287	46,004	803,291

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(i) Interest rate risk - continued

A change of 1 % in interest rates would have increased or decreased profit or loss by KShs 6,831,000 (2015: KShs 7,573,000). The Company's operations are subject to the risks of interest rate fluctuations to the extent that the interest earning assets (including investments) and interest bearing liabilities mature or re-price at different times or in differing amounts. Risk management activities are aimed at optimising net interest income, given market interest rate levels consistent with the Company's business strategies.

The Company does not have any significant interest rate risk exposures. An analysis of the Company's sensitivity to an increase or decrease in market interest rates on interest bearing assets and liabilities, assuming no asymmetrical movement in yield curves and a constant financial position is as follows on profit or loss:

Assets	2016		2015			
	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000	Carrying amount KShs'000	1% Increase KShs'000	1% Decrease KShs'000
Cash in hand	-	-	-	15,658	-	-
Bank deposits and balances	210,445	(2,104)	2,104	331,362	(3,314)	3,314
Loans and advances to customers	472,665	(4,727)	4,727	425,925	(4,259)	4,259
Equity investments (Unquoted)	28,905	-	-	28,731	-	-
Current tax recoverable	32,157	-	-	10,254	-	-
Other assets	4,955	-	-	15,658	-	-
	855,504	-	-	811,930	-	-
Equity and liabilities						
Other liabilities	12,378	-	-	8,639	-	-
	12,378	-	-	8,639	-	-
Net interest income increase/(decrease)	-	(6,831)	6,831	-	(7,573)	7,573
Tax charge @ 30%	-	2,049	(2,049)	-	2,272	(2,272)
Impact on profit after tax	-	(4,782)	4,782	-	(5,301)	5,301

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(ii) Currency risk

The Company is exposed to currency risk through transactions in foreign currencies. The entity's transactional exposure gives rise to foreign currency gains and losses that are recognised in the profit and loss account. In respect of monetary assets and liabilities in foreign currencies, the company ensures that its net exposure is kept to an acceptable level by buying and selling foreign currencies at spot rates when considered appropriate. The table below analyses the currencies to which the Company is exposed to as at 30 June 2016 and 30 June 2015.

The significant currency positions are detailed below:

At 30 June 2016	US KShs'000	Euros KShs'000	Total KShs'000
Assets			
Cash and balances with banks	491	147	638
Other assets	7,105	-	7,105
Total assets	7,596	147	7,743
Liabilities			
Other liabilities	-	-	-
Net balance sheet position	7,596	147	7,743
At 30 June 2015			
Assets			
Cash and balances with banks	686	153	839
Other assets	6,931	-	6,931
Total assets	7,617	153	7,770
Liabilities			
Other liabilities	-	-	-
Net balance sheet position	7,617	153	7,770

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Market risk (continued)

(ii) Currency risk - continued

Had the Kenya Shilling weakened by 10% against each currency, with all other variables held constant, profit before tax would have decreased by KShs 774,300 (2015: KShs 777,000). If the Kenya Shilling strengthened against each currency, the effect would have been the opposite.

(d) Operational risk

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

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

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit.

This responsibility is supported by the development of overall standards for the management of operational risk in the following areas:

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

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

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

5. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Capital management

The board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The board of directors monitors the return on capital, which is defined as the net operating income divided by total shareholders' equity. The board of directors also monitors the level of dividends to ordinary shareholders.

(f) Compliance and regulatory risk

Compliance and regulatory risk includes the risk of non-compliance with regulatory requirements. The compliance function is responsible for establishing and maintaining an appropriate framework of the entity's compliance policies and procedures. Compliance with such policies and procedures is the responsibility of all managers.

	2016	2015
	KShs'000	KShs'000
6. INTEREST INCOME		
Interest income on loans	85,276	73,209
Interest income on staff loans	980	710
Interest income on fixed deposits	35,233	17,378
Interest income on nostro accounts	<u>15</u>	<u>21</u>
	<u>121,504</u>	<u>91,318</u>
7. NON-INTEREST INCOME		
Appraisal fees	<u>3,606</u>	<u>2,150</u>
8. OTHER OPERATING INCOME		
Dividend income	<u>620</u>	<u>-</u>
9. NET IMPAIRMENT LOSSES ON LOANS AND ADVANCES		
Net increase in provision charged to profit and loss account (Note 18(b))	<u>11,953</u>	<u>1,030</u>
10. OTHER INCOME		
Gain on disposal of property plant and equipment	1,296	-
Exchange gain	195	841
Miscellaneous income receipt	<u>4</u>	<u>2</u>
	<u>1,495</u>	<u>843</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

11. OPERATING EXPENSES

	2016	2015
	KShs'000	KShs'000
Employee benefits expense:		
Employment:		
Salaries and wages	40,340	37,493
Staff and other expenses	9,116	6,322
Staff medical	3,705	5,378
Staff training	1,593	1,220
Gratuity	877	-
Pension fund	514	1,165
Movement in defined benefit assets through profit or loss	(2,516)	(382)
Total employment costs	<u>53,629</u>	<u>51,196</u>

The average number of persons employed by the Company during the financial year was 20 (2015: 21).

	2016	2015
	KShs'000	KShs'000
Administrative expenses:		
Executive directors' remuneration:		
- Salary	-	-
- Other allowances	-	-
Non-executive directors' remuneration:		
- Fees and allowances	3,446	3,829
Security expenses	554	504
Office cleaning and maintenance	706	680
Subscriptions	1,117	1,041
Advertising, publicity and donations	930	335
Insurance	448	535
Audit fees	2,318	1,550
Professional services	6,073	5,563
Vehicle running and maintenance	242	314
Telephone, internet and postage expenses	2,039	2,019
Travelling and entertainment	2,855	1,935
Printing and stationery	511	507
Licenses	3,369	2,798
Bank charges	186	206
Repairs and maintenance	2,704	2,706
Other expenses	<u>1,508</u>	<u>1,114</u>
Total administrative expenses	<u>29,006</u>	<u>25,636</u>
Operating lease expense:		
Rent and service charge	7,700	5,867
Parking fees	<u>1,252</u>	<u>974</u>
Total operating lease expenses	<u>8,952</u>	<u>6,841</u>
Depreciation and amortisation:		
Amortisation of intangible asset	793	844
Depreciation of property plant and equipment	<u>2,088</u>	<u>2,659</u>
Total depreciation and amortisation expenses	<u>2,881</u>	<u>3,503</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

12. PROFIT BEFORE TAX

(a) Items charged

The following items have been charged in arriving at profit before tax:	2016 KShs'000	2015 KShs'000
Directors' remuneration:		
- Salary	-	-
- Fees and allowances	3,446	3,829
Employee benefits expense (Note 12(b))	53,629	51,196
Depreciation of property, plant and equipment	2,088	2,659
Amortisation of intangible assets	793	844
Operating lease expenses	8,952	6,841
Net foreign exchange gain	195	841
Auditor's remuneration	<u>2,318</u>	<u>1,550</u>

(b) Employee benefits expense

The following items are included in employee benefits expense:

Defined contribution scheme	3,796	4,467
National Social Security Fund	<u>277</u>	<u>272</u>

13. TAX EXPENSE

Deferred income tax	-	-
Current income tax	<u>-</u>	<u>-</u>
Tax expense	<u><u>-</u></u>	<u><u>-</u></u>

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

	2016 KShs'000	2015 KShs'000
Profit before income tax	20,804	6,105
Actuarial loss on defined benefit asset	(4,465)	-
Adjusted profit before income tax	<u>16,339</u>	<u>6,105</u>
Tax calculated at a rate of 30%	4,901	1,832
Tax effect of:		
Expenses not deductible for tax purposes	986	881
Income not deductible for tax purposes	(102)	-
Movement in deferred income tax through profit or loss not recognised	(7,125)	(2,713)
Movement in deferred tax in other comprehensive income not recognised	<u>1,340</u>	<u>-</u>
Tax expense	<u><u>-</u></u>	<u><u>-</u></u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

14. DIVIDENDS

At the reporting date the final dividend in respect of the year ended 30 June 2016 of KShs 0.01 per share amounting to KShs 352,079 was proposed. The dividend has not been recognised a liability. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

15. 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.

	2016	2015
Net profit attributable to shareholders (KShs'000)	<u>20,804</u>	<u>6,105</u>
Weighted average number of ordinary shares in issue during the year ('000)	<u>40,501</u>	<u>40,501</u>
Basic earnings per share (KShs)	<u>0.51</u>	<u>0.15</u>

There were no potentially dilutive shares outstanding at 30 June 2016 and 30 June 2015. Diluted earnings per share is therefore the same as basic earnings per share.

	2016	2015
16. CASH AND BANK BALANCES	KShs'000	KShs'000
Cash in hand	47	15
Cash at bank	<u>8,005</u>	<u>15,643</u>
	<u>8,052</u>	<u>15,658</u>

17. DEPOSITS WITH FINANCIAL INSTITUTIONS

I&M Bank Limited	-	75,000
Family Bank Limited	65,000	72,250
National Bank of Kenya Limited	-	76,553
Bank of Africa Kenya Limited	75,475	33,559
HF Group Limited (formerly Housing Finance Company of Kenya Limited)	<u>69,970</u>	<u>74,000</u>
	<u>210,445</u>	<u>331,362</u>

The weighted average effective interest rate on placement with banks at 30 June 2016 was 14% (2015 – 11.47%).

18. LOANS AND ADVANCES TO CUSTOMERS

	2016	2015
	KShs '000	KShs '000
(a) Loans and advances to customers		
Commercial loans	561,033	413,372
Interest and other fees receivable	13,929	6,516
Employee loans	<u>17,604</u>	<u>14,659</u>
Gross loans and advances to customers	592,566	434,547
Less: Provision for impaired loans and advances (Note 18(b))	<u>(21,276)</u>	<u>(8,622)</u>
Net loans and advances	<u>571,290</u>	<u>425,925</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

18. LOANS AND ADVANCES TO CUSTOMERS (Continued)

	2016	2015
	KShs '000	KShs '000
(b) Impairment losses on loans and advances		
At 1 July	8,622	7,592
Net increase in provision for impairment charged to profit and loss account (Note 9)	11,953	1,030
Recoveries	<u>701</u>	<u>-</u>
At 30 June	<u>21,276</u>	<u>8,622</u>

(c) Concentration of risk

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

	2016	2016	2015	2015
	KShs	%	KShs '000	%
	'000		'000	
Manufacturing	62,989	10.6	11,244	3
Food and animal feeds	240,643	40.4	69,367	16
Engineering	129,658	21.8	161,025	37
Business services	2,548	0.4	1,305	1
Mining and quarrying	55,876	9.4	28,156	6
Transport, communications and power	6,459	1.1	70,521	16
Healthcare services	62,640	10.5	78,270	18
Building & Construction	14,149	2.4		
Others	17,603	3.4	14,659	3
	<u>592,565</u>	<u>100</u>	<u>434,547</u>	<u>100</u>

	2016	2015
	KShs'000	KShs'000
(d) Maturity analysis		
Matured and maturing within 1 year	157,863	89,585
Less: Provision for impaired loans and advances	<u>(21,276)</u>	<u>(8,622)</u>
	136,587	80,963
Maturing after 1 year	<u>434,703</u>	<u>344,962</u>
	<u>571,290</u>	<u>425,925</u>

19. OTHER ASSETS

Prepayments	1,911	4,946
Interest receivable on deposits	1,939	4,435
Deposits and other recoverables	<u>1,105</u>	<u>873</u>
	<u>4,955</u>	<u>10,254</u>

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

20. FINANCIAL ASSETS (UNQUOTED)	2016 KShs'000	2015 KShs'000
Non-current - Available for sale financial assets		
Equity investments	<u>28,905</u>	<u>28,731</u>
<p>There is no active market for the equity investments and accordingly fair value cannot be reliably measured, therefore these are carried at cost.</p> <p>They are categorised as follows:</p>		
	2016 KShs'000	2015 KShs'000
Non-current		
<i>Manufacturing sector:</i>		
Nzoia Sugar Company Limited	5,000	5,000
South Nyanza Sugar Company Limited	1,000	1,000
<i>Financial institutions and investment companies:</i>		
Consolidated Bank of Kenya Limited	20,800	20,800
African Export-Import Bank	<u>7,105</u>	<u>6,931</u>
	33,905	33,731
Impairment loss (Nzoia Sugar Company Limited)	(5,000)	(5,000)
	28,905	28,731
Current	—	—
Total financial assets	<u>28,905</u>	<u>28,731</u>

In the opinion of the directors the above investments, if sold, would realise not less than the amounts at which they are stated.

The categorisation of assets carried at fair value by the levels defined below is as follows:

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
At 30 June 2016				
Available-for-sale financial assets	-	-	33,905	<u>33,905</u>
At 30 June 2015				
Available-for-sale financial assets	-	-	33,731	<u>33,731</u>

The levels in fair value hierarchy used above within which the fair value measurement is categorised are defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the asset that are not based on observable market data.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

20. FINANCIAL ASSETS (UNQUOTED) (Continued)

The movement in the value of these assets, mainly due to foreign currency exchange differences, was as follows:

	Available-for sale financial assets		Total
	Level 2 Shs'000	Level 3 Shs'000	
30 June 2016:			
At start of year	-	33,731	33,731
Sale of equity investment	-	-	-
Exchange gain on retranslation of investment denominated in foreign currency	-	174	174
	-	33,905	33,905
At end of year	-	33,905	33,905
Total gains for the period included in the profit and loss account for assets held at the end of the reporting period		174	174
30 June 2015:			
At start of year	182,726	32,958	215,684
Sale of equity investment	(182,726)	-	(182,726)
Exchange gain on retranslation of investment denominated in foreign currency	-	773	773
	-	773	773
At end of year	-	33,731	33,731
Total gains for the period included in the profit and loss account for assets held at the end of the reporting period		773	773

21. DEFINED BENEFIT ASSET

Present value of funded obligations	52,435	76,332
Fair value of scheme assets	(53,360)	(79,206)
Net over funding in the scheme	(925)	(2,874)
Net asset in the balance sheet	(925)	(2,874)
Movements in the net present value of the defined obligations:		
Net defined benefit asset as at 1 July	(2,874)	(3,419)
Net income recognised in the profit and loss account	(2,516)	(382)
Amount recognized in other comprehensive income	4,465	927
Net defined benefit asset as at 30 June	(925)	(2,874)

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

21. DEFINED BENEFIT ASSET (Continued)	2016	2015
	KShs'000	KShs'000
Movement in the defined benefit obligation is as follows:		
Opening benefit obligation at 1 July	76,332	77,585
Interest cost	9,444	10,195
Actuarial gain due to change in assumption	-	(206)
Actuarial loss due to settlement	-	92
Actuarial gain due to experience	(272)	-
Benefits and expenses paid	(10,115)	(3,242)
Settlements	(22,954)	(8,092)
Closing benefit obligation at 30 June	<u>52,435</u>	<u>76,332</u>
Movement in the fair value of scheme assets is as follows:		
Opening market value of assets at 1 July	79,206	81,004
Interest on assets	10,074	10,669
Actuarial loss	(4,736)	(1,133)
Benefits and expenses paid	(10,115)	(3,242)
Prior year adjustments	1,885	-
Settlements	(22,954)	(8,092)
Closing benefit obligation at 30 June	<u>53,360</u>	<u>79,206</u>
Actuarial assumptions:		
Discount rate (p.a.)	14.34%	13.25%
Expected return on scheme assets	14.34%	12.00%
Future salary increases	8%	8%
Future pension increases	0%	0%

Historical information	2016	2015	2014	2013	2011
	KShs'000	KShs'000	KShs'000	KShs'000	KShs'000
Present value of funded obligations	52,435	76,332	77,585	80,068	66,895
Fair value of scheme assets	(53,360)	(79,206)	(81,004)	(73,762)	(60,960)
Unrecognized actuarial loss	-	-	-	(3,530)	(3,863)
Defined benefit (asset)/liability	(925)	(2,874)	(3,419)	2,776	2,072

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

22. PROPERTY, PLANT AND EQUIPMENT

30 June 2016	Motor vehicles KShs'000	Office equipment KShs'000	Furniture & fittings KShs'000	Other assets KShs'000	Total KShs'000
Opening carrying amount	-	3,182	650	741	4,573
Additions	5,700	299	-	-	5,999
Write off	-	(81)	-	-	(81)
Accumulated depreciation on write offs	-	44	-	-	44
Depreciation charge	(264)	(1,230)	(289)	(305)	(2,088)
Closing carrying amount	5,436	2,214	361	436	8,447
At 30 June 2016					
Cost	5,700	3,400	650	741	10,491
Accumulated depreciation	(264)	(1,186)	(289)	(305)	(2,044)
Net carrying amount	5,436	2,214	361	436	8,447

30 June 2015:	Motor vehicles KShs'000	Office equipment KShs'000	Furniture & fittings KShs'000	Other assets KShs'000	Total KShs'000
Opening carrying amount	529	4,136	1,074	1,046	6,785
Additions	-	469	-	-	469
Write off	-	(233)	-	-	(233)
Accumulated depreciation on write offs	-	211	-	-	211
Depreciation charge	(529)	(1,401)	(424)	(305)	(2,659)
Closing carrying amount	-	3,182	650	741	4,573
At 30 June 2015					
Cost	6,651	20,105	5,451	2,441	34,648
Accumulated depreciation	(6,651)	(16,923)	(4,801)	(1,700)	(30,075)
Net carrying amount	-	3,182	650	741	4,573

23. INTANGIBLE ASSETS - Software

	2016 KShs'000	2015 KShs'000
Cost		
At 1 July	32,283	32,283
Additions	1,942	-
At 30 June	34,225	32,283
Amortisation		
At 1 July	31,090	30,246
Charge for the year	793	844
At 30 June	31,883	31,090
Net carrying amount	2,342	1,193

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

24. DEFERRED INCOME TAX

Deferred income tax is calculated using the enacted tax rate of 30% (2015 – 30%). Deferred tax assets and liabilities, and the deferred tax charge in the profit and loss account is attributable to the following items:

30 June 2016	At 1 July 2015 KShs '000	Prior year adjustment KShs '000	Charge to profit & loss KShs '000	Charge to other comprehensive income KShs '000	At 30 June 2016 KShs '000
Deferred income tax asset					
Property, plant and equipment	2,008	(46)	(603)	-	1,359
Intangible assets	-	46	(103)	-	(57)
Provisions for doubtful debt	559	-	61	-	620
Provision for leave	697	-	(175)	-	522
Defined benefit scheme	(862)	-	(755)	1,340	(277)
Tax losses carried forward	195,684	(775)	(5,550)	-	189,359
Net deferred tax asset	198,086	(775)	(7,125)	1,340	191,526
Deferred tax asset not recognised	(198,086)	775	7,125	(1,340)	(191,526)
	-	-	-	-	-

30 June 2015	At 1 July 2014 KShs '000	(Charge) to profit & loss KShs '000	At 30 June 2015 KShs '000
Deferred income tax asset			
Property, plant and equipment	2,051	(43)	2,008
Provisions for doubtful debt	347	212	559
Provision for leave	708	(11)	697
Unrealised exchange gains	(37)	37	-
Defined benefit scheme	(1,026)	164	(862)
Tax losses carried forward	198,756	(3,072)	195,684
Net deferred tax asset	200,799	(2,713)	198,086
Deferred tax asset not recognised	(200,799)	2,713	(198,086)
	-	-	-

Under the Kenyan Income Tax Act, with effect from 1st January 2010, tax losses are allowable as a deduction in that year and in the four years succeeding the year in which they occurred. The Finance Act 2015 amended the Income Tax Act by stating that from 1 January 2016, tax losses are allowable as a deduction in that year and in the nine years succeeding in the year in which they occurred.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

24. DEFERRED INCOME TAX (Continued)

The total tax losses as at 30 June 2016 were KShs 631,197,111 (2015 – KShs 652,280,920), of which KShs 31,519,972 would be carried forward and would expire as follows:

Arising in:	Tax losses KShs '000	Expiring:
2011	(8,769)	30 June 2021
2014	(22,751)	30 June 2024
Tax losses carried forward	<u>(31,520)</u>	

A deferred tax asset of KShs 191,526,000 (2015 – KShs 198,086,000) has not been recognised due to uncertainty as to the availability of future taxable profits, against which the tax losses could be utilised. Uncertainty arises due to absence of a precise estimation of future taxable profits.

25. OTHER LIABILITIES	2016 KShs'000	2015 KShs'000
Sundry creditors	2,590	3,491
Accruals	<u>9,788</u>	<u>5,148</u>
	<u>12,378</u>	<u>8,639</u>

26. SHARE CAPITAL

	No. of shares	Issued and paid up share capital KShs'000
At 1 January and 30 June 2016		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<u>40,501,000</u>	<u>810,020</u>
At 1 January and 30 June 2015		
Class 'A' ordinary shares	37,853,500	757,070
Class 'B' ordinary shares	<u>2,647,500</u>	<u>52,950</u>
	<u>40,501,000</u>	<u>810,020</u>

The total authorised share capital is KShs 1,000,000,000 (2015 – KShs 1,000,000,000) made up of 46,000,000 (2015 – 46,000,000) 'A' ordinary shares of KShs 20 each and 4,000,000 'B' ordinary shares of KShs 20 each.

Class 'A' ordinary shares are entitled to receive dividends as declared from time to time and are entitled to a vote per share at meetings of the Company. Class 'B' ordinary shares do not confer unto the holder any voting rights except in certain specified events. However, class 'B' ordinary shares rank pari passu with class 'A' ordinary shares in all other respects and carry the same rights and obligations.

IDB CAPITAL LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2016 (CONTINUED)

27. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following:

	2016	2015
	KShs'000	KShs'000
Cash and bank	8,052	15,658
Deposits with financial institutions	<u>210,445</u>	<u>331,362</u>
	<u>218,497</u>	<u>347,020</u>

28. OFF BALANCE SHEET CONTINGENCIES AND COMMITMENTS

Operating lease commitments

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

	2016	2015
	KShs'000	KShs'000
Not later than 1 year	7,751	3,953
Later than 1 year and not later than 5 years	<u>35,827</u>	<u>-</u>

29. RELATED PARTY TRANSACTIONS

(a) Executive directors' remuneration

Salary	-	-
Other allowances	<u>-</u>	<u>-</u>
	<u>-</u>	<u>-</u>

(b) Director's emoluments (including executive director's remuneration)

Salary	-	-
Fees and allowances	<u>3,446</u>	<u>3,829</u>
	<u>3,446</u>	<u>3,829</u>

30. CONTINGENT LIABILITY

In ordinary course of business, Company issues bonds and guarantees which potentially may result in litigation.

The Company is a defendant in various legal proceedings filed against it by third parties.

The Directors believe, based on the information currently available and legal advice that no material liabilities have arisen in respect of these, nor is it expected that any material liabilities will arise therefrom.

31. EVENTS AFTER THE BALANCE SHEET DATE

There are no material events after the balance sheet date which require to be disclosed.

