KCB BANK

2015

INTEGRATED REPORT
& FINANCIAL STATEMENTS

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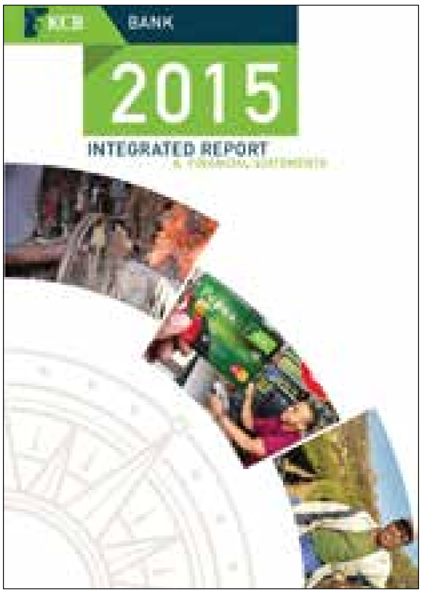
About this report

GROUP

KCB Group Limited is Eastern Africa's leading financial services provider and significantly influences the socio-economic prospects of the region. The Bank believes that its existence should create transformative impact on stakeholders and create sustainable shared value.



Integrated thinking

In 2015, KCB Group released its first annual integrated report covering the 2014 financial year. That report was the commencement of a journey of embedding integrated thinking and reporting in the Bank.

Integrated reporting enables KCB to communicate its strategic commitments to create short, medium and long term value for all its stakeholders. The report also provides an opportunity for the Bank to evaluate and report on its progress, successes, challenges, plans and strategies. The report is prepared for existing and prospective investors, but also for other stakeholders in terms of transparency and accountability.

The Bank's success is underpinned by its ability to deliver value to stakeholders. This is anchored on a keen interest to deliver shared value through sustainable banking practices. The Bank draws resources from the broader society and nature, as characterized by the six capital model and utilizes these resources to create value for stakeholders.

The KCB Group purpose is to simplify your world to enable you to progress. The Bank operates in true adherence to its corporate values of being inspiring, simple and friendly. To deliver on this, the Bank's capitals are interrelated and fundamental to the long-term viability of the business.

Our strategic approach

These material matters influence our Group's strategy and also inform the direction of this report.

Our framework

The Bank has a framework for taking a holistic and considered approach in delivering shareholder returns while responding to stakeholders' needs. Performance is measured against strategic objectives and stakeholder's needs. The report provides data to indicate the Bank's performance in this regard.

Materiality determination

The annual integrated report aims to present a balanced and succinct analysis of the Bank's strategy, performance, governance and prospects. An issue is considered material if it is likely to impact KCB's ability to achieve its strategy, to remain commercially sustainable and to be socially relevant. In particular, material issues are those that have a strong bearing on the assessment of stakeholders of the extent to which the Bank can fulfil their needs over the long term. The KCB Group also takes the factors that affect the economic growth and social stability of the regions in which the Bank does business into account.

Basis for preparation and presentation

Frameworks applied

This integrated report has been prepared with guidance from the International Integrated Reporting <IR> Framework. The Board of Directors (the Board) and management have considered the fundamental concepts, guiding principles and content elements recommended in the Framework and have endeavoured to apply these recommendations in the report. This report is also aligned with the parameters of the Kenyan Companies Act, guidelines issued by the Capital Markets Authority, the Nairobi Securities Exchange (NSE) Listings Manual, and the Prudential Guidelines as issued by the Central Bank of Kenya. The Group Annual Financial Statements were prepared in accordance with International Financial Reporting Standards (IFRS).

Purpose

The purpose of this report is to provide a wide range of stakeholders with concise communication about our strategy, governance, performance and prospects, in the context of the internal and external environment, as well as our ability to create value over the short, medium and long term.

Primary audience

In terms of the Framework, integrated reports are prepared primarily for the providers of financial capital to help inform their decision-making regarding financial capital allocations. Matters not related to finance or governance also impact on the ability of KCB to create value over the short, medium and long term. These matters, be they social or environmental, are of interest to other stakeholders and, where considered material, are addressed herein.

Preparation and poresentation

KCB's 2015 integrated report has been prepared for the period 1 January 2015 to 31 December 2015 and covers the activities of KCB Group Limited (KCB, the Bank, the Company or Group), its subsidiary companies, its divisions and key strategic investments. Material matters presented in this report represent those issues that the Board and senior management believe are of sufficient relevance and importance that they could substantively influence the assessments of the report users with regard to the Company's ability to create value over the short, medium and long term. Potential material matters were identified through a broad range of processes, from engagement with our stakeholders to our own internal processes such as risk assessments and considering international trends. The executive directors and senior management have been instrumental in the preparation of this report.

Assurance

The Group Annual Financial Statements were audited by KPMG Kenya, barring KCB Rwanda, which was audited by Deloitte.

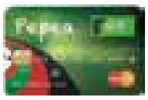
2015 review

10.1m
Customer numbers

11,948
Agency Outlets

4.2m
Mobile Loan Applications

21.6m
Mobile Transactions



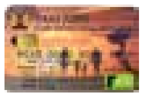
1.1m
Pepea Card Issued

7.5m
Agency transactions

260
Branches

962
ATMs

12.9m
POS Transactions



450,000
6.8 billion disbursements

Global HR Excellence Awards

KCB Group Human Resource Director Paul Russo named among the top 100 most Influential Global HR Professionals

KCB Group awarded:

- Best Employer of the year
- Best Group in Managing Health at Work
- Best HR in Line with Business

EUROMONEY AWARDS FOR EXCELLENCE 2015

- Best Commercial Bank in Africa
- Best Regional Bank
- Most Socially Responsible Bank

Milestones for 2015

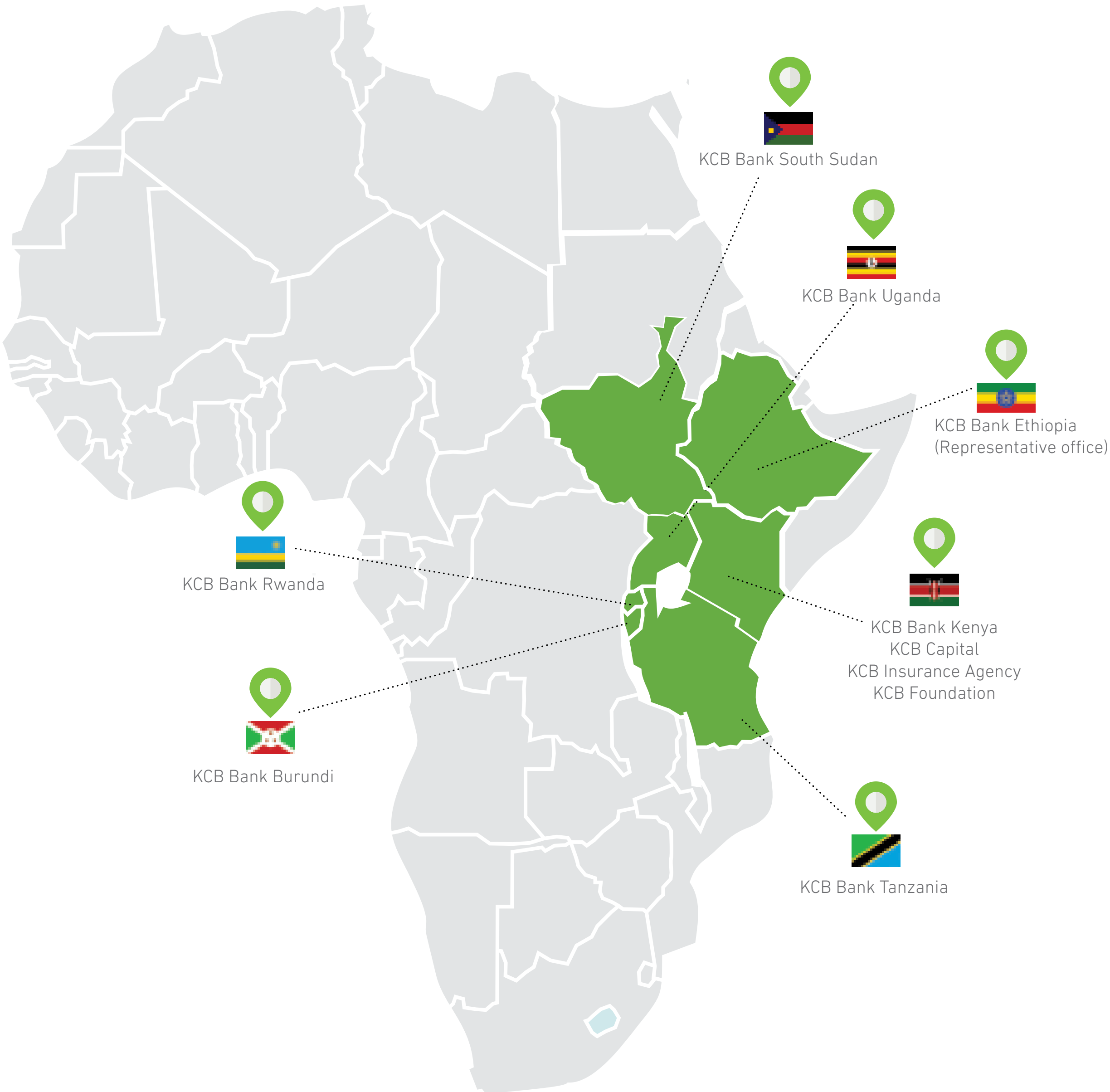
- **Launched KCB-MPESA (March 2015)**
  - 5M accounts opened,
  - 7B micro-loans issued,
  - KShs 259 Billion transacted
- **KCB App launched,**
  - 150,000 downloads
  - KShs 4B moved
- **Loan book growth - 22%**
- **Leading bank on Mobile Banking**
  - 90,000 users per day
  - 100 Paybills and schools on Lipa Karo
- **1.3M Bank Accounts for the youth on Bankika**
- **KCB's Credit Rating**
  - Moodys – B1
  - S&P – B+
  - GCR – AA (KE)

  KCB's international credit rating is at par with Kenya's sovereign credit rating
- **Working with counties**
  - Main revenue collection agent for 5 counties
  - Partnering with Kakamega County on Mkopo Mashinani

KCB at a glance

KCB Group Limited is registered as a non-operating holding company with effect from January 1, 2016. The holding company oversees KCB Bank Kenya - incorporated with effect from January 1, 2016 - and all KCB's regional units in Tanzania, South Sudan, Uganda, Rwanda, Burundi and Ethiopia. It also owns KCB Insurance Agency, KCB Capital, KCB Foundation and all associate companies. The holding company was set up to among other things to enhance the Group's capacity to access unrestricted capital and also enable investment in new ventures, achieve operational and strategic autonomy for the Group's operating entities and enhance corporate governance across the Group and oversight in management of subsidiaries.

Subsidiaries



NUMBER OF EMPLOYEES:
7,500

LISTINGS:
NSE, DSE, USE, RSE

CHANNELS:
260 branches, 962 ATMs, 11,667 agents

TOTAL EQUITY:
KShs 81,253,607,000

Five year review

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	31-Dec-11 KShs 000 Audited Restated	31-Dec-12 KShs 000 Audited Restated	31-Dec-13 KShs 000 Audited	31-Dec-14 KShs 000 Audited	31-Dec-15 KShs 000 Audited
Assets					
Government and other securities	46,004,636	89,291,304	92,996,115	97,197,974	96,948,578
Loans and advances to customers (net)	198,724,919	211,664,226	227,721,781	283,732,205	345,968,686
Property and equipment	8,017,595	8,895,573	8,484,836	8,838,074	9,027,924
Other assets	77,916,809	58,167,682	61,648,847	100,570,071	106,148,966
Total Assets	**330,663,959**	**368,018,785**	**390,851,579**	**490,338,324**	**558,094,154**
Liabilities					
Customer deposits	259,308,849	288,037,367	305,659,189	377,271,886	424,390,833
Lines of credit	22,630,149	18,256,901	14,370,624	27,030,467	43,268,102
Other liabilities	4,238,134	7,429,458	7,466,800	10,402,413	9,181,612
Total Liabilites	**286,177,132**	**313,723,726**	**327,496,613**	**414,704,767**	**476,840,547**
Total Equity	**44,486,827**	**54,295,059**	**63,354,966**	**75,633,557**	**81,253,607**
TOTAL LIABILITIES AND EQUITY	**330,663,959**	**368,018,785**	**390,851,579**	**490,338,324**	**558,094,154**

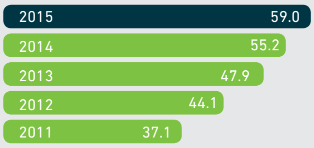
CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	31-Dec-11 KShs 000 Audited	31-Dec-12 KShs 000 Audited	31-Dec-13 KShs 000 Audited	31-Dec-14 KShs 000 Audited	31-Dec-15 KShs 000 Audited
Interest income	27,902,649	43,082,218	41,613,398	47,475,715	56,442,500
Interest expense	4,616,241	12,445,986	8,629,113	11,527,020	17,147,978
Net interest income	**23,286,408**	**30,636,232**	**32,984,285**	**35,948,695**	**39,294,522**
Non-interest income	16,022,674	15,620,886	17,125,979	22,001,159	22,267,653
Operating income	**39,309,082**	**46,257,118**	**50,110,264**	**57,949,854**	**61,562, 175**
Expenses	22,283,626	25,292,333	27,080,530	29,104,155	30,310,795
Impairment on Loans and advances	1,896,082	3,756,642	2,905,975	5,058,270	4,713,807
Operating expenses	**24,179,708**	**29,048,975**	**29,986,505**	**34,162,425**	**35,024,602**
Profit before tax	**15,129,374**	**17,208,143**	**20,123,759**	**23,787,429**	**26,537,573**
Income tax expense	4,148,328	5,004,612	5,782,377	6,938,566	6,914,502
Profit for the year	10,981,046	12,203,531	14,341,382	16,848,863	19,623,071

Financial highlights 2015

OPERATING INCOME
(in billions of KShs)

KShs59.0

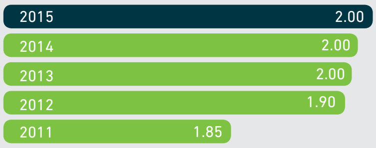


Operating income increased by KShs 4.70bn or 9.1% to KShs 59bn in 2015.

Future focus on growth of non funded income, utilization of alternative channels and customer numbers growth.

DIVIDEND PER SHARE (CAGR 1.97%)
(in KShs)

KShs2.00

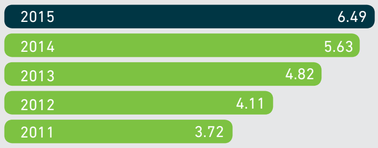


Dividend payout remained constant at KShs 2.00 per share.

KShs 1 will be cash and KShs 1 scrip offered to shareholders at the prevailing market price

EARNINGS PER SHARE (CAGR-14.93%)
(in KShs)

KShs6.49



Dividend payout remained constant at KShs 2.00 per share.

Focus to consolidate retained earnings to improve capital ratios and revised prudential guidelines covering market risk, lending risk and operational risk.

↑ 7%

REVENUE
KShs 59 billion

↑ 12%

OPERATING PROFIT
KShs 26.5 billion

↓ 0.7

OPERATING PROFIT MARGIN
34.8%

↑ 17%

PROFIT AFTER TAXATION
KShs 19.6 billion

↓ 86%

OPERATING CASH FLOW
KShs 4.4 billion

↑ 7%

TOTAL OPERATING EXPENSE
KShs 30.3 billion

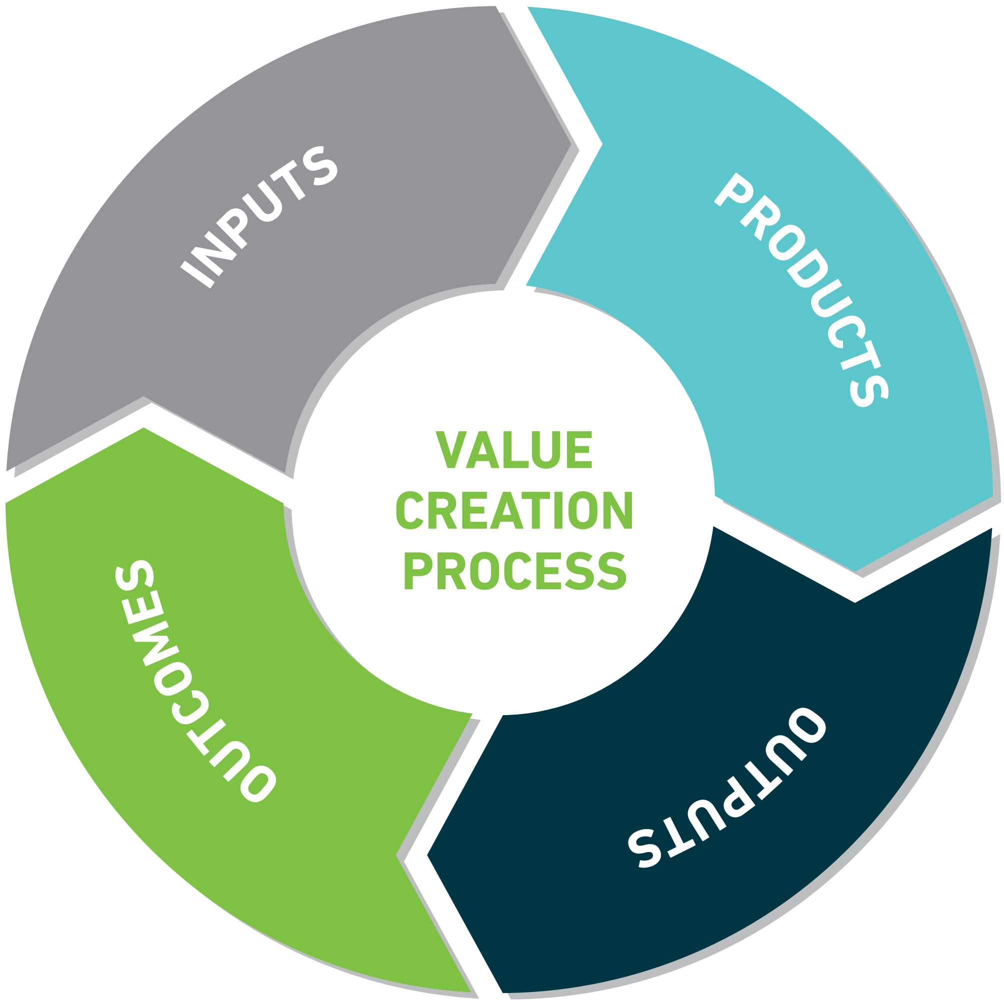
Our business

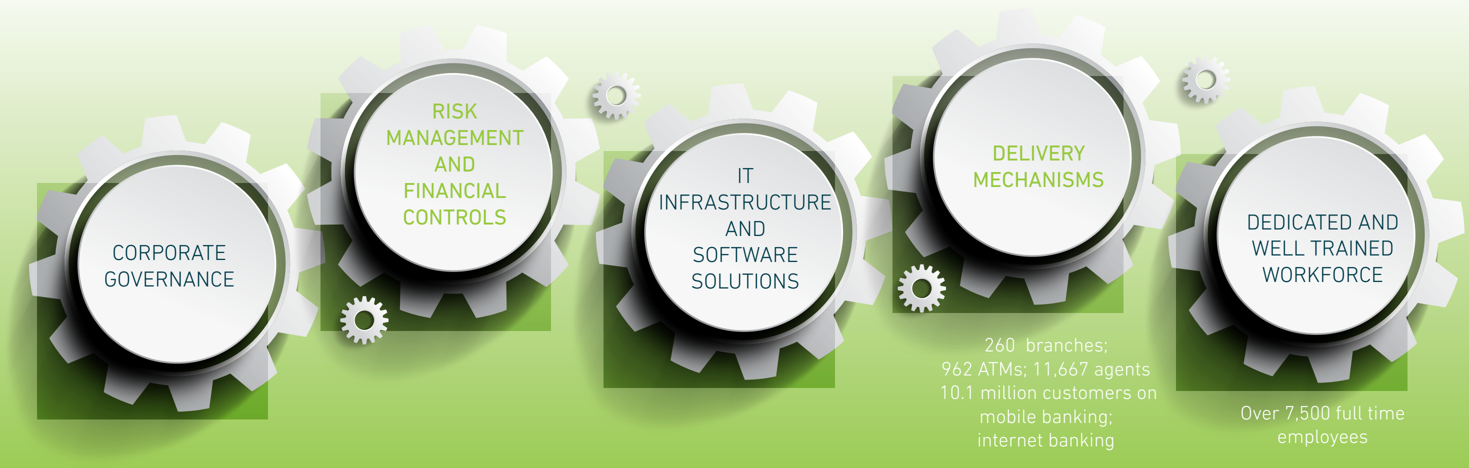
1896	KCB, Eastern Africa's oldest and largest commercial bank started its operations in Zanzibar as a branch of the National Bank of India.
1904	The Bank extended its operations to Nairobi, which had become the Headquarters of the expanding railway line to Uganda.
1957	Grindlays Bank merged with the National Bank of India to form the National and Grindlays Bank which upon independence was to spearhead the economic empowerment of local citizens.
1970	The Government of Kenya acquired majority shareholding and changed the name to Kenya Commercial Bank.
1972	In order to provide wide scale access to home ownership, the Bank aquired Savings & Loans (K) Ltd, the largest specialising mortgage finance company.
1988	The Government sold 20% of its shares at the NSE through an IPO that saw 120,000 new shareholders acquire the Bank.
1997	The Bank resolved to spread its operations to various viable markets in the region starting with Tanzania that now has 11 branches.
2003	In pursuit of its vision, the Bank rebranded to KCB Bank Ltd with a broad reaching internal program including sponsorship of the various Eastern Africa rally series.
2014	KCB launched KCB Capital and KCB Insurance companies. Cashless payments were taken to the next level with the launch of the KCB Pepea Cards. The Bank also saw the launch of a great partnership with Safaricom, with Biashara Smart.
2015	KCB was the first Bank in Kenya to develop an integrated report. The Bank also saw the launch of KCB M-PESA and Sahal banking which targets the Muslim community in the region.

KCB | M-PESA ACCOUNT

Our value creation process

At KCB, value is created through our business model, which acquires inputs in form of capital - financial, manufactured, intellectual, human, social and natural capital - and transforms it through our business activities and interactions to produce outputs and outcomes for the bank, its stakeholders, society and the environment as shown in the image below:





INPUTS

Financial Capital

Our bank's funding comes from investors, institutional lenders and deposits from clients that is used to run the activities of the bank and generate profits.

- Tier 1 Capital - Shareholders' Funds KShs 56.1 billion
- Borrowings – KShs 20.13 billion
- Customer Deposits KShs 424.39 billion

Human Capital

Our people, management and leadership comprising their collective expertise, experience and knowledge.

- Staff head count 7,509
- Permanent employees 6,082
  - Male 58%; Female 42%
- Short-term employees 1,427

Intellectual Capital

Our intellectual assets, such as our brand value, innovative products, innovation capacity and reputation.

- Strong brand affinity
- Exceptional innovation capacity as witnessed by consistent release of new products and services

Manufactured Capital

Our business structure and operational processes that provide the structure and mechanisms through which we run the bank.

- Information technology software, systems and structures
- 5 Million accounts on KCB-MPESA
- Agency Banking – 11,948 Agents
- Branches - 260
- ATMs - 962
- POS - 4500

Social and Relationship Capital

Our relationships with our stakeholders particularly communities in which we operate

- Consistent engagement of key stakeholders including customers, national and county governments, the regulator, employees, other financial institutions and media
- Consistent and strategic engagement of communities through the KCB Foundation

Natural Capital

Our impact, directly and indirectly, on natural living and non-living organisms including ecosystems, biodiversity, biophysical, chemical, physical, biological and mineral assets through our operation.

- Developed a Social and Environmental Management System (SEMS) for credit decisions
- Working towards reduction of carbon footprint

PRODUCTS

- Banking solutions
- Borrowing
- Investing and Savings

OUTPUTS

- Fee and commissions
- Interest income
- Trading income

OUTCOMES

- Satisfied Customers
- Employment and income for staff
- Earnings for business partners
- Taxes to Government
- Returns to shareholders
- Economic growth
- Community development

Our stakeholders

At KCB, we define stakeholders as those who impact on our business or are affected by our business. We appreciate that there are different clusters of stakeholders groups and have prioritized those with whom we have a direct relationship and communicate to regularly. These priority stakeholders include investors, employees, customers, regulators and government. In addition, we recognize suppliers, the media, civil society and communities as important stakeholders.

We employ diverse channels and mechanisms to communicate with our stakeholders. This communication includes collection of stakeholder feedback and dissemination of information from the Group. The rate of engagement, type of engagement and mechanism of engagement varies according to each stakeholder group and the issue at hand. Most importantly, we are proactive in identifying and responding to our stakeholders concerns and expectations.

Our key stakeholders include:

INVESTORS
- Shareholders
- Investors
- Analysts

COMMUNITIES
- Beneficiaries
- Corporate Social investment partners
- Media
- Advocacy groups

EMPLOYEES
- Long-term employees
- Short-term employees
- Executives

KCB's Priority Stakeholders

REGULATORS AND GOVERNMENT
- National Treasury
- CBK
- KBA FSI
- Trustees
- CMA
- NSE

CUSTOMERS
- Retail
- Corporate
- Asset managers
- Intermediaries

Value added statement 2015

VALUE ADDED:	2015 KShs '000'	2014 KShs '000'
Interest Income,Fees,Commission and Other Revenues	76,175,045	66,710,782
Interest Paid to Depositors and Cost of Other Services	(29,801,161)	(25,446,712)
Interest paid on borrowings	(1,852,091)	(894,015)
Wealth Created	44,521,793	40,370,055
Distribution of Wealth:		
Employees-Salaries,Wages and Other Benefits	15,310,898	13,993,445
Government-Tax	6,914,502	6,938,568
Shareholder's Dividends	6,050,426	6,050,426
Retention to support future Business Growth:		
_Retained Earnings	13,572,645	10,798,436
_Depreciation and Amortization	2,435,448	2,387,942
Social Capital-KCB Foundation	237,874	201,238
Wealth Distributed	44,521,793	40,370,055

34.4%

EMPLOYMENT

(31 December 2014; 34.7%)

15.5%

GOVERNMENT

(31 December 2014; 17.2%)

13.6%

SHAREHOLDERS

(31 December 2014; 15.0%)

36.0%

RETENTION TO SUPPORT GROWTH

(31 December 2014; 32.6%)

1%

SOCIAL CAPITAL

(31 December 2014; 1%)

Purpose, Mission, Vision, Values

Our Purpose
Simplifying your world to enable your progress

Our Vision
To be the preferred financial solutions provider in Africa with global reach

Our Values
Inspiring

Simple

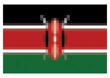
Friendly

Our Mission
To drive efficiently whilst growing market share in order to be the preferred financial solutions provider in Africa with global reach

Our Behavior
- am a Leader
- find solutions
- drive efficiency
- simplify work
- listen and care
- am positive and committed

Our Promise

Operating context



KENYA

Economic growth for Kenya was initially projected at 6.9% underpinned by increased government expenditure on infrastructure, improved rainfall and recovery in the tourism sector. This projection was revised by key analysts to between 5.5% - 6.0% with growth in the third quarter estimated at 5.8%. This growth was predominantly underpinned by the construction, communication and agriculture sector and increased household expenditure.

The economy remained resilient in spite of several key challenges experienced in the year. The Kenyan shilling was highly volatile due to the strengthening of the US dollar, losing about 13% of its value to the US dollar, closing 2015 at KShs 102.4 to the US Dollar as compared to KShs 90.6 at the close of 2014. Interest rates experienced upward pressure with the weighted average 91 day Treasury Bill rate increasing to a high of 22.5% in the course of the year. The Monetary Policy Committee raised the Central Bank Rate (CBR) twice in the year from 8.5% to 11.5%, where it has remained unchanged, enabling the recovery of the Kenya shilling which stabilized at KShs 101 against the US dollar

Headline inflation increased gradually through the year, rising from 6% in December 2014 to 8% by December 2015, crossing over the Central Bank upper threshold of 7.5%, before stabilizing around the 7% mark. Inflationary pressure was attributed predominantly to the depreciation of the shilling.

The Bank's performance in the quarter one to year half was generally on track. However, given strong headwinds from interest rate increases and volatility in the foreign exchange markets, quarter three returns were less robust. Quarter three growth stood at 9.3% compared to 13% for the same period in 2014. In spite of these challenges, the Bank closed the year strongly attaining a 22% growth in profit before tax.

The banking sector was placed under increased attention following the closure of two banks by the regulator due to unsound banking practices. In addition, new regulatory and legal requirements, including the Companies Act, Insolvency Act and Unclaimed Financial Assets Act, among others, presented new requirements on banks and financial institutions.

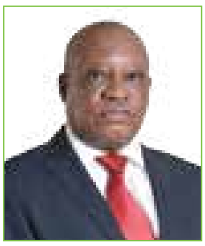
Our performance

	2015 KShs '000	2014 KShs '000
Total income	46,080,774	44,833,597
Operating expenses	21,980,487	21,215,803
PAT	**16,499,407**	**15,878,978**
Total assets	467,741,173	376,969,401

RATIOS	2015	2014
NPL	6.0%	5.2%
CIR (with provisions)	51.7%	52.8%
RoA	3.9%	4.5%
RoE	21.6%	23.7%

Our leadership


Ngeny Biwott (Chairman)


Gen. (Ret) Joseph Raymond Kibwana, EGH, CBS


Charity M. Muya-Ngaruiya


Adil Khawaja


Catherine Kola


Julius Mutua (Sitting for Henry Rotich)


Tom Ipomai


Georgina Malombe


John Nyerere


Joshua Oigara (CEO)


Lawrence Kimathi


Joseph Kania

SOUTH SUDAN

The economy of South Sudan remains fragile, characterized by high dependence on oil, limited domestic production and a high reliance on imports. Oil accounts for 98% of exports and approximately 80% of GDP directly and indirectly. In the short and medium term, government spending will remain a key driver of the non-oil economy.

Despite the abundance of natural resources, the linkage between resources and structural transformation is still very weak, hence the failure to maximize "returns" from available natural resources.

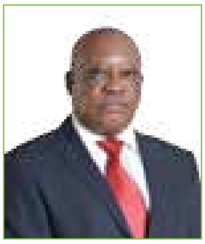
The government is focused on growing non-oil revenue through taxation and has appointed agents to collect taxes on its behalf. KCB was appointed as one of the agents earning a commission on South Sudan Pound (SSP) and US Dollar (USD) taxes collected. This further contributed to the non-funded income of the bank in the year 2015.

On 1st July 2015 the Finance Minister presented the budget speech for the financial year 2015/2016. The planned expenditure was projected at SSP 10.6 Billion while the revenue target was given at SSP 3.24 Billion resulting in a budget deficit of SSP 7.4 Billion. The estimated revenues to finance the budget includes; oil revenues of SSP 1.2 Billion net of fees due to Sudan, non-oil revenues SSP 1.7 Billion, and grants and loans from donors SSP 339 Million.

The government attributed the huge budget deficit to the drop in international oil prices and the ongoing conflict in the country, which has led to a reduction in government revenues and asserts that peace is the only way to close the deficit and revive the economy. In the planned expenditure the Army, Police and Prisons service will take up 60 percent to cater for security and rule of law.

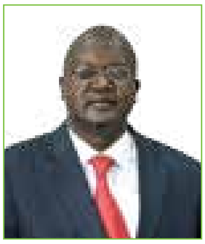
In December 2015, the South Sudan Pound depreciated by over 500% moving from USD 16.6 to the SSP in January 2015 to USD 3 at close of the year. This devaluation led to a 75% reduction in the Bank's South Sudan balance sheet from KShs 71.8 Billion in 2014 to KShs 34.4 Billion in 2015. The devaluation also impacted on the revaluation reserves where group shareholding equity was eroded by KShs 6.2 Billion due to revaluation loses.

Our leadership



Gen. (Ret) Joseph Raymond Kibwana, EGH, CBS (Chairman)

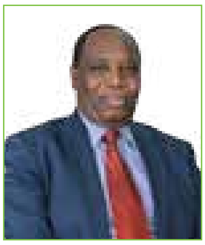
Charity M. Muya-Ngaruiya



Mou Ambrose Thiik

Prof. Festus Abduleziz James

Yar Manoa Majok



Harun Kibogong (MD)

Mary Oganga

Our performance

	2015 KShs '000	2014 KShs '000
Total income	6,969,406	5,692,359
Operating expenses	(3,890,273)	(4,264,116)
PAT	**1,830,080**	**1,102,599**
Total assets	34,418,119	71,783,041

TANZANIA

Tanzania's economy continued to perform robustly with GDP growth rate estimated at 7.1% in 2015. The key drivers of this growth were information and communication (23%), public administration and defense (19.7%), finance and insurance (13.6%) and mining and quarrying (10.6%). Annual average growth in agriculture – which contributes approximately one quarter of GDP and employs approximately three quarters of all Tanzanian workers, grew by 2.6%. Inflation increased towards the end of the year to 6.8% up from 4% in 2014. The key contributors to inflation were food (48%), transport and utilities (9%) and households (7%). This is higher than the Bank of Tanzania's (BOT) medium term target of 5%

Mining is a key contributor to the economy of Tanzania. Gold production fell by 7% earning US$1.3Billion. Income from tourism has surged over the past few years to about $2.1 billion annually. The current-account deficit has narrowed to about 8% of gross domestic product from as much as 14%.

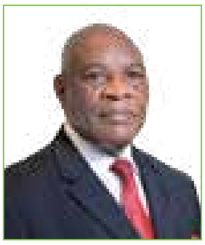
Volatility was experienced in the foreign exchange market and the Tanzania Shilling depreciated by almost 29% in 2015 closing the year at TZShs 2,159 to the US Dollar compared to TZShs 1675 at the close of 2014. BoT published new Capital Adequacy Requirements (CAR) rising from 10% to 12% for Tier I Capital and 12% to 14.5% for Tier II Capital. In addition, the regulator introduced a 1% provision on unclassified loans.

Tanzania has continued to maintain a healthy fiscal position, keeping the deficit at sustainable levels and managing expenditure growth in line with the broad objective of sustaining macroeconomic stability. In the medium term, the fiscal deficit is maintained at around 10% of GDP, while expenditures and government net lending are around 25% of GDP, in line with targets of the Policy Support Instrument programme.

President Dr. John Magufuli, was elected in November 2015. His economic policy will focus on diversification of the economy, prudent management of government resources, private sector growth and anti-corruption. He has committed to accelerate the exploitation of natural gas deposits estimated at 55 Trillion cubic feet of reserves and enhance the performance of the extractive sector.

Our leadership


Zuhura S. Muro (Chairman)


Nikubuka P. Shimwela


Adil Khawaja


John Nyerere


Moezz Mir (MD)


Irene Ngowi

Our performance

	2015 KShs '000	2014 KShs '000
Total income	2,009,762	1,650,105
Operating expenses	(1,337,478)	(1,398,798)
PAT	**275,932**	**203,807**
Total assets	20,102,339	17,564,730

UGANDA

Uganda's economic activity grew by 5.0% in 2014/15 from previous 4.8% recorded in 2013/14. In wake of weak international demand, 2015 growth in the Ugandan economy was largely driven by strong domestic demand including infrastructure development.

The outlook for 2016 remains positive both from the IMF and the Central Bank, with growth forecast expected at 5.0% from projected 5.8% in 2015/16. The anticipated economic expansion is expected to face challenges from weaker than anticipated exports and sluggish global economic recovery. The general elections held in February 2016 were concluded without major interruptions to the economy and the country is expected to continue to meet its economic targets.

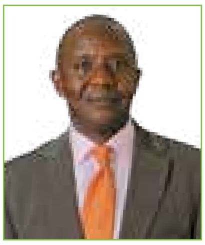
Annual headline inflation closed at 9.3% from 1.8% in 2014. Core inflation closed at 7.4% from 2.7% in December 2014. This was largely driven by the impact of exchange rate depreciation and increase in power tariffs. Analysts expect the inflation rate to continue rising gradually as US Dollar strengthens influenced by domestic and global factors as well as effects of the El-Nino Weather phenomena to peak in 14%-16% levels in the medium term way above revised year end projection of 8.0% -10.0% well above the targeted rate of 5.0%.

The 91-day and 182 day Treasury bill rates respectively increased to 19.5% and 22.8% in December 2015 compared to December 2014. The Bank of Uganda's tight monetary stance coupled with market expectations of continued growth drove the rise in rates.

The Weighted Average Lending Rates (WALR) for Uganda shilling denominated loans averaged 24.8% from 21.1% in December 2014. The WALR on Foreign Currency Loans largely remained unchanged from 9.10% in December 2014. Lending rates edged up as commercial banks responded both to tight monetary policy stance by the Central Bank and rising funding costs.

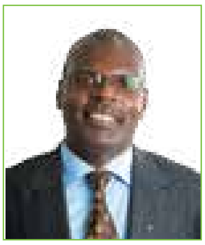
Uganda shilling depreciated 21.8% against the US Dollar from an average rate of Ugx 2,773.1 in December 2014 to Ugx 3,377.0 in December 2015. The depreciation of the shilling was attributed to the global strengthening of the US Dollar as result of tepid recovery in the US economy and wide current account deficit.

Our leadership



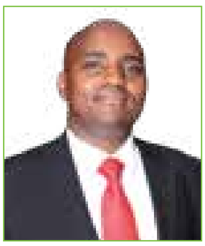
Aga Ssekala Jr (Chairman)

Protus Sigei

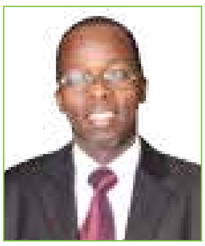


Dr. Jeff Sebuyira Mukasa

Apollo Obbo



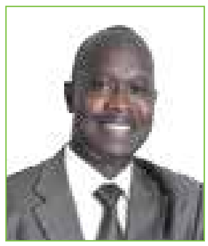
Paul Russo



Samuel Makome

Joram Kiarie (MD)

Mathias Muhimbisa



Patrick Anok

Our performance

	2015 KShs '000	2014 KShs '000
Total income	1,690,708	1,691,919
Operating expenses	(1,318,878)	(1,573,058)
PAT	**161,534**	**123,023**
Total assets	20,951,568	15,954,815

RWANDA

GDP Growth was resilient at 7%, the same as in 2014. The Services sector continued to play a significant role in Rwanda's growth story achieving an overall growth of 7.1% mostly driven by a 10% growth in Financial Services. Growth in Industry at above 8% was mainly driven by increased manufacturing capacity in cement and increased investment in energy production and distribution. On the other hand, agriculture grew by 5% due to increased production under irrigation as well as efforts to increase export crop. GDP growth forecast for year 2016 is expected to decline to about 6% due to an expectation of a weak external environment that expected to impact agricultural and mineral exports. Construction which grew by over 15% in 2015 is expected to drop to 7% in 2016 due to the rising cost of construction arising from a weakening of Rwandan Franc especially against the USD.

Owing to an accommodative monetary policy, new credit to the private sector increased by 13% while total outstanding credit increased by over 25% during the same period.

While the country's overall Balance of Payments improved in 2015, the current account deteriorated by over 26% in due to a slump in both services and trade balance. In addition to the effect of a strengthening USD, the Frw depreciated by 7.1% by the end of the year. It is expected that the overall balance of payments and the current account will deteriorate in 2016 due to the continued global slump in commodity prices, while infrastructure related imports will be sustained. Overall, it is expected that the Rwanda Franc will continue to remain under pressure.

While inflation remained within the Monetary Policy target of 5%, headline inflation steadily increased from 1.4% at the beginning of the year closing at just below 5%. The main drivers of inflation in Rwanda remains to be fresh food, transportation costs and the impact of fuel prices. On a short term basis, inflation is expected to increase further to 6.5% in quarter 1 of 2016.

Liquidity in the banking sector was robust throughout the year exemplified by an increase of 9.1% of total liquid assets. As a result, the interest rates remained fairly low and stable with the 91 day T/Bill rates increasing from 4.57% at the beginning of the year to 5.56% towards the end of the year. The slight increase in T/Bill rates reflecting continued reliance by the government on domestic borrowing. Average lending rates remained generally stable at about 17% throughout the year. Owing to the upward trend of inflation, interest rates are also expected to rise during the first half of year 2016.

Our performance

	2015 KShs '000	2014 KShs '000
Total income	1,836,569	1,370,622
Operating expenses	(1,343,327)	(1,215,516)
PAT	**289,365**	**109,378**
Total assets	19,445,236	15,749,541

Our leadership


Tom Ipomai (Chairman)


Molly Rwigamba


Spéciose Ayinkamiye


Sarah Mukandutiye

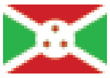

Daniel Zitunga


Anne Wangari Kirima


Faustin Kananura Mbundu


Maurice Toroitich (MD)


Virginia Karanja



BURUNDI

In 2015, Burundi's economy experienced pressure from several factors stemming from the ongoing political crisis resulting into delays in key development projects. Domestic tax collection and foreign aid are on a downward trend with the revenue collected in 2015 being 82% of the target leading to the lowering of the 2016 target when compared to that of 2015.

The World Bank indicates that the Burundi's economic growth contracted by 2.3% in 2015 compared to a GDP growth of 4.8% in 2014. Inflation rates stood at 3.5% at the beginning of the year but increased to close at 7.1% driven by price increases in consumer goods.

Treasury Bill rates doubled mid-year before declining towards the end of the year, ending at slightly above the 2014 closing position. Lending rates remained around 16.25% for the whole of 2015. There is no official Central Bank Rate (CBR) in Burundi.

The Burundi Franc depreciated against major currencies with the official rate closing at BIF 1,617 against the dollar from BIF 1,554 in 2014.

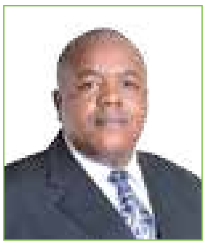
The country changed it's curency notes during the course of the year issuing new notes with a different look and face to replace the exisiting currency. The Bank of Burundi continued with reforms to harmonise it's monetry policies and practices with the rest of East Africa. The banking supervision arm introduced a new online reporting system and proactively trained commercial bank staff on the application of the prudential guidelines changed in 2014.

Our performance

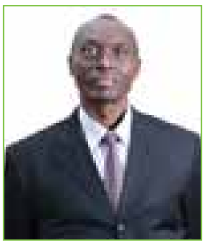
	2015 KShs '000	2014 KShs '000
Total income	534,522	353,848
Impairments	(448,693)	(333,946)
PAT	**141,267**	**22,929**
Total assets	4,823,542	3,456,279

Our leadership

Catherine Kola (Chairman)



Julius Mutua



Adrien Sibomana

Consolata Ndayishimiye

Gloria Nyambok (MD)

Godfrey Ndalahwa

Janet Mwaluma

Regulatory changes

Kenya

The Kenyan regulatory environment was enhanced with the operationalization of the Kenya Banks Reference Rate (KBRR) framework introduced in 2014. The KBRR offers a uniform base lending rate across the banking sector. It offers a mechanism for customers to compare lending rates across banks thus enhancing transparency, competition, access to credit and overall cost of credit. All new and existing floating, flexible and variable credit facilities were transitioned to the framework by 30th June 2015. The Bank has since established procedures for the review of interest rates and notifying customers in line with KBRR and the Consumer Protection Act.

To stem the volatile foreign exchange market, foreign exchange exposure limit was revised from 20% to 10% of a bank's core capital. In addition, the Employment (general) rules 2014 were issued under the Employment Act to reiterate and clarify the rights of employees at the workplace. KCB has fully adhered to both requirements.

The Finance Act 2015 amended various regulations including the elimination of stamp duty on transfer of REIT's instruments. The Banking Act was amended to eliminate the bureaucracy in issuing annual bank licenses. Banks will now only pay annual fees for a perpetual license. The Banking Act also introduced the vetting of influential non-significant shareholders.

The Finance Act further amended the Proceeds of Crime and Anti-Money Laundering Act, giving the Financial Reporting Centre additional responsibilities and powers to seek information and documents on the financing of terrorism. Closer to the end of the year, an increase emphasis on Anti-Money Laundering supervision on banks by the Regulator was also observed.

The Companies Act, 2015 completely reformed the regulatory regime in terms of the incorporation, registration, operation, management and regulation of companies. The main purpose of the Act is to simplify incorporation of companies and ensure that they are appropriately and effectively governed. The Act enhances corporate governance through an increase in the duty of care and skill requirements for board members and creates greater responsibility and accountability on company boards. It expressly clarifies the duties, responsibilities and liability of directors in the management of companies.

For KCB, this legislation creates several compliance requirements including:

- Undertake training of directors, shareholders, senior management and staff involved in implementation of the Act
- Review charges and debentures
- Review the Bank's Know Your Customer (KYC) requirements for companies
- Amendment of Bank's Memorandum and Articles of Association
- Amendment of Board Charter

The Insolvency Act 2015 replaced the Bankruptcy Act and promotes the restoration of financially troubled businesses while protecting creditors' and public interests. The Bank must accordingly amend credit agreements in line with the requirements on the administration of struggling businesses to ensure that the Bank gets the best return possible and exercises a measure of control over a borrower that is struggling financially.

The formal implementation of the Unclaimed Financial Assets Act, 2011 commenced in 2015, with institutions submitting the requisite reports on and surrendering unclaimed financial assets to the Unclaimed Financial Assets Authority (UFAA). The impact of this legislation is that deposits held by the Bank which are unclaimed will be transferred to the authority. KCB, as a tier 1 Bank, will be audited by UFAA in 2016 for compliance with this law.

Implementation of the Prevention of Terrorism Act, 2012 and the Persons with Disability Act, 2003 were commenced in 2015. In regards to the Prevention of Terrorism, the CBK and Ministry of Internal Security published legal notices to banks that KCB has fully complied with. The National Council for Persons with Disability issues a Gazette Notice in respect to the Persons with Disability Act requiring immediate compliance with the Act's provisions relating to access to facilities and services by disabled persons. In 2015, the bank completed a compliance review in respect to the Act and implementation of the required corrective actions is ongoing.

Tanzania

The Tanzanian regulatory environment was active with several legislative and regulation changes impacting on the Bank. The Banking and Financial Institution Capital Adequacy (Amendment) regulation of 2015, amended the minimum capital requirement for banks to TZS 15 Billion (KShs 700 Million). Further, the Banking and Financial Institution (Mortgage Finance) Regulation of 2015, which provides guidelines on how to conduct the mortgage financing business was issued. This law has increased the participation of Banks and financial institution in mortgage financing in Tanzania.

The Finance Act 2015 had far reaching changes including the introduction of levies and duties that impact on the Bank. Among the requirements introduced by the Act is the submission of a Tax Clearance Certificate on renewal of a business licence. The Foreign Exchange (Bureau de Change) regulation of 2015 touching on how to obtain a license to conduct the business, capital requirements and mode of operations, was enacted. This law has provided discipline to the operation of bureau de changes in general and provided controls in areas where there was laxity.

Other regulatory changes observed in Tanzania include the Banking and Financial Institutions (Microfinance Activities) (Amendment) regulation of 2015 that requires Microfinance companies to convert into microfinance banks, the Tax Administration Act 2015 that modernizes tax administration provisions and consolidates them into this legislation. It however creates a punitive financial obligation on companies raising objections to the tax commissioner through a security deposit. Finally, the Value Added Tax (General) regulation of 2015 which proffers certain tax waivers but introduces VAT on insurance products. This has led to a slowdown in the uptake of insurance products due to increased costs of premiums.

Uganda

Several proposed legislative actions were witnessed in Uganda. The Financial Institutions Act (FIA) Amendment Bill 2015 was approved by the cabinet and is currently before parliament. The provisions of the FIA Amendment Bill are particularly important since they provide a legal framework for Islamic Banking, Bancassurance and Agency Banking.

Other proposed legislation include the Anti-Money Laundering Bill 2015, which seeks to amend the Act of 2013 by providing for risk assessment, protection of the identity of persons and provision of information on suspicious transactions. It also provides powers for the enforcement of compliance, the establishment of the Uganda Anti-Money Laundering Committee and related matters.

The Financial Consumer Protection Guidelines 2015 seek to ensure transparency and disclosure by banks to customers including Key Facts Documents that provide product charges, terms and conditions. In the course of the year, the Bank of Uganda issued a memo on primary data centres and disaster recovery sites that requires all supervised financial institutions to have in-country primary data centres and disaster recovery sites by 2016.

Rwanda

Law No. 31/2015 that establishes a Deposit Guarantee Fund was published in 2015. The law makes it mandatory for deposit taking financial institutions to pay a premium, calculated as a percentage of their deposits, to the Fund. Although the Fund will increase confidence and a sense of security among depositors, it will also increase the cost of business for deposit taking institutions. Further, Regulation No. 06/2015 relating to bouncing cheques was issued. The regulation provides strict penalties and sanctions to cheque defaulters and obligates banks to report all bouncing cheques to the National Bank of Rwanda and the Credit Reference Bureau.

South Sudan

The Bank of South Sudan issued proposed mobile banking regulations for stakeholder input.

Burundi

In 2015, the laws that could have affected the banking business where not tabled and debated as scheduled. This was mostly due to the unrest in the capital city which started in April 2015, following a long electoral period. The anticipated regulations such as the Banking Bill and the law for Credit Reference Bureau are still awaiting debate in Parliament.

Additionally, in Burundi, the National Treasury issued a directive limiting withdrawals from foreign currency accounts. This directive has led to a decrease in deposits in foreign currency accounts and increased activity in the black market.

On a more positive note, The Banque de la Republique de Burundi (BRB) established a new permanent commission that includes representatives from the local Banker's Association under the Association des Establissements Financiers du Burundi (ABEF). Quarterly meetings were organized to review issues affecting the banking sectors.

Risk management

Introduction

Risk management is an integral part of banking. Risk is the potentiality that expected and unexpected events may have an adverse impact on the bank's capital or earnings. Risk management seeks to identify, measure and mitigate various risks that are intrinsic to banking operations or extrinsic based on the context in which the bank operates. Risk management is not simply a collection of tools and methodologies, standards, policies and procedures but includes an overarching risk management culture. At KCB, the risk management culture involves values as well as behaviours and how these shape the group's day-to-day decisions.

Risk Management Approach and Framework

KCB has a robust Enterprise Wide risk management framework and process in line with Basel II and Basel III requirements. The Enterprise Wide risk approach covers Credit, Operational and Market risk as well as Information, Compliance, Reputational and Strategic Risk. In addition, emphasis is laid on Ethics as well as Fraud prevention with training programmes in place to equip staff with the skills necessary to ensure that there is a robust mechanism for detecting, analysing and managing risk on an ongoing basis.

Risk Management Roles

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are approved by the Board and work to ensure sound management of risks faced by the Group and appropriate setting of limits and controls in line with the Board approved Risk Appetite.

The Group's risk management policies and systems are reviewed regularly to ensure they keep up with changes in market conditions. The Group, through its training programmes, management standards and procedures, aims to maintain a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Risk Committee of the Board 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 Committee is assisted in these functions by the Risk Management Division, which has oversight on enterprise wide risks with regular reporting to Senior Management and the Risk Committee of the Board.

All risks are owned and managed directly by the relevant Business Units which work as the first line of defence with direct managerial and operational responsibility for identifying, managing and responding to risks. The Risk Management Division works as the second line of defence providing oversight, tailor made systems and tools to enable the Bank to quantify the risk and establish the appropriate level of capital required to protect the Bank against the risks. It also provides insight and awareness to both management and staff with direct reporting to Senior Management and the Risk Management Committee of the Board. The Audit Division is the third line of defence providing regular audits to give assurance to the Board on the identification and management of risks. KCB has established standards, policies and procedures to enable strong governance and management of risk. All units of the Bank are provided with tools and skills to self-assess risks, identify key risk indicators, report and manage risks. The units have developed risk registers that are regularly updated.

Credit Risk

Credit risk measures the risk of a borrower failing to meet credit obligations. KCB has developed an internal dynamic risk rating system which is applied borrowing customer accounts. Credit risk ratings are assigned to customers to enable the group to establish the risk and enable credit decisions to be undertaken within acceptable risk appetite thresholds. The risk ratings are also important in enabling the group to determine and the amount of capital that needs to be allocated to enable the Bank to manage credit risk.

Since 2007, KCB achieved end-to-end automation of its credit application processes. KCB has also established Behavioural Credit Scoring models to enable lending decisions based on information extracted from the customer accounts. In 2015, the credit risk assessment processes were enhanced so as to save time, effort and resources while protecting the bank from default with systems developed to assist in efficient debt collection processes.

Fraud Risk

KCB focuses proactively on management of fraud risk with emphasis on not only but also detecting and preventing fraud. The Group has a Forensics Team which also provides training and awareness for staff on fraud prevention. It is worth noting that the team's presence in the Risk Division denotes the Group's emphasis on proactive prevention of fraud as opposed to reactive investigation. A whistle blowing hotline for fraud is available with reported issues investigated and appropriate action taken.

Risk and Innovation

One of the most exciting opportunities for KCB has been the use of the Risk Management function is in driving Risk Intelligence as a business enabler. 2015 saw the development of the KCB-MPESA mobile loan product, which uses behavioural credit scoring modelling to assess loan eligibility and make loan decisions. Behavioural credit scoring is also being applied to agricultural businesses, with a view to increasing lending to this vital sector. The tools used in assessment of risks for new products enable KCB to formulate strategies to mitigate risks. The overarching philosophy of Risk Management is that it is not only a critical practice to ensure compliance with internal as well as regulatory standards but also a valuable business practice. Risk is viewed as an opportunity with the key being knowing how to manage the risks within the group's risk appetite framework.

Future Outlook

In 2015, KCB implemented the Internal Capital Adequacy Assessment Process (ICAAP) framework in line with the regulatory requirements. The ICAAP is designed to be commensurate with the banks activities and risk profile and to ensure identification and assessment of the full range of risks that the Bank is exposed to. This ensures that adequate capital is maintained over time and that risk management is embedded in the group's strategic planning and decision making process.

In terms of Basel II and III requirements, KCB has always been an early adopter of global recommendations and is compliant with the regulatory standards. KCB remains vigilant to evolving risks facing the financial sector and has a comprehensive framework in place to ensure that there is critical awareness within the bank of evolving and emerging risks. Looking ahead KCB aims to place emphasis on socio and macro-economic factors as well as political risks in the coming year.

Risk Categorization

Information Risk

Description	Examples	Mitigation measures
Threat arising from weaknesses in data integrity, system availability or weaknesses in the ICT environment	Data phishing, data fraud, data privacy breaches	IT security policy, IT operations and monitoring, firewalls, strong business continuity plans, stringent information protection processes and policies.

Market Risk

Description	Examples	Mitigation measures
Potential loss of earnings or economic value due to sudden shifts in financial and economic factors. Market risk at KCB includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk	Loss in economic value due to shift in interest rates	Regular monitoring of KCB's risk profile against risk appetite limits e.g. exposure and risk limits, liquidity and solvency ratios which are contained in the market risk framework incorporating market and country risk policies approved by the board.

Compliance Risk

Description	Examples	Mitigation measures
Failure to adhere to new or existing legislation, regulations, prudential guidelines as well as key internal compliance policies.	Introduction of new or changes to existing legislation, regulations and prudential guidelines	• Identification of changes to the regulatory compliance universe, gap analysis and enhancement of the internal policy environment • Monthly compliance self-assessments and validations • Identification and analysis of compliance gaps • Continuous compliance training for staff

Reputational Risk

Description	Examples	Mitigation measures
Potential that negative publicity regarding the Bank's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation, or revenue reductions. This risk may result from the Bank's failure to effectively manage any or all of the other risk types.	Negative publicity	• Strong risk management and ethics culture. • Monitoring of print, electronic and social media and resolution of issues. • Senior management oversight.

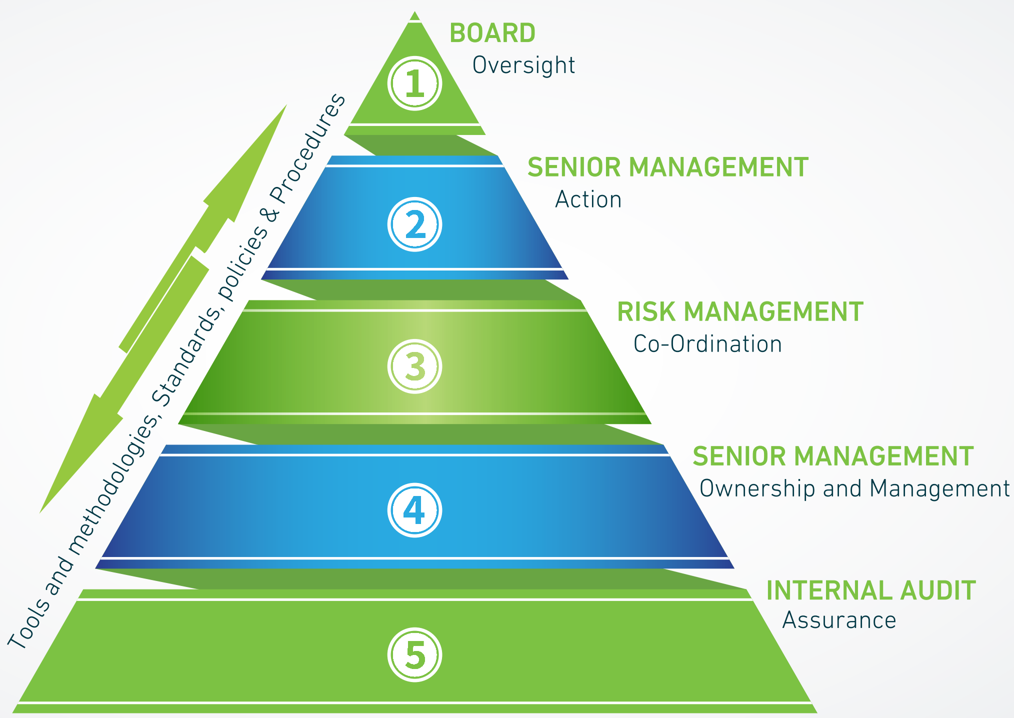
Credit Risk

Description	Examples	Mitigation measures
Failure of an obligor of the Bank to repay principal or interest at the stipulated time or failure otherwise to perform as agreed.	Default on credit facilities	Monitoring and reporting of loan book, setting of appetite limits, sector concentration limits, risk adjusted loan pricing, calculating the Basel II / III capital adequacy requirements for credit risk and development of core risk models.

Operational Risk

Description	Examples	Mitigation measures
The risk of losses resulting from inadequate or failed internal processes, people and systems or from external events.	• Inadequate/insufficient documentation of processes or procedures • Lack of inbuilt controls in procedures • Health and safety issues, • Fraud risk	A robust risk management framework that ensures operational risks are identified in a timely fashion, measured and corrective action taken to cushion the bank from surprise operational risk events.

KCB Group Risk Management Governance Structure



Group Chairman's statement

"The power of a Holding Group and great partisanship is mark of corporate success"

Overview

In yet another year of stellar performance, I am proud to report to all our stakeholders that the Board and management of the KCB Group have ensured continued success across all our businesses. We weathered many challenges across the region to close with an improved return year on year. In the Kenyan market, the third quarter of the operating year proved to be turbulent with market volatility in the foreign exchange market and increased interest rates. South Sudan and Burundi remained challenging markets due to political and civil strife. Our branches in these countries remained operational despite the hostile environment. Fortunately, election related activities in Tanzania and a referendum in Rwanda, had little negative impact on our operations. All in all, the Group posted a strong performance which attests to our command of doing business in the region and long term commitment to continue being at the forefront of providing diverse financial services to our customers across the region.

The Holding Company

At the beginning of the year, the Board set out to complete the process of registering the Holding Company which is known as the KCB Group Limited (KCBGL). After endorsement at the 2014 AGM, the Board worked tirelessly to receive all necessary approvals from our diverse regulators to establish this Holding Company and at the same time create a subsidiary for the Kenyan market, the KCB Bank Kenya Limited. We completed the approval process by close of the year 2015 and as of 17th January 2016, the previous Kenya Commercial Bank Limited is now known by the holding company's name, KCB Group Limited. The Board understands that the rigorous process of registering the company is only the first step. We will now focus on giving life to this new arrangement while ensuring a smooth transition from the old structure. In addition, we will ensure that the interests of our subsidiaries are catered for as we define and develop the relationships between the Group and synergies between the subsidiaries.

Strategy development and implementation

In 2015, the Board played a pivotal role in the development of a new strategy for the KCB Group. All of the KCB Group operations will be driven by this strategy. In line with our strategic outlook, we created 42 criteria for measuring success and we are well on our way to actualizing them. We intend to reinforce strategic performance in the KCB Group based on the clear targets we have developed for ourselves. This will ensure that our operations are not only strategic in approach but that the desired outcome is also definable andmeasurable, reportable and verifiable. Our strategy is heavily reliant on alternative banking channels. Partnerships are a key component as has been proven by the success of the KCB-MPESA partnership with Safaricom. Not forgetting the largely successful partnership with our agents through our agency banking platform, KCB Mtaani. The greatest determinant of the successful execution on this strategy will be our ability to innovate, consolidate and create products and services that are relevant for our customers. We consider non-traditional banking channels as being the future of banking and we are positioning ourselves to utilize these channels more aggressively.

E-board portal

The efficiency of the Board was another focus for the year, with the creation of an e-board portal which enables the Board to conduct its activities using digital technology. This portal has several advantages including better protection of the bank's information, ease in access to information by the Board members, faster decision making, embedment of transparency, accountability and responsibility within the Board as well as reduction in costs associated with travel and preparation for physical meetings and reduction of the bank's carbon foot print. This is the type of culture we want to drive through out the Group. The boards are to demonstrate a culture of high performance, responsibility and quick turn-around times.

Transforming lives

We have always been keen to engage society through sustainable impact on the lives of ordinary citizens in the societies where we operate. In Kenya, we have a keen eye on devolution because it offers an excellent mechanism for reaching the general citizenry. The KCB Foundation is one of our strongest tools in driving long term advancement in our societies as it partners with beneficiaries in programmes across several focus areas. Our flagship programme "Mifugo ni Mali" seeks to transform the livestock economy by working with diverse players in the value chain. It focuses on bringing positive change and improvement in livestock markets, livestock cooperative societies, livestock farmer practices and product quality. Due to its initial success, this programme will now be rolled out in all the counties where we operate to make meaningful changes in the lives of ordinary citizens. Despite the programme being at the inceptive stages, we are already seeing outstanding results including improvements in incomes within the range of 300 - 700%. Fundamentally for us, giving people a sense of dignity irrespective of their vocation is in line with our legacy of enabling progress.

Changes in 2015

In the course of 2015, seven members retired from the Board. This is in line with the rules stipulated in our Group Governance Policy and Board Charter. In addition, 88 staff members for separated with the Group for reasons of incompatibly with group corporate culture, 7 staff retired while 1,288 new staff were on-boarded in the year. In Kenya, the new Companies Act and the draft Capital Market legislation creates major demands on Board directors. The new rules demands much more from the Board members in terms of their responsibilities and it is therefore imperative to train members of the Board to enable them to perform on their mandate given the increased expectations placed on them by the legislation. We expect this trend of enhanced company legislations to be replicated in other countries in the region. Being proactive has always been our working spirit and as such we continue to strengthen the Board in light of the expected changes and remain ahead of legislative requirements to ensure the Group is compliant at all times.

Future outlook

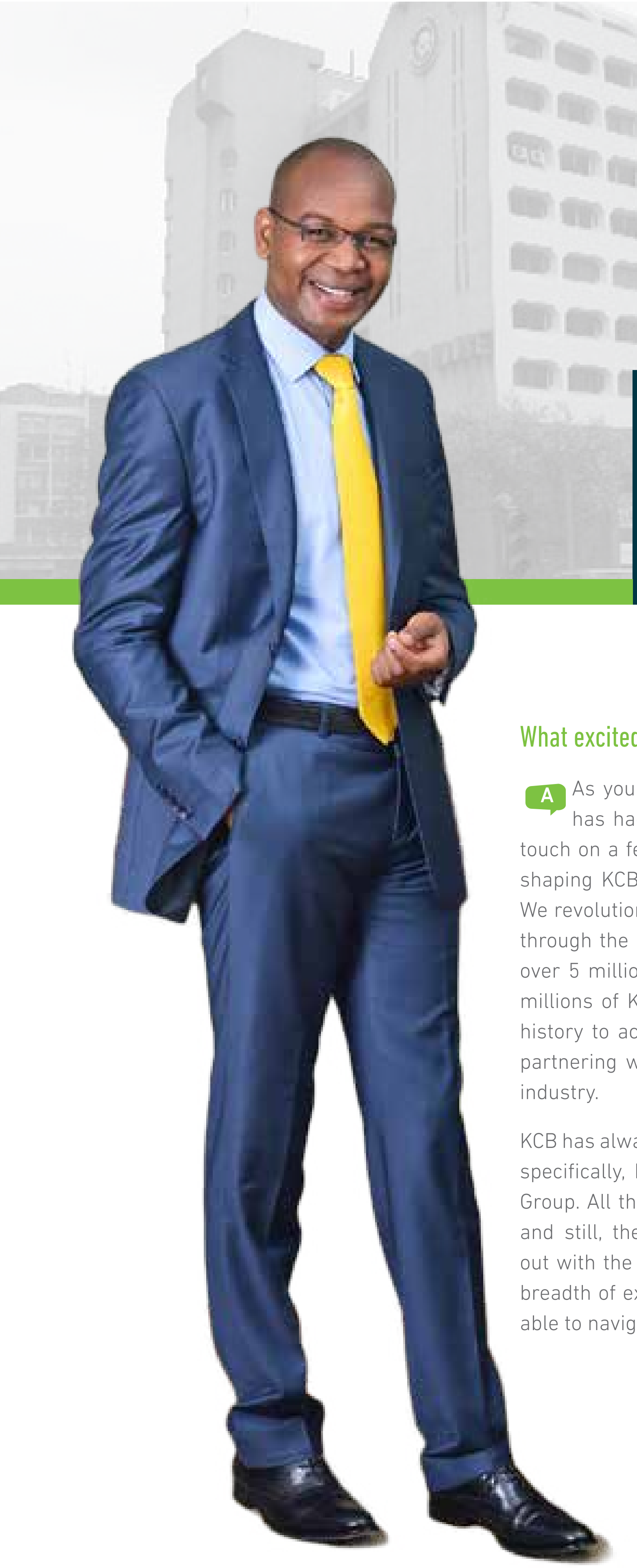
I am personally very optimistic abut the future of the KCB Group. It has solid foundation in heritage, governance, working spirit and innovation. We are looking forward to the implementation of the new Group strategy. Although we recognize the importance of profits and market share, we want to work with more robust indicators for our medium to long term success. We will be keenly watching the Bank's stability and long term prospects. We will be looking at the total scope of being a sustainable entity to measure our progress and ensure we have the right fundamentals for growth and success.

As a Board, we will largely focused on establishing the attributes and qualities of a Holding company, supporting subsidiaries and ensuring a smooth transition. 2016 will be a transition period as we create the systems, structures, procedures and processes for Holding company. More importantly, the Board will guide the relationship between the Holding Company and the subsidiaries. We have already commenced the process of establishing a presence in Ethiopia with good progress in that regard. We will also be looking at Djibouti and the Democratic Republic of Congo (DRC) in the near future.

The board will continue to closely monitor the regional operating environment and ensure that the right mechanisms are in place to adapt quickly to any risk that the bank might encounter and ensure the continued good performance of the bank. The board also is developing a mechanism of engaging the governments and stakeholders in all the countries KCB Group carries out business with a view of ensuring its interests are secured.

In closing, I can say The power of a holding Group and great partisanship is mark of corporate success. I would like to thank my colleagues on the Board who have consistently given themselves fully to the tasks assigned to them. The management has remained a pillar of inspiration, hope and support for the Board, reliably performing beyond our expectations and targets. Our staff are the backbone that holds the KCB Group firmly in place, as they diligently deliver value to our stakeholders. I truly salute these heroes in all the countries where we operate.

Ngeny Biwott
GROUP CHAIRMAN



Q&A

Interview with the Group CEO

What excited you the most about the performance of KCB in 2015?

A As you know, we had a resoundingly strong year and my entire team has had very many successes that I am very proud of. I will however touch on a few that stood out for me. 2015 was a very instrumental year in shaping KCB's image both internally and externally as an innovative bank. We revolutionized customer acquisition in the Kenyan market and the region through the partnership with Safaricom. This not only led to the creation of over 5 million new accounts but also brought a new level of dignity to the millions of KCB customers who are now able to leverage on their M-PESA history to access credit. This kind of transformation within the bank, while partnering with like-minded partners, is what will shape the future of this industry.

KCB has always been a strong bank, now in its 120th year of operation. In 2015 specifically, I witnessed an overwhelming amount of resilience across the Group. All the businesses faced some form of unforeseen adverse situation and still, the management teams and the Board pulled through to come out with the great results presented for the year. The depth of capacity and breadth of experience has proven to me that no matter the situation, KCB is able to navigate through operating challenges successfully.

The operating environment was rather challenging with a depreciating shilling, interest rate increases and tighter liquidity environment. Was this a major concern for KCB?

A I earlier spoke of resilience. Yes, the environment was made challenging from the shilling, interest rate and liquidity perspectives but we did find appropriate ways to overcome the situation. It did translate to a higher cost of doing business but we are confident that the next cycle will not generate as much headwinds as we saw in 2015.

2015 saw the launch of the 'Quest for Purpose' at KCB, a flagship brand purpose process. What is the driving force behind redefining the existence of KCB beyond merely making money to building the frameworks that will create future markets and customers?

A The brand purpose reinforces KCB's vision around three facets; People, Planet and Profit. Focus on people; both internal and external customers, is fundamental to the brand purpose program. This was designed to have an impact on our staff and our customers. The KCB purpose "Simplifying your world to enable your progress" was a truly cross functional initiative. From the Board to staff across the seven countries of operation, our unifying goal is to simplify the lives of those around us. It is through this new and shared vision that the Bank can deliver on its promises to the customers. Our goal is not to just have staff satisfied with their working environment and remuneration packages but to have staff who have freedom, independence and consider the bank as a place to earn a life not just a living.

It is when the staff embody this purpose that the same will be passed to all the people we interact with across board. These could be our customers, staff, suppliers, regulators and shareholders who form part of our core stakeholders. This is where our core values of being Simple, Inspiring and Friendly stem from with the desired behaviors adopted across the network. The end result is to create a rapport with our stakeholders and thereby create the capacity for the bank and those around it to grow into extraordinary levels.

There is an obvious shift by KCB from traditional brick and mortar banking channels to alternative channels, particularly digital platforms such as mobile banking, mobile loans, KCB-MPESA, internet banking, cards amongst others. What is driving this approach?

A We have seen a shift with over 70% of our transactions now being processed through what we call non-branch channels which have since moved from being alternatives. To some of our customers, these non-branch channels are now their main channels of interaction with the bank. The driving force for this is the move across the world for service that is convenient, available 24-7, boundless, online, faster and cost effective. Our non-branch channels combined, offer this and so much more. It is through understanding our customer behavior and trends that we have been able to invest, over the last three years, into these channels which today are beneficial to both the customer and the bank.

The customer of today and tomorrow is faced with several options daily on how to transfer money or make payments. What we have done and seek to enhance, is provide this customer with the best possible choice of alternatives going forward. Different circumstances will call for different options to be employed and therefore you cannot pin-point one channel and declare it as the one; but various options will always be available and be used depending on the circumstances.

The partnerships with Safaricom have been very successful. Is this a strategy that KCB intends to continue with, partnering with other business? What other ideas are in the offing? What about partnering with non-business partners like the government and civil society?

A Partnerships are part of the seven strategic pillars of KCB. This is a culture you will see continue into the coming years and it will go beyond our present partners. We definitely seek to grow the partnership we have with Safaricom and there are various initiatives at varying stages of discussion and testing.

We do have existing partnerships with various utility companies and this has been a welcome addition to the menu of services available on our Mobi Application.

Our engagement with National and County governments goes beyond cash, payment, and distribution services. We partner to offer services with Huduma Kenya and Inua Jamii programs by facilitating payment across the country. Beyond the Kenyan borders, KCB has partnerships with the regional tax collection authorities to facilitate additional service centers. We work with mobile network operators to grow the mobile banking service across the region and also double up as international financiers for a cheaper source of funding.

It is evident that there is an overarching link between KCB's strategy and the social challenges facing the nation with products for SME, youth, housing, health and financial inclusion; with a specific effort to touch the ordinary "mwananchi" in the region. What drives this focus on societal challenges?

A The future generation is what we are facilitating. The growth drivers for this region are closely linked to the youth, SME, health, housing and financial inclusion. Our five year strategic initiatives as highlighted last year are pegged around these critical factors. We view our role as that which enables the society to achieve on its mission in line with our purpose of simplifying our customers' world to enable their progress.

Our understanding of and engagement with our customers also informs our strategy. It is our experience and research that has led to the development of products that best suit the segments with the highest need. We take cognizance that the youth have different needs and as such, the Bank has developed both formal and informal options for this growing segment that is not only demanding and but thrives on technology driven services. The youth segment will remain a key focus for KCB as they are the bulk of our future customers and the enablers of tomorrow's national economic success in the region.

The SME segment as we know it today is wide and dynamic. Given KCB's strength and vision, this is a segment that we deliberately pay additional focus to in supporting their growth and financial progress. Having reviewed our internal definition of the SMEs and further introduced relevant products and services to suit their requirements, the effort to meet the needs of these customers now can be realized with a solid backing. Thus the potential for success in the SME segment in a sustainable manner is guaranteed.

Your new products and services focus on the micro and small business segment. Does this signal a move by KCB to exit large projects?

A KCB remains the largest bank in the region with over half a trillion in assets. This is a strength we shall retain to give even better service to the corporate customers. We have recently further segmented our corporate business team to enable even more detailed focus on areas of growth like agriculture, energy and Micro Finance Institutions (MFIs). There is good and sustainable business to be done with the large entities and this continues to drive approximately 50% of the Groups' assets and revenues.

The focus on the micro, small and medium enterprises not only harness the large numbers of businesses in the region but to also work with them to grow into mid-sized and even large corporates of the future. The small and micro customers have financial needs which KCB seeks to fully participate in. The approach is to address the customers from a point of greater understanding before developing products. The innovation team we have within the Bank is constantly in pursuit of this understanding of the customer and refining existing products where necessary.

What do you see as the future of banking in an evolving world? What key parameters will be important for banks in the future bank?

A The Bank of the future will be faced with a faster changing environment (including customer needs) and a shorter span to adapt within this evolving environment. This will require teams, processes and systems that can adopt even faster to advancements. Further, the role of the regulator will be seen to be stronger with greater demand for controls, risk management and capital allocation.

It is through the combination of these factors that the response to customers, holistic payment systems and flexible products and services that banks will find the formula to remain relevant.

The 17 Sustainable Development Goals (SDGS) were launched in September 2015. What role do you see for KCB in attaining these goals?

A For starters, the SDGs are a set of 17 goals and 169 targets aimed at resolving the social, economic and environmental problems troubling the world. Covering the next 15 years, the SDGs replaced the Millennium Development Goals (MDGs) which expired last year. For the SDGs to be successful, leaders have to think beyond creating bespoke programs that address the SDGs, but actually embed them into the ethos of an organization and its people.

In KCB we see SDGs as a source of great opportunities and the successful implementation will strengthen the environment for doing business and building markets. Our approach to the SDGs, for example, starts with having already integrated the sustainability agenda into our Group Corporate Structure and contributes towards our financial, economic, social and environmental growth pillars and the maintenance of a stable society in line with our corporate values. It is our core responsibility to do business responsibly and then pursue opportunities to solve societal challenges through business innovation and collaboration. We believe that as stakeholders we must not make our world's problems worse before we try to make them better for the next generation. We shall continue to encourage conversations and advocacy within this space.

2015 saw several negative corporate actions such as profit warnings, bankruptcy filings and bank closures. Did any of these pose a challenge or create any concerns for you?

A The market in 2015 was challenging for many companies. We saw a record number of listed companies issuing profit warnings, and the trend was similar in non-listed firms. This has however not materialized to a cause for concern in our business. We were able to work out a reasonable arrangement for our customers who faced challenges in the course of the year. Thus they remain performing entities and can keep their businesses running. The events of 2015 were isolated and should not be used to define the market and quality of businesses operating within the region.

What were your key concerns in the coming year?

A In 2016, we consider the environment stable enough for good business to continue. We are out to deliver a steady growth on 2015 counting on a stable macro-economic environment across the region. The situation in South Sudan and Burundi has been ongoing for almost a year and we remain committed to both these countries in the long term.

How would you summarize the KCB strategy in the coming year?

A For 2016, we seek most to enhance customer experience. It is through this that all other strategic goals can be achieved. You will see KCB come to the market with customer oriented solutions, partnerships across various business segments and an enhancement of existing platforms.

You were courageous in providing your wealth declaration. Do you think the private sector is doing enough to deal with corruption and unethical practices?

A This is something as a society we must work together to fix. This century, our view on clean business will never be more important as it will shape not only the generations of the future but more importantly, enable us achieve on our individual and collective goals. Not many of the other societal ills affect the whole as the act and perception of lack of clean business practices. The private sector is behind the initiative as it does affect their business operations. A lot of progress will be made in the coming months and years as corporate Kenya firmly takes a stand against unethical business practices.

Joshua Oigara
GROUP CEO

GROUP BOARD OF DIRECTORS

STANDING FROM LEFT: John Nyerere, Julius Mutua (Alternate to Henry Rotich), Georgina Malombe, Tom Ipomai, Joseph Kania, Catherine Kola
SEATED FROM LEFT: GEN (Rtd.) Joseph Raymond Kibwana, Lawrence Kimathi, Joshua Oigara, Ngeny Biwott, Adil Khawaja, Charity M. Muya-Ngaruiya

Note: Board of Director profiles page 161

EXCOM GROUP PHOTO

BACK FROM LEFT: Paul Russo, Samuel Makome, Apollo Ongara, Joseph Kania, Rose Kinuthia, Avijit Mitra, Lawrence Kimathi
SEATED FROM LEFT: Jane Mwangi, Joshua Oigara, Judith Sidi Odhiambo

Our management approach

Our management approach seeks to deliver sustainable value for our customers and stakeholders. We have defined our key standards and aspirations for each of our management functions. These standards underpin our broader strategic emphasis and also our day to day operational practices. We have a holistic view of the business with the intent of ensuring we consistently deliver high quality services and products to customers using cutting edge, simple and reliable processes through empowered talent.

Strategy

Strategic framework

The KCB strategic framework covers 2015 – 2019 and focuses on seven key areas namely;

- Customer experience
- Network spread
- Youth agenda
- Digital payments
- New businesses
- Robust IT
- Strategic partnerships

STRATEGIC ISSUE	STRATEGIC OBJECTIVES	MILESTONES
Customer experience This is the customer's perception of our brand based on their interaction with us over the duration of our mutual relationship. This interaction includes a customer's attraction, awareness, discovery, cultivation, advocacy and purchase and use of our services and products during the customer life cycle.	• Improve customer satisfaction to 85% • Reduce Turn Around Time (TAT) by 50% • Increase staff satisfaction to 85% • Grow brand affinity	• The bank launched the brand purpose programme in 2015 targeting both the internal and external customer. This has commenced the journey of the bank toward being simpler, friendlier and more inspiring and aligning processes to the Bank's purpose. • Customer engagements and touch points have increased thus improving the customer satisfaction index to 79% from 77%
Network spread We want to increase our spread both geographically and via technology so as to reach larger numbers of clients and create greater value for our customers. We will use the channels that our customer prefer while offering ease and convenience.	• Increase mobile banking customers from 1M to 2M. • Grow the agency network to 100,000 • Increase number of customers to 10M • Increasing contribution of SME and Micro to 20% of the loan book in two years. • Race to a million homes through an affordable mortgage proposition	• The Bank has been able to double its customer base from the close of 2014 where it had 4.2M customers to over 10 million by close of 2015 • Attained 2M active accounts as at 31 December 2015 on Mobile banking, • Agency network grew to over 11,600 agents
Youth Agenda The bank has embarked on a detailed youth agenda looking to tap the youth from both the formal and informal sectors. On the formal sector, a campaign around the technology and innovative field is targeting to connect young entrepreneurs with mentors and a market place to showcase their products. The informal sector agenda seeks to grow and improve Micro, Small and Medium Enterprises through up skilling and certification of existing youth in specific value chains.	• Commence a Youth engagement programme (Bankika Revamp) • Renew the Learning Institutions Programme	• Formally engaging with organized cohorts (Jua Kali Association of Kenya) Kamukunji artisans, metal fabricators, carpenters and metalworkers, Roadside/Open garages mechanic, hairdressers in Huruma, Kibera, Mathare etc to train and upskill them • Increased automation and application of modern technology which will result in production at scale and improved profitability for budding entrepreneurs

STRATEGIC ISSUE	STRATEGIC OBJECTIVES	MILESTONES
Digital payments We will seek to encourage a "cashlite" economy where financial transactions are increasingly conducted using digital money portals. We will also seek to be the leading player in the digital payment ecosystem providing diverse services to a wide array of our customers.	• Card payments – acquiring, issuing, online, contactless • Cashless transport • Cashless Government • Money Remittance	• Cards – the bank commenced instant issuance of ATM cards for new accounts and replacements at 36 locations across the country. • Over 1.1M Pepea cards issued and on boarded 9 partners on Bill payment such as utilities and cable television
New businesses New business seeks to identify new opportunities for the bank through expansion into new geographic areas and provision of new products and services through business lines that have not previously been used by KCB.	• Increase investment in existing business • KCB Insurance • KCB Capital • Islamic Banking	• The bank successfully obtained a license to operate a representative office in Ethiopia making this the sixth international market KCB has its foot print. • The Bank has successfully established Bancassurance, KCB Capital and Islamic Banking offers in 2014 and 2015
Robust IT We intend to deliver our services through robust IT platforms and products. IT will be a key delivery channel for our products and services and needs to be cutting edge and highly effective.	• Improve T24 reliability to 99.5% • Increase Mean Time Between Failures (MTBF) to 180 days • Introduce Cloud Computing capability • Achieve a Cost Efficiency of 48%	• Launched the implementation project focusing on the core banking system. The bank is on track to migrate from R8 to R14. This will enable the bank to improve efficiencies around product and service delivery. The project is expected to be completed by June 2016. By December 2015, it was over 60% complete and on track
Strategic Partnerships We realize that our objectives cannot be achieved without partnering with others. We therefore seek opportunities for mutually beneficial and complementary engagements that create synergistic results for us and our partners.	• Tele-Communication • Energy • Transport • Governments	• KCB-MPESA has on boarded 5m customers and disbursed over KShs 7B in loans and enabled KCB attract a new client base • Inua Jamii is a vital partnership with the government for social welfare distribution of funds reaching over 450,000 beneficiaries with over KShs 6.8 billion disbursed. • Working with Counties, the bank has been able to enhance revenue collection, reduce leakages and improve livestock management across various counties.

Looking forward

The key milestones that we intend to achieve in 2016 and beyond include:

- Excellence in Customer Experience
- Championing our Brand Values
- Driving Operational Efficiencies & Cost Management
- Growing NFI and Digital Financial Services
- Growing our existing International Businesses
- Building Customer Deposits

Responding to Our Material Issues

Volatility in interest rates

2015 saw an increased level of volatility in interest and foreign exchange rates. The 91 day Treasury Bill rate increased from 13.9% to a high of 22.5% while the MPC revised the CBR by 300 bps to 11.5%. The KBRR was raised from 8.54% to 9.87%. Consequently, financial players also revised their leading rates leading to a hike in interest rates. At the close of the year, rates had dropped slightly but remained relatively high.

Our Response

The Bank raised lending rates in line with the market fundamentals but stayed within the middle tier among lenders. In addition, we used our influence and market position to encourage sound practices while avoiding to fuel speculative pressures. KCB is committed to giving borrowers the most competitive interest rates while taking into consideration all factors including their risk profile and market dynamics.

Greater transparency of lending rates & charges

Several factors have enhanced transparency in the financial sector in the region. A key driver is information technology which allows for large amounts of data to be easily availed to the public. A diversity of products and services within the lending arena are now available to borrowers who are able to make informed decisions. The KBRR launched in 2014 offers a quick method for comparing different financial institutions on the issue of lending rates, providing borrowers with a new avenue of information for decision making.

Our Response

The Bank supports efforts to increase transparency in the financial sector. As custodians of financial resources, the financial sector should be open to scrutiny and embrace transparency. We also understand that information that hitherto was considered private and confidential is often easily available in the public domain. The Bank acknowledges that there are facets of information which we possess that must be kept confidential and protected. The challenge for us is to remain competitive in our pricing and value adding offers and also true to our purpose of simplifying our stakeholders' world to enable their progress.

Competition

The financial sector in the region is highly competitive. In addition to traditional banks and financial institutions, key banking products and services are now being offered by a large number of other business entities including Telecoms companies, SACCOs and Deposit-taking Micro-Finance Institutions (MFIs). Local and international banks are part of our competitive arena in which we operate.

Our Response

At KCB, we are not averse to competition. We consider competition as one of the compelling opportunities for us to remain focused and innovative. We continue to provide innovative and relevant products and services to our clients and customers. Innovation for us is particularly important since we understand that our client requirements and expectations evolve over time. Banking itself is also changing and we intend to remain on the cutting edge, offering a wide suite of products and services that are relevant to our customers. We are also innovative in our channels to provide better access to customers with ease and convenience.

Partnerships

Complementarity that comes through partnering with others, creating synergy and mutual benefits is a key strategy for KCB. Consumer are increasingly savvy and demanding. They prefer complete solutions to partial and piecemeal services. Many of the complementary services required are not within the traditional financial sector offering. Thus there is need to partner with other companies and organizations to deliver holistic value to customers.

Our Response

Partnerships is one of our key strategic objective. We intend to work with others to create value for our customers and stakeholders. The Bank pursues innovative partnerships that leverage on technology, expertise and experience to deliver results for our customers in mutually beneficial arrangements. KCB Mtaani, County Business, KCB-MPESA and utility company engagements provide a clear portrait of partnership models in which we are currently engaged.

Threats and opportunities arising from mobile technologies

Mobile technology and the broader arena of information technology has created a host of threats and opportunities for the financial sector. Ignoring the changes that are occurring in this space is detrimental for any serious player in the financial sector. Disruptive technologies have become one of the greatest challenges for traditional business models as witnessed in the taxi industry. We have to be aware of the changes occurring around us that create new ways of providing banking services using technology. With the level of mobile penetration in the region, it is obvious that financial inclusion efforts will focus on mobile technology. Technology offers many opportunities for KCB but it also means other players can also enter into the financial services field seamlessly. It therefore presents an arena of new competition and the potential for disruption.

Our Response

We have invested heavily to capitalize on the opportunities that are presented by mobile technology and remain vigilant to changes in the local and international scene in the use of technology, and more specifically mobile technology, in financial sector. The Bank has several technology based products and services that are highly successful and continue to show promise for increased returns while exploring diverse ideas to providing value added services to our customers beyond the current product and service offer. KCB considers mobile technology as a key driver of our business and will continue to invest in its growth and application.

Responsible banking

Ethical and sustainable banking practices are becoming an important issue within the financial sector. From marketplace and workplace practices to environmental impacts, banks are increasingly being asked to account for their direct and indirect impacts. Malpractices as witnessed in the global financial crisis of 2008 – 2010 have created greater scrutiny on the way banks make their profits with emphasis on responsible lending practices. The closure of two banks in Kenya in 2015 due to unsound banking practices is expected to increase scrutiny and pressure on the sector to embrace responsible business practices.

Our Response

We are committed to running an ethical, responsible and sustainable bank that observes the highest standards of ethical business practices. KCB has the necessary internal polices, processes and procedures to manage the bank responsibly and address any deficits in this area. The Board and Management take responsible banking practices seriously and ensure full adherence to the documented company practices. The Bank ensures that services and products are suitable for customers and that borrowers are fully capable of repaying their loans.

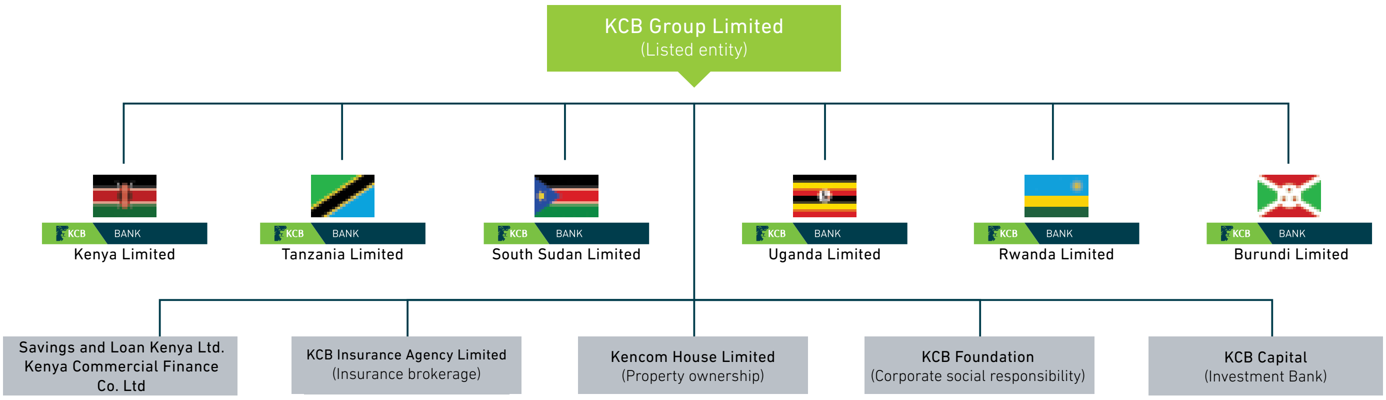
Group structure

Strategic opportunities continue to present themselves to us beyond the scope of the commercial banking entity. Due to regulatory and strategic reasons, we are constrained from pursuing these opportunities. Financial institutions are highly regulated and rightfully so. The requirements placed on them by regulation and legislation create considerable stricture on the ability of the financial institution to pursue strategic opportunities through innovative products and services or those that are outside of the financial arena.

Our Response

We have redesigned our corporate structure by creating a non-operating Holding Company at the Group level and a subsidiary for Kenya at the banking level. The Holding Company will provide the Group with the framework to pursue a broader set of business ventures beyond banking.

New Group Structure



Chief Finance Officer's Report

Key highlights in 2015

2015 was a tale of two halves. The first half was relatively calm while the second half was very turbulent. The local currencies came under pressure as did the interbank rates leading to increased cost of funds across the region. Despite these challenges, our performance in 2015 was robust partly driven by our core business, interest income and in part driven by our strategy of diversification of revenue lines, increased use of technology and digital platforms, growing Non-Funded Income (NFI), targeted deposit mobilization, cost-efficiency, strategic partnerships and enhanced customer experience.

Key highlights for the year include growth in customer numbers by 142% reaching the 10 Million mark, increase in agency transaction by 134%, 98% growth in mobile banking transactions and the international credit rating of B+/B1, at par with the sovereign rating.

Business Performance

KCB Group reported a profit before tax of KShs 26.5 billion, a 12% increase from 2014. This increase was driven by higher net interest income, non-funded income, improved performance of subsidiaries and operational efficiencies. Net interest income grew by 9% to KShs 39.2 Billion and 10% improvement in fees and commissions to KShs 13.1 billion. The contribution of our international business increased from 8.3% to 12.8%, giving credence to the bank's efforts to improve the overall performance of subsidiaries.

The balance sheet increased by 14% from KShs 490.3 billion in 2014 to KShs 558.1 billion. In addition, Customer deposits grew by 12% to stand at KShs 424.4 billion at the close of the year.

The asset book registered strong growth driven by a 22% increase in net loans and advances from KShs 283.7 billion in 2014 to KShs 346 Billion in 2015, retaining KCB's position as the bank with the largest balance sheet in the region.

Total operating expenses increased by 6% from KShs 28.3 billion in 2014 to KShs 30.3 billion in 2015. Our cost to income ratio declined from 50.2% in 2014 to 50.1%.

The Bank maintained good headroom on the core capital ratio at 14.1% (CBK Minimum 10.5%) and core capital to total deposits at 16.1% (CBK Minimum – 8%). Over the last five years the bank has had strong growth which has led to the total capital at 15.4% approach CBK Minimum of 14.5% hence the drive to raise additional capital.

Dividend payout remained constant at KShs 2.00 per share. KShs 1 will be cash and KShs 1 scrip offered to shareholders at the prevailing market price.

Q&A

Interview with the CFO

Lawrence Kimathi Kiambi joined KCB in May 2015 as Chief Financial Officer. He has previously worked in various finance leadership positions at East Africa Breweries Limited (EABL), AIG Property and Casualty (General Insurance), British American Tobacco (BAT) Ltd (United Kingdom & Kenya) and Cadbury LTD East & Central Africa.

You have been with KCB for 10 months now, what has been the key highlight for you?

A The first half of the year and my first few months were relatively calm. However, the second half of the year was very turbulent due to macro economic and operational challenges. I have therefore been privileged to enjoy both aspects of the Bank's working environment in the very first year of my engagement.

What were your key concerns in the year?

A In Kenya, the second half of 2015 was challenging due to the depreciation of the Kenya Shilling and increases in interest rates. The shilling lost 13% of its value to the US Dollar in the course of the year closing at KShs 102.4 to the US dollar. Interest rates also experienced an upward trend with the 91 day Treasury Bill rate reaching 22.5%. These issues resulted into commercial and regulatory pressures on us. Apart from the challenges in Kenya, devaluation of the South Sudanese currency and the civil strife in Burundi also affected our operations negatively. As a Bank, we had to navigate these issues and deliver results for our stakeholders.

How do you view the role of finance in the operations of the bank?

A People view finance as accountancy. Finance is about leadership and we have to make an input in the running of the business in a holistic manner. Obviously, we take a lead on issues that have a financial impact and are particularly concerned with cost effectiveness. But overall, the finance team is keen to support the Bank's strategy and live out the Brand Purpose. We have internal customers – staff – to support so that they can deliver value for our customers. Finance must also play the role of devil's advocate to bring sobriety to decisions while keeping the big picture in mind. We are an integral part of the strategy of the Bank and must play a proactive role in the achievement of the Bank's targets.

How was the performance of the Bank in 2015?

A The bank has performed very well. In ordinary times, the performance of the Bank would still be considered as good. But given the challenges that we encountered in Kenya, South Sudan and Burundi, then the Bank's performance is clearly great. The Bank has performed well on every major performance indicator and strategy of diversification of business lines, operational efficiency, enhancement of non-funded income and improving subsidiary performance has delivered good results.

What is the future outlook for the Bank?

A The external context looks stable but the Bank will be looking out for the pockets of chaos which still exist even when the environment is stable. The global economy looks set to bear the impact of the slowdown in China which will obviously have an effect on most emerging markets, which supply materials for Chinese industry. The price of oil is stable and may remain low for a while, cushioning most of the economies where we operate since they are predominantly oil importers. We will watch the Kenyan budget keenly given that this is a pre-election year. The Bank will continue to drive asset growth and ensure we are ahead of the curve in all key aspects of delivering value to our customers and stakeholders.

Lawrence Kimathi
GROUP CFO

Operational Review

Brand & marketing

This was a pivotal year for mobile banking in KCB. In partnership with Safaricom, we launched the KCB M-Pesa mobile proposition in March 2015 delivering close to 5 million accounts by the end of the year, with KShs 259 Billion moved and almost KShs 7Billion in micro-loans issued. The Bank further leveraged the ubiquity and convenience of mobile banking by launching the KCB App, available on all four key mobile operating systems. With over 150,000 downloads and KShs 4Billion moved, this is the biggest bank app in the region.

The Bank also launched the KCB Simba Points loyalty program that rewards customers for banking transactions. Over 40,000 customers joined in its first month and more than one million points were issued to individuals and small businesses. Our effort to create a cash-lite economy saw the launch of the Pepea card, a pre-paid card that currently has 1.1million cards distributed.

Brand Affinity improved to 35% indicating an improvement in customer experience and product relevance.

Retail

The retail business focuses on individual customers, as well as small and medium-sized enterprises (SMEs), offering a wide variety of products including current and saving accounts, loan products, SME credit, mortgage, debit cards, as well as mobile money accounts and transactions.

In 2015, the bank rolled out several new products and services. These include the SME Unsecured loan product that offers working capital loans to SMEs. The offer stimulated a rapid uptake of the loans and improved customer retention. Current loan book size is KShs 500 Million, for a six-month duration. Several new products and projects focusing on agri-business, youth and women were launched. These segments reflect the banks overarching intention to drive social and economic transformation through its business activities. Financial inclusion of women and the youth is an important imperative for securing livelihoods and ensuring sustainable impact within society. The Bankika account continues to appeal to the youth and has grown to 1.3 million customers. Additionally, M-POS, which offers customers a faster, easier and cost friendly option for undertaking transactions was launched.

New products rolled out during the year include:

- Advantage Platinum
- Agribusiness Asset Finance
- Agribusiness Working Capital
- Bill payments through mobile
- Cashless distribution
- Chama accounts for diaspora customer
- Contactless cards
- County revenue collection
- Diaspora Insurance product
- Horticulture Product
- Input Loans
- KCB M-PESA
- KCB App
- Lipa Karo na KCB
- M-POS
- Mkopo Mashinani
- Mobile point-of-sale (mPOS)
- Pilot for the Agriculture mobile platform
- SME Unsecured Loan

Agency Banking, known as "KCB Mtaani" performed well and has 11,948 agents. In 2015, we concentrated on increasing agent numbers in geographic locations that are underserved. Agents are able to open accounts in real time, offering a great range of transactions such as cash in/cash out, school fee payments, rent payments, social protection payments and county payments. They can also use POS and mobile applications for transactions and open accounts online. The agency system is connected to other systems such as the National IPRS server for authentication of bio-data.

The card business remained a solid pillar of the retail banking strategy. The bank enhanced pin pad installation and commenced contactless cards. The bank's digital and social banking platforms, especially mobile banking have proved to be effective enablers for reaching large numbers of customers. This is due to lower costs, easier penetration of markets, and higher numbers reached per activity. As a result, customers are now able to access credit easily and speedily.

The long term prospect for the retail offer is very positive. On the back of learnings accrued in the year, the bank is developing relevant products for Micro and SME clients. We are currently developing new products based on customer feedback. We intend to optimize the current resources so that we maintain low costs and have a bigger influence on the success of our customers. Value creation and sustainability will be hinged on innovation, appropriate products, increased customer engagement, adherence to the Consumer Protection Act and reduction in the cost of loan recovery.

Credit

In the course of the year, the bank updated its credit policy to improve credit products and processes. This resulted into a marked growth in the overall loan book, with particular growth in corporate and consumer loans. For corporate clients, changes in the policy resulted in better credit terms and interest rates resulting in greater uptake. Consumer loans registered the highest growth due to longer repayment periods and lower interest rates. In addition, the introduction of mobile loans enabled individual borrowers to access finances quickly and easily. The new policy has also enabled the bank to address challenges faced by borrowers promptly since issues are resolved as soon as they arise. This has pre-empted the onset of loan default stemming an increase of Non-Performing Loans (NPLs).

There were improvements in the turnaround time needed to process loans. In collaboration with Safaricom, the bank is now able to use Behavioural Scoring data on borrowers and offer immediate responses to their loan requests. A working relationship with the Credit Reference Bureau (CRB) has also enhanced the quality and quantity of information on clients, thereby expediting the credit decision making process. Non-Performing Loans (NPLs) stood at below 7% with the overall company target being 5.5%.

Fifty loans that met the KShs 500Million threshold were subjected to the requirements of the Equator Principles. As a leading lender, we are pleased to continue receiving positive ratings by Standard & Poor's (S&P) and Moody's.

In the coming year, we will focus on reducing Non-Performing Loans (NPLs), improving client experience during the entire loan process with emphasis on SME and real estate loans. We will make efforts to make SME loans more attractive to small business proprietors. The bank has realized that many small business proprietors borrow for their businesses through consumer loans. There is a need to address this situation by identifying factors that discourage them from accessing SME loans which have several other value adding benefits for business owners when compared to consumer loans.

Treasury

The treasury department is responsible for balancing and managing the daily cash flow and liquidity within the bank. The department also handles the bank's investments in securities, foreign exchange, asset - liability management and cash instruments. Besides these services and products, the bank's treasury department also deals in fixed income and equity products including government securities and commercial papers.

In 2015, the treasury department experienced a 4-5% growth and conducted more than 10,000 value transactions. KCB remains the biggest player in this area due to the size of the bank's balance sheet and is thus able to handle deals that require large volumes.

The treasury function continues to explore ways of improving the services offered including partnering with international banks and the adoption of the Basel III guidelines. In 2016 and looking forward, the treasury department will target High Net Worth individuals and reach out to the unbanked sections of society. The focus will be on mobilization of deposits and encouraging a culture of savings, as well as expanding and easing non-funded income transactions.

KCB Insurance Agency

The bancassurance offer at KCB started in 2014 and the Bank is currently in the number 2 position in the provision of bancassurance services in Kenya. We launched several insurance products in 2015 including Simba Afya targeting lower income markets, Livestock insurance, Cub Account life insurance, Key Money insurance for SMEs, Comprehensive School package and the Diaspora insurance program. The key milestones for the year are:

- Expanded the presence of the KCB Insurance Agency services which are now available in 77% of the branches countrywide;
- Attained the necessary licences for provision of life and pensions insurance. The systems for implementation of these products are being developed;
- Training of direct sales representatives (DSRs) on KCB insurance products – this has improved uptake of insurance products;
- Added a life insurance component to the Cub Account product;
- Developed targets for all branches that are currently offering bancassurance products;
- Acquisition of an automated system that is able to collect data, collate information and generate reports;
- Conducted client events in collaboration with our branches.

Key concerns for KCB Insurance Agency include the low penetration and knowledge of insurance products in Kenya, claim management by underwriters, recently introduced excise taxes and certain proposals on legislation for bancassurance which may impact negatively on the bank.

Future plans include developing products for the SME sector, training Direct Sales Representatives (DSRs) on the insurance products, enlisting the KCB Mtaani agency banking outlets and strengthening the life and pension products.

County Business

Devolution was entrenched in the Constitution of Kenya (2010) and effected immediately after the 4 March 2013 general elections. KCB had positioned itself before the operationalisation of devolution to support the emerging financial service needs of county governments through strategic relationships, innovative products and value-adding services. KCB is currently the leading financial services provider to county governments, covering a wide array of financial products and services including supporting counties as their main revenue collection agent.

One of the key challenges facing counties in Kenya is revenue collection. KCB has partnered with several counties to provide automated revenue collection products and tools that ease revenue collection, reduce financial leakages and provide real time information for improved management of funds. These automated platforms enable receipting, payment through any of the available channels, automatic reconciliation and real time monitoring of transactions online. KCB is currently the main revenue collection agent for Kiambu, Nakuru, Mombasa, Kisumu and Meru counties. In 2016, services are anticipated to extend to Embu, Baringo, Bomet and Kericho.

At a more specific level, the Bank partnered with Kakamega County in Western Kenya to offer micro-loans to small businesses under "Mkopo Mashinani". Through this partnership, the bank was able to offer KShs. 125 million in the space of one month, focusing predominantly on agri-businesses.

Because of these innovations, we have observed an increase in revenue collection in participating counties. In addition, counties have access to better data to enable them to plan for and deliver public services. Automated systems allow the counties to manage their human and financial resources effectively providing real time data on staff performance and county revenue collection. This has resulted in greater discipline among staff and reduced financial leakages. In addition, members of the public can now pay for county services through diverse payment platforms including KCB Mtaani Agents, the KCB Branch network, point of sale terminals (POS), prepaid cards, mobile payments and e-commerce (online portal), thus increasing their options and convenience.

Islamic Banking

Islamic Banking in KCB was launched in April 2015. The launch paved the way for the roll out of sharia compliant products under "KCB Sahl Banking". The bank has so far created various asset and liability products including *Mudharaba, Qard Hassa, Wadia, Murabhaha, Musharaka* and *Ijara.*

Islamic Banking, or sharia complaint finance, is banking or banking activities that comply with the principles and tenets of sharia (Islamic Law). Islamic banking introduces concepts such as profit sharing (*Mudharabah*), safekeeping (*Wadia*), joint venture (*Musharakah*), cost plus (*Murabahah*), and leasing (*Ijar*). In essence, Islamic Banking is about relationships, partnership and risk sharing. It encompasses the Islamic approach of integrating social welfare, economic returns and business growth.

Islamic Banking at KCB covers assets and liability products, project finance, equity financing, leasing and consumer financing. 2015 was predominantly marked by efforts to ensure sharia compliance of products, processes, terms and conditions, and the overall delivery architecture. Despite these inceptive challenges, through Islamic Banking, we have approved facilities of over KShs2 Billion with a loan book in excess of KShs700 million. Over 3,000 deposit accounts have been opened with approximately KShs660 million in deposits.

Future prospects for Islamic Banking include ensuring compliance with the requirements of sharia, business growth, an increase in customer numbers, innovation to address customer needs, regional expansion and enhancing the knowledge of KCB staff on Islamic Banking. Sahl centers will be opened in Nairobi, Mombasa, Wajir and Lamu in 2016.

Sustainability Review

Our understanding of sustainability

At KCB, we recognize that we are an integral part of the societies in which we operate and that our business decisions and practices impact on diverse stakeholders. Our sustainability approach seeks to enhance value for all stakeholders including the natural environment, ensuring that we are a force for transformative change in society. The KCB Group Sustainability Framework formalizes our approach to sustainability. It also provides guidelines for the introduction, development and maintenance of proactive social and environmental management processes and procedures. It guides our sustainability performance and is anchored on four key pillars;

CORPORATE STRATEGY

Sustainability, Vision and Strategy

Developing the corporate and business strategy on sutainability

FINANCIAL STABILITY

- Sustainable banking products and services
- Embracing technology and innovation
- Regulatory compliance
- Economic development
- Financial Performance

ECONOMIC STABILITY

- Risk management and mitigation
- Long-term profitability
- Community investment strategy
- Market strategy and analysis

SOCIAL STABILITY

- Employee development
- Employment practices
- Community health and well being
- Corporate social responsibility
- Enterprise development

ENVIRONMENTAL STABILITY

- Energy efficiency
- E-waste
- Supply chain
- Resource usage
- Water management
- Business travel

Sustainability Capability Development

Developing the policies, processes and tools, skills and capabilities to achieve KCB's sustainability and business objectives

Stakeholder Management, Partnerships and Communications

Building trust, brand and reputation through effective stakeholder engagement and thought leadership on sustainability

Sustainability Performance Management

Providing actionable performance data, producing sustainability reports and effectively managing performance

How we manage sustainability

KCB's Sustainability Agenda provides guidance on the actions that KCB intends to undertake so as to achieve financial, economic, social and environmental value. We have ten key action points that provide our short, medium and long term targets as shown:

1 SHORT TERM STRATEGY

- Boost our capacity building proposition
- Responsible lending which forms the basis for the KCB Group lending model
- Develop employees and build a critical human capital mass to drive the business in the years to come
- Measure our environmental impact implement projects to drive down energy, transport, water and waste costs across KCB

2 MEDIUM TERM STRATEGY

- Enhance the external compliance process and improve transparency while adopting zero-tolerance for unethical behaviour
- Undertake analysis of community investment programmes to identify value at stake, benefits delivered and opportunities
- Manage the energy consumption through utilization of green energy and intelligent building technologies
- Build in economic, social and environmental risks into the corporate risk models
- Continuous update of IT security policy

3 LONG TERM STRATEGY

- Ensure diversity is a key determinant of our decisions
- Promote financial inclusion in our region

Environmental and Social Management System (ESMS)

The KCB Group Sustainability policy that was incoporated in the ESMS was approved by the KCB Group Board on March 2015.

In 2015, we began to utilize the provisions of the SEMS in assessing loans above KShs 500 Million. We anticipate that this threshold will be moved to KShs 100 Million in 2016. In addition, 300 key staff of the bank have been trained on Environmental and Social Risks Assessment (ESRA).

Sustainability Performance

Our sustainability performance covers financial, economic, environmental and social performance as detailed below.

Financial Performance

The bank continues to enhance its financial sustainability through robust growth and profitability.

Marketplace practices - At KCB, we ensure that our market place practices are undertaken with integrity and adhere to highest level of ethics. We adhere strictly to the guidance provided for us by our regulators and observe the laws that regulate us as a business in each of the countries where we operate. We understand that our services and products have an impact on our stakeholders directly and also through the way that we promote and sell these services and products. We adhere to the highest level of ethics in this regards ensuring that our customers are fully conversant of the key issues that pertain to their products and can make informed decisions.

Financial Crime - We have strengthened our efforts in combating financial crime through various measures. We have a robust Anti-Money laundering Policy that guides our efforts to prevent money laundering. Our Know Your Customer (KYC) requirements are stringently applied. In 2015, we improved the Anti Money Laundering system incorporating an automated system with several robust tools and real time screening. In addition, the Know Your Customer (KYC) process has been invigorated to establish and monitor deployment of funds by borrowers

Code of ethics -Our code of ethical conduct requires staff to observe the highest standards of ethical behaviour in their dealings with our stakeholders. The code covers a wide range of issues including bribery and corruption, ethical business relationships, ethical competition, consumer protection, conflict of interest, respect for intellectual property, confidentiality of customer information, environmental stewardship, political contributions, insider dealing and business gifts.

We have created an Ethical Helpdesk for our stakeholders to report ethical issues to help us manage fraud, workplace abuses and other ethical concerns. In 2015, we strengthened our ethical code by providing for external whistleblowing through independent channels and protection of whistle blowers, consumer protection, respect for copyrights and trademarks, new corporate values, new staff sign up to the code and mandatory annual ethics training for all employees

Responsible Lending - As a key lender, we ensure that our lending practices are in line with our sustainability framework. Lending above KShs 100M is subject to additional environmental and social due diligence. In addition, our due diligence ensures that borrowers are responsibly indebted and avoids over-indebtedness.

Economic Performance

Economic Empowerment - In 2015, we continued our emphasis on developing the abilities of our SME customers through the Biashara Clubs. These clubs offer several benefits to members such as

- Business advisory services through SME management seminars and workshops
- Regional and international business trips
- Networking opportunities at various club functions
- Term loans and overdraft offers at low interest rates.
- KCB Visa corporate credit card for those who qualify.
- Dedicated business bankers and managers.

In 2015, we facilitated regional customer engagement forums with over 60 Biashara Club workshops. Additionally, 356 Biashara Club members benefitted from international exposure trips to Israel, Turkey and China.

Our Developer's Club was also active in 2015. The Developers Club has 383 members comprising of Developers, Contractors, Architects, Quantity Surveyors and other stakeholders in the Real Estate industry. A total of 71 members participated in the international exposure trips to Italy, Spain and China in 2015. They also benefitted from training workshops held in Nairobi, Kisii, Nakuru, Eldoret and Kisumu.

Financial Inclusion - We seek to develop products and services that deliver business success and positive social outcomes. Through several of our products including KCB Mobi Bank, M-Benki, KCB -MPESA and Agency Banking (KCB Mtaani) we have provided access to financial services to over 5.4 Million individuals. On a daily basis, more than 90,000 individuals transact on our mobile platforms

Environmental Performance

Environmental practices

KCB is committed to safeguarding the natural environment in our everyday business activities. Our sustainability policy and framework offer key provisions for protection and enhancement of the natural environment through our business activities. Our ESMS provides clear guidelines on the assessment of environmental risks as part of our lending due diligence. We recognize that our key impact on the environment is through our lending practices and seek to mitigate these using our ESMS.

In addition, we are cognisant of our direct impacts on the environment. We have undertaken several measures to address these impacts including creating an e-portal for board and EXCO meetings, thus reducing the need for paper files, reducing the amount of paper used in the office through by transforming key paper reliant transactions into paperless transactions, experimenting with solar power for certain energy functions at our branches and reducing reliance on generators for powering some of our branches.

We appreciate the challenge of climate change as a major global concern and will be working on evaluating our environmental footprint as relates to Green House Gases (GHG). Our intent is to develop a clear strategy for reducing our GHG output systematically

Social Performance

People and Culture

We have undertaken various activities in line with our sustainability agenda of being a responsible employer. As a customer- oriented business that seeks to provide world class services, we are highly dependent on the calibre and expertise of our human resource. We therefore strive to attract and retain the best staff compliment.

In 2015, we sought to transform the entire people culture, in line with the implementation of the new brand purpose and our corporate values. This initial embedding process forms the critical foundation for a culture change, centred on the company's purpose. It involves giving life to the brand purpose and values through everyday actions and activities of the staff. It also means that human resource actions will be anchored on the company's values. By the end of 2015, all staff members had been trained on the new brand purpose, values and anticipated behaviours.

Employee Engagement

Employee engagement was improved in 2015. Leadership visibility and credibility was a key agenda for employee engagement; this included a group-wide series of chats with the CEO. and EXCO members. Social time, an informal session bringing together staff and leadership, was also facilitated with impressive results. HR breakfast sessions provided an open forum for discussions with staff members on thier HR concerns. In addition, Women in leadership sessions took place with the aim of facilitating dialogue among female staff members on issues of leadership and also enhancing their leadership skills.

Following the employee engagement forums, clear action plans were developed to respond to the feedback obtained from the employee opinion surveys. This feedback will form the basis of future programs and interventions.

Employee Wellness

Several initiatives were undertaken in 2015 to improve employee wellness. To ease transition back to the workplace, a lactorium (KCB NEST) was provided for breastfeeding mothers, who also got the additional support from a new benefits policy. A staff pharmacy was set up to ensure that staff members have easy access to cost effective and good quality medicine. In addition, the medical programme was realigned to better serve the staff. In many branches, Zumba fitness sessions are now conducted daily to improve the physical well-being of employees.

KCB has an Occupational Health and Safety (OHS) Committee that is responsible for overseeing the implementation of OHS issues in the Bank. This team meets quarterly to review and advice on the current status of OHS within the bank. The Group also has 96 OHS Committees composed of management and unionsable staff representatives in all branches with more than 20 employees. All workplaces have trained fire marshals and first aiders.

Awards and recognition

2015 saw the development of a clear framework for staff salaries and bonuses. This has clearly spelt out competitive rewards to be offered to staff members comprising pay rises, bonuses, associated benefits and enhanced staff loan propositions. The recognition of best performing employees is now anchored in this framework which also maps behaviour and performance in line with the company values.

Employee relations

There were no new registered disputes in 2015.

Learning and development

In 2015, a Training Needs Assessment (TNA) was conducted across the entire KCB Group. The results from the survey led to the development of a five-pillar staff development strategy as follows:

- Multi-level leadership development certification
- Branch Managers development program
- Staff Career development program
- Role Competency framework library
- Staff on-boarding program

We recognize the key role played by our staff in ensuring we maintain our leadership position in the provision of credit. Currently, a team of 60 staff members are involved in a nine-month globally reputed Omega Performance Credit Course which will culminate in international accreditation. This course develops high-performing commercial lenders, credit analysts, underwriters and loan reviewers.

Other programs

Several actions were undertaken in the year to improve on-boarding for new staff. The aim of these actions was to immerse the new staff in the organisation's values. The process is being automated to further improve its efficiency. Other actions that were undertaken during the year include the Women Development Program, development of a career management framework and talent marking (mapping) for the top 200 roles.

In 2016 further efforts will be dedicated to embedding the company values and expected behaviours among the staff. Staff resources will be enhanced, to get the best out of the existing staff complement. Leadership engagement and visibility will continue consistently, and so will engagement with staff representatives.

Grievance mechanism

The Bank has Disciplinary and Grievance Handling policies and procedures that provide the framework for handling staff grievances. The Employee Grievance Handling Committee listens to and determines grievances from employees.

Whistle Blowing Procedures

The Bank has an established whistle blowing channel for employees to raise concerns using a confidential platform. This is managed by an external provider and uses diverse communication channels.

Staff turnover

Staff turnover rate	4.5%
Exits (long-term employees)	272
Exits (male)	62%
Exits (female)	38%

Our Stakeholders

We proactively engage with local, regional and global stakeholders including governments, regulators, the private sector, civil society, development agencies, shareholders and our employees. The outcomes of these engagements inform strategic priorities and key deliverables. The inputs raised by these key stakeholders are important in shaping and validating our strategy and our business conduct within the markets in which we operate. To deliver sustainable performance, we must balance the needs of the stakeholders over the short and long term.

Our key stakeholders are:

- Customers and clients who use our products and services
- Colleagues who deliver value to our customers through our products and services and provide
- Communities who grant us our social licence to operate
- Regulators who grant us our regulatory licence to operate
- Investors who commit capital to us

KCB Foundation

Overview

KCB continues to positively contribute to wider economic and social development through structured development interventions managed by the KCB Foundation. These interventions demonstrate KCB's appreciation of the challenging environment its stakeholders operate in and the company's strategic capacity to address these issues. It also highlights an increasing recognition by the Bank that societal challenges also create business opportunities.

A key agenda for the Foundation during the course of the year was to strengthen the link between its activities and the commercial objectives of the bank. In this regard, enterprise development was earmarked as a priority area. Enterprise development resonates with the needs of our stakeholders given the high levels of unemployment and poverty in the region while proffering clear business opportunities for the bank. The Foundation has taken up informal sector enterprise development, with an emphasis on skills development and access to finance, in a bid to "formalize" this critical part of the economy.

Mifugo Ni Mali, a flagship programme focusing on the livestock value chain continued to be a centrepiece of the Foundation's work, with marked progress made in 2015.

The programmes undertaken in 2015 include:

Enterprise Development

Mifugo Ni Mali

Launched in 2014, Mifugo Ni Mali, is a value chain development programme that seeks to improve the incomes and livelihoods of small holder livestock farmers. The interventions involve three key components:

- Market organization through cooperatives /collectives;
- Support for farmer-owned enterprises to address productivity, nutrition and husbandry challenges; and
- Provision of appropriate financial services and facilitation of access to markets.

In 2015, the programme expanded from Baringo and Taita Taveta counties to encompass four new counties: Kwale, Narok, Mombasa and Kilifi. Financial services typically involve loans for value addition equipment and processes, working capital, herd improvement, animal feeds and fodder production, animal health services, value chain trade and market access services.

The impact of this programme includes:

- Reached 30,000 livestock keepers, bee keepers and fishermen across the country
- Negotiated with county governments to offer key services including the extension services, disease management and market upgrade
- Growth of membership in participating cooperatives with an average increase of 40%.
- In dairy cooperatives, milk delivery has increased by 45% whilst revenues have increased in some cooperatives by over 300% due to value addition of produce.
- Enabled financial inclusion for the pastoral livestock sector.

Mifugo Ni Mali livestock Expo

Mifugo Ni Mali livestock Expo took place at the University of Nairobi, Upper Kabete Campus from the 4th to the 6th of November. The expo brought together local, regional and international livestock stakeholders and value chain players.

Key highlights of the expo included:

- 12,365 farmers;
- 1,150 delegates;
- Participating countries: - Netherlands, Germany, Kenya, Ethiopia, Tanzania, Rwanda, Uganda and Ghana;
- Business deals worth 250 Million shillings were transacted
- KShs19 million was mobilized from partners including Agriprofocus, SNV, Kenya Markets Trust, and the Kenya Livestock Marketing Council

Formalizing the informal sector (2jiajiri)

The Foundation is implementing the formalizing the informal sector programme that seeks to create jobs and wealth. The programme is founded on the concept of "shared value"; a management strategy that focuses on creating measurable business value by identifying and addressing social problems that intersect with our business. The programme has 3 phases namely:

- Vocational skills training;
- Incubation for business start-ups; and
- Linkage to commercial products and services.

The pilot phase of this programme kicked off in 2015. 2,000 students underwent skills training in various crafts. It is anticipated that every year, 10,000 beneficiaries shall benefit from the vocational training. 70% of the beneficiaries will be 'Jua Kali' artisans who will be up-skilled, while the remaining 30% will be youth who will be provided with skills. The programme will focus on four selected sectors: automotive mechanics, construction, beauty care and domestic services.

Phases of the 2JIAJIRI program

Stage 1

The first stage of the programme which is already ongoing, targets to skill and equip over 10,000 youth and entrepreneurs spread across 47 counties annually. The training runs for a three to six month period and includes relevant life skills coaching and appropriate professional training. Already, 2,000 youths have begun classes in 89 institutions spread across the country for the various 3-6 months courses.

The programme targets both existing (70%) and potential entrepreneurs (30%). For existing entrepreneurs, 2Jiajiri seeks to up skill and formalize the technical and enterprise skills of the selected youthful entrepreneurs.

Stage 2

The second stage of the programme will support the scholarship graduates with business incubation and discounted finance facilities to help support and progress their trade for a period of 12 months. Successful completion of both stages will see the beneficiaries linked to commercial services from the Bank.

KCB is one of the major corporates driving this initiative in the region. We ssek to partner with other organizations actively working in this sector to drive the programme to success.

Education

The KCB Foundation provides scholarships to 800 students selected from all the 47 counties. The Foundation also has a unique sponsorship programme for children living with disabilities, and in 2015 40 children living with various disabilities benefitted from it. In addition, the KCB Foundation has over the years provided various learning materials to over 800 schools, computer laboratories to over 50 schools and helped reconstruct 30 classrooms across the country.

KCB Foundation spend

Amount by thematic area	KShs
Education	117,170,981
Enterprise Development	93,641,276
Health	17,313,484
Environment	1,557,580
Humanitarian Intervention	11,733,700
TOTAL SPENT	**271,784,421**

KCB Foundation Pictorial

Narok County Governor, Samuel Ole Tunai (right), vaccinates cows at Narok together with KCB Group Director, Mr. John Nyerere (centre), during an Mou signing between Narok County Government and KCB Foundation on the MIFUGO NI MALI programme.

Deputy President, Hon. William Ruto (left) and KCB Group Chairman, Mr. Ngeny Biwott, handing over a cheque to Torongo Farmers Cooperative Society Limited in Baringo County as part of the ongoing Mifugo ni Mali programme.

Donation of braille machines to Kangundo DEB primary school-visually impaired unit

Muranga County Governor Mwangi Wa Iria during the dialyses handover ceremony

Statement on Corporate Governance

Corporate Governance is central to the Group's approach toward the enhancement of shareholder value. The KCB Group Board of Directors ("Board") recognizes that the maintenance and consistent practice and application of good corporate governance practices is key to the long term success of the Group's business and will enable the businesses deliver sustainable shareholder value.

In the year 2015, the Board and management of the Group continued to comply with the Corporate Governance Guidelines as prescribed by the Central Bank of Kenya being the primary regulatory authority of the Bank as well as the Capital Markets Authority Code of Corporate Governance Practices.

Board Activities – 2015	Board Activities – 2016
• Providing support in the Group Corporate Structure reorganization leading to the establishment of a non-operating holding company – KCB Group Limited and a new subsidiary – KCB Bank Kenya Limited. With effect from 1 January, 2016, KCB Bank Kenya Limited began providing the banking and financial services business in Kenya. • Reviewing the Company's Internal Capital Adequacy Assessment Process (ICAAP) as required by the Prudential Guidelines and approving the implementation of the same. • Undertaking an internal audit on the governance compliance level of the Board activities. • Introduction of paperless Board meetings with the implementation of e-board.	• Board charter review in 2016 to realign with the new requirements as provided in the Companies Act 2015 and the Code of Corporate Governance issued by the CMA. • Group wide Group Board and Subsidiary Board of directors training on corporate governance and compliance requirements of directors.

THE BOARD OF DIRECTORS

KCB Group is governed by a Board of Directors each of whom is, with the exception of the Group Chief Executive Officer and Group Chief Financial Officer, elected by the Company's shareholders.

Purpose and Responsibilities

The Board is accountable to the Shareholders for the overall Group performance and is collectively responsible for the long term success of the Group. The Board achieves such success by setting appropriate business strategy and overseeing delivery against the set strategy. It ensures that the Group manages risks effectively and monitors financial performance and reporting.

The Board has adopted a Board Charter and a Group Governance Policy that clearly defines its role and how its powers and responsibilities are exercised, having regard to principles of good corporate governance, international best practice and applicable laws. The Board Charter regulates Board composition, the Board meeting process and defines the relationship and interactions between the Board and management.

Authority and Delegation

The Board Charter sets out the Board authority and matters reserved for the Board. These include decisions concerning strategy and long term objectives of the Group, the Group's capital, financial planning and financial budgets, significant contracts and various statutory and regulatory approvals. Matters related to the approval of the remuneration policy, resource management, risk management framework and risk appetite are Board reserve matters. To assist it in discharging these responsibilities, the Board has established Board Committees to give detailed consideration to key issues. Further details of the Board Committees including their respective roles, key responsibilities, composition and membership are provided later in this Statement.

The roles and responsibilities of the Group Chairman and the Group Chief Executive Officer are separate with a clear division of responsibility between the running of the Board and the executive responsibility of running KCB's business

The Board, in the Board Charter, delegates responsibility for the day-to-day management of the business to the Group Chief Executive Officer. The Group Chief Executive Officer in turn delegates aspects of his own authority to members of the Group Executive Committee. The scope of, and limitations to, these delegations are clearly documented and cover areas such as operating expenditure, capital expenditure and investments. These delegations balance effective oversight with appropriate empowerment and accountability of senior executives.

To adequately undertake responsibilities in the day-to-day management of the business, in line with the authority delegated by the Board, management committees have been established. The management committees in KCB include the Executive Management Committee (EXCO), the Assets and Liabilities Management Committee (ALCO), the Business Management Committee (BMC) and the Group Operational Risk and Compliance Committee (GORCCO).

Board Structure

The Board currently comprises eleven Directors, two of whom are Executive Directors and nine are independent Non-Executive Directors including the Chairman.

The Board is structured so that its membership provides the optimum mix of qualifications, skills, experience and professional and industry knowledge necessary to enable it to provide judgment independent of management on material Board issues, and so that its size facilitates effective discussion and efficient decision making. The Board determines its size and composition, subject to the Articles of Association, Board Charter and applicable law.

Board Appointments

Where a vacancy occurs in the Board for any reason, the Articles of Association of the Company provide that the Board of Directors may appoint a new Director to fill in the casual vacancy.

The appointment of new directors to the Board follows a formal, rigorous and transparent procedure. Appointments to the Board are done by the whole Board of Directors only after receiving recommendations from the Nominations Committee.

During the year 2015, Lawrence Kimathi Kiambi was appointed as an Executive Director with effect from 5 May, 2015

Board Tenure, Election and Re-election

The Board Charter provides that Non-Executive Directors are normally expected to serve a term of two years from the date of first appointment to the Board and hold office for no more than three consecutive terms not exceeding a total of eight years, subject to re-election by shareholders as required under the KCB's Articles of Association, the Board Charter and applicable law. The Chairman would normally be expected to serve a maximum term of five years in that capacity.

As provided for in the Articles of Association, at every Annual General Meeting ("AGM"), at least one-third of the non-executive Directors retire from the Board. Directors appointed to fill casual vacancies are also expected to stand down for election by shareholders at the first AGM following their appointment.

INDEPENDENCE OF DIRECTORS AND CONFLICT OF INTEREST

The Board Charter, prepared in line with the Prudential Guidelines issued by the Central Bank of Kenya, provides that a majority of its directors should be independent.

In accordance with the Board Charter, the Board only considers directors to be independent where they are independent of management and free of any business or other relationship that could materially interfere with, or reasonably be perceived to materially interfere with, the directors capacity to bring an independent judgement to bear on issues before the Board and to act in the best interest of the Company or the Shareholders generally.

Any director who considers that they may have a conflict of interest or a material personal interest in any matter concerning the Company is immediately requires to declare the potential conflict of interest for the Board to review.

All Directors of the Company must avoid any situation which might give rise to a conflict between their personal interest and that of the Group. The Directors are each responsible to notify the Group Chairman and the Company Secretary of any actual or potential conflict situations as soon as they arise. The Articles of Association permit the Board to authorise the conflict, subject to conditions and limitations as the Board may determine.

ACCESS TO INFORMATION AND INDEPENDENT ADVICE

Procedures are in place, through the Board Chairman and the Company Secretary, enabling the Directors to have access, at reasonable times, to all relevant company information and to senior management, to assist them in the discharge of their duties and responsibilities and to enable them to take informed decisions. The Directors are also entitled to obtain independent legal, accounting or other professional advice at the company's expense.

Directors are expected to strictly observe the provisions of the statutes applicable to the use and confidentiality of information.

DIRECTORS INDUCTION AND PROFESSIONAL DEVELOPMENT

Formal, tailored induction programmes are arranged for newly appointed directors. Typical induction programmes consist of a series of meetings with other Directors and senior executives to enable new directors familiarise themselves with the business. Directors also receive comprehensive guidance from the Group Company Secretary on directors' duties and liabilities.

The Chairman regularly reviews the professional development of each Director. Ongoing professional development continuously evolves and is needs based. Directors are invited to attend courses that suit areas of development needs noted. Directors are continuously appraised on legislative developments that have an impact on the business.

BOARD EFFECTIVENESS EVALUATION - 2015

The Board is committed to regular evaluation of its own effectiveness and that of its committees.

Evaluation of the Board is externally facilitated after every two years. This year's evaluation was conducted internally led by the Group Chairman and supported by the Group Company Secretary. The review considered the following areas: strategy effectiveness, structure and committee performance, succession planning and training. The process of review consisted of a detailed questionnaire prepared by the Group Company Secretary in conjunction with the Group Chairman, to assess the effectiveness of the Board, its Committees and individual Directors.

The 2015 review concluded that the Board continues to operate effectively and is well positioned to address any challenges faced by the Group. The results of the evaluation were submitted to the Central Bank of Kenya in the first quarter of the year in line with regulatory requirements.

INTERACTION WITH SHAREHOLDERS

The Board recognizes the importance of having in place a sustainable programme of engagement which offers all shareholders an opportunity to receive information directly and enable them share their views with the Board.

The Group makes use of the Annual General Meeting (AGM) as well as the published annual report as an opportunity to communicate with its shareholders. The Group also communicates with its shareholders electronically through its website. Shareholders are encouraged to visit www.kcbbankgroup.com for general information about the Group and to be able to view annual reports and results briefing presentations.

The investor relations team has the primary responsibility for managing and developing the Group's external relationships with existing and potential institutional equity investors. Supported by the Group Chief Executive Officer and the Group Chief Financial Officer, they achieve this through a combination of briefings to analysts and institutional investors (both at results briefings and throughout the year).

The Group Company Secretary has a dedicated team responsible for managing services and communication for and with retail shareholders. The Group engages directly with retail shareholders to respond to enquiries that are specific to the Group covering topics such as legacy matters.

BOARD MEETINGS

The Board generally meets six times a year, and additionally when necessary, to consider all matters relating to the overall control, business performance and strategy of the Company and in succession planning.

The Group Chairman, in conjunction with the Group Chief Executive Officer and the Group Company Secretary, sets the agenda for each meeting. Typically the Board works to an annual agenda encompassing periodic reviews of the Group operating business units and site visits; approval of strategy, business plans, budgets and financial statements; and review of statutory obligations and other responsibilities identified in the Board Charter.

The notice, agenda and detailed board papers are circulated in advance of the meetings. Directors are entitled to request additional information where they consider further information is necessary to support informed decision-making.

During the year ended 31 December, 2015, the Board held eight Board meetings. In addition, a strategic planning session was held in conjunction with the November Board meeting. A number of Directors also made site visits during the year. Details of Directors' attendance at Board meetings are set out on page 58.

BOARD COMMITTEES

Subject to those matters reserved for its decision, the Board delegates certain responsibilities to Committees of the Board. This allows the Directors to spend additional and more focused time on specific issues.

The role of Committees is to advise and make recommendations to the Board. The Committees do not have decision making authority except as expressly stated in the relevant terms of reference or as authorized by the Board. The Board periodically reviews the appropriateness of the existing Committee structure, as well as the membership and the terms of reference of each Committee.

The Board has seven standing Committees to assist in the discharge of its responsibilities. These are:

Committee and Members	Committee TORs
Risk Management 1. Adil Khawaja 2. Charity Muya-Ngaruiya 3. Georgina Malombe 4. John Nyerere 5. Joshua Oigara	The Committee oversees the enterprise-wide view of risks and controls and brings together the overall risk appetite and risk profile of the business. It meets quarterly to advise the business on all matters pertaining to credit, market, operations, legal, environmental, compliance and other risks. Business continuity issues are also discussed by this Committee.
Audit 1. Charity Muya-Ngaruiya 2. Joseph Kibwana 3. Georgina Malombe 4. Adil Khawaja	In accordance with regulatory requirements, the Committee comprises of only non-executive members of the Board who are independent of the day-to-day management of the Company's operations. It takes a largely backward-looking view, focused on financial reporting and control issues, including overseeing any control issue remediation plans.
Credit 1. Tom Ipomai 2. Catherine Kola 3. Julius Mutua 4. John Nyerere 5. Joshua Oigara	This Committee reviews the credit risk profile of the Company and approves customer facilities, policies and standards for credit risk governance and management. The Committee also reviews the Company's credit risk appetite and sectorial concentration.
HR & Nomination Committee 1. Tom Ipomai 2. Charity Muya-Ngaruiya 3. Julius Mutua 4. Adil Khawaja 5. Joseph Kibwana 6. Joshua Oigara	This Committee reviews human resource policies and makes suitable recommendations to the Board on senior management appointments. This Committee also oversees the nomination functions and senior management performance reviews. The Committee keeps under review the structure, size and composition of the Board as well as succession planning for Directors. It leads the process for identifying, nominating for approval by the Board, candidates to fill Board vacancies.
Procurement Committee 7. John Nyerere 8. Joseph Kibwana 9. Adil Khawaja 10. Tom Ipomai 11. Georgina Malombe 12. Joshua Oigara	The Committee ensures transparency in procurement and dealings with suppliers/service providers. It meets review and approve high value procurement needs of the Company deemed necessary for efficient service delivery.
Finance & Strategy Committee 1. Joseph Kibwana 2. Julius Mutua 3. Adil Khawaja 4. Charity Muya-Ngaruiya 5. Georgina Malombe 6. John Nyerere 7. Catherine Kola 8. Joshua Oigara	The Committee reviews and recommends to the Board for approval matters pertaining to: business strategic plans including its implementation and monitoring process; new markets expansion; significant investment and divestment decisions; annual business and financial plans and budgets and sustainability.
IT & Innovation Committee 1. Georgina Malombe 2. Catherine Kola 3. Julius Mutua 4. Tom Ipomai 5. Joshua Oigara	The Committee reviews the scope and the effectiveness of IT operations and provide direction on enhancing the utility of IT resources through clearly laid down processes, procedures and time frames.

BOARD AND BOARD COMMITTEE ATTENDANCE

The following table gives the record of attendance of the KCB Board and its Committee Meetings for the year ended 31st December, 2015:-

	Board	Audit	Credit	Risk	HR and Nominations	Procurement	Finance and strategy	IT and innovation
Number of meetings	8	5	23	4	8	5	4	7
Ngeny Biwott	8							
Mr Henry Rotich (Represented by Julius Mutua)	7		19		3		2	6
Charity Muya-Ngaruiya	8	5		4	8		4	
Adil Khawaja	7	1		3	5	2	3	
Gen. (Rtd.) Joseph Kibwana	8	4			5	5	4	
Catherine Kola	8		23				1	7
Tom Ipomai	8		23		8	5		7
Georgina Malombe	8	5		4		1	2	7
John Nyerere	8		20	4		3	4	
Joshua Oigara	8		13	3	8	2	4	3
Lawrence Kimathi Kiambi*	3							

Lawrence Kimathi Kiambi joined the board as an Executive Director on 5 May, 2015

The Group Company Secretary

The Group Company secretary is responsible for advising the Board and providing good information flows and practical support for directors. The Company Secretary places particular emphasis on supporting Non-Executive Directors in maintaining the highest standard of probity and corporate governance. The Company Secretary ensures that Board procedures and all applicable rules and regulations are followed. Each member of the Board has direct access to the Company Secretary. The Company Secretary is also the Chief Legal Officer reporting independently and directly to the Board and provides professional advice on any matters affecting the Company and its Subsidiaries.

Audit

Whereas the directors are responsible for preparing the accounts and for presenting a balanced and fair view of the financial position of the Company, the auditors examine and give their opinion on the reasonableness of the financial statements. The auditors' report independently and directly to the Board at the half year and end year Board meetings.

DIRECTORS EMOLUMENTS AND LOANS

The aggregate amount of emoluments paid to Directors for services rendered during the Year 2015 is disclosed in Note 17 to the Financial Statements.

Neither at the end of the financial year, nor at any time during the year, did there exist any arrangement to which the Company is a party, under which Directors acquired benefits by means of acquisition of the Company's shares.

Aggregate amount of loans advanced to Directors is summarized in Note 38 to the Financial Statements.

SHAREHOLDING

The Company files monthly investor returns to meet the continuing obligations as prescribed by the Capital Markets Authority and the Nairobi Securities Exchange

DIRECTORS INTERESTS AS AT 31ST December, 2015

NAME OF DIRECTOR	NUMBER OF SHARES	% Shareholding
Permanent Secretary to the Treasury of Kenya	523,600,000	17.31
Mr. Joshua N. Oigara	34,300	0.00
Mrs. Catherine A. Kola	25,540	0.00
Gen Joseph R. Kibwana	87,764	0.00
Mr. Ngeny Biwott	1,500	0.00
Mr. John.O.A. Nyerere	26,480	0.00
Mr. Adil A. Khawaja	0	0.00
Mrs. Charity M. Muya-Ngaruiya	0	0.00
Mr. Tom Ipomai	0	0.00
Ms. Georgina M. Malombe	0	0.00
Mr. Joseph Kania	0	0.00

SHAREHOLDERS' PROFILE AS AT 31ST December, 2015	NUMBER OF SHARES HELD	NUMBER OF SHARES HELD	% OF ISSUED SHARE CAPITAL
Kenyan Individual Investors	145,806	799,916,282	26.44
Kenyan Institutional Investors	5,046	1,248,674,330	41.28
East African Individual Investors	273	3,091,252	0.10
East African Institutional Investors	54	75,525,233	2.50
Foreign Individual Investors	494	40,348,244	1.33
Foreign Institutional Investors	179	857,664,491	28.35
	151,852	**3,025,219,832**	**100.00**

MAJOR SHAREHOLDERS	NUMBER OF SHARES HELD	% SHAREHOLDING
Permanent Secretary to the Treasury of Kenya	523,600,000	17.31
National Social Security Fund	185,570,067	6.13
CFC Stanbic Nominees Ltd a/c NR3530153-1	60,000,000	1.98
Standard Chartered Nominees Non Resident a/c 9867	57,298,600	1.89
Standard Chartered Nominees a/c KE17682	54,793,014	1.81
Standard Chartered Kenya Nominees Ltd a/c KE18972	48,228,215	1.59
Kanaksinh Karsandas Babla & Sandip Kana Sinh Babla	47,000,000	1.55
Standard Chartered Nominees Non Resident a/c 9069	46,242,321	1.53
Standard Chartered Nominees a/c 9688	45,788,323	1.51
Standard Chartered Kenya Nominees Ltd a/c KE18965	38,971,800	1.29
	1,107,492,340	**36.59**

SUMMARY OF TOTALS

Shares Range	Shareholders	Number of Shares	% Shareholding
1 to 5,000	123,539	203,441,232	6.73
5,001 to 50,000	26,443	276,351,236	9.13
50,001 to 100,000	760	52,764,209	1.74
100,001 to 1,000,000	849	246,489,588	8.15
1,000,001 to 10,000,000	225	673,468,360	22.26
10,000,001 & above	36	1,572,705,207	51.99
	151,852	**3,025,219,832**	**100.00**

ANNUAL FINANCIAL
STATEMENTS AND NOTES

AS AT 31 December 2015

Inspiring | Simple | Friendly

KCB

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DIRECTORS AND STATUTORY INFORMATION
for the year ended 31 December 2015

DIRECTORS

Mr. Ngeny Biwott	-	Chairman
Mr. Joshua N. Oigara	-	Chief Executive Officer
Mr. Henry K. Rotich		
Mrs. Catherine Kola		
Mrs. Charity M. Muya-Ngaruiya		
Mr. Adil A. Khawaja		
Gen. (Rtd) Joseph R.E.Kibwana		
Mr. Tom D. Ipomai		
Mr. Lawrence Kimathi Kiambi	-	Chief Finance Officer (Appointed 5 May 2015)
Mr. John O.A. Nyerere		
Ms. Georgina M. Malombe		

SECRETARY

Mr. Joseph Kania
P.O. Box 48400 - 00100
Nairobi, Kenya

AUDITORS

KPMG Kenya
Certified Public Accountants
8th Floor, ABC Towers
ABC Place, Waiyaki Way
P.O. Box 40612 - 00100, Nairobi, Kenya

REGISTERED OFFICES AND PRINCIPAL PLACES OF BUSINESS

Kenya Commercial Bank Limited
Kencom House
Moi Avenue
P.O. Box 48400 - 00100
Nairobi, Kenya

KCB Bank Tanzania Limited
Harambee Plaza
Ali Hassan Mwinyi Road/Kaunda Road Junction
P.O. Box 804
Dar es Salaam, Tanzania

KCB Bank South Sudan Limited
KCB Plaza
Ministry Road
P.O. Box 47
Juba, South Sudan

KCB Bank Uganda Limited
Commercial Plaza
7 Kampala Road
P.O. Box 7399
Kampala, Uganda

KCB Bank Rwanda Limited
Avenue de la Paix
P.O. Box 5620
Kigali, Rwanda

KCB Bank Burundi Limited
Boulevard Patrice Lumumba
P.O. Box 6119
Bujumbura, Burundi

SOLICITORS

Various. A list is available at the Bank

REPORT OF THE DIRECTORS

for the year ended 31 December 2015

The Directors submit their report together with the audited financial statements for the year ended 31 December 2015, in accordance with Section 22 of the Banking Act and Section 157 of the Companies Act (Cap. 486) which disclose the state of affairs of Kenya Commercial Bank Limited (the "Bank") and its subsidiaries (collectively referred to as the "Group").

1. Principal activities

The Bank continues to offer corporate and retail banking services. The activities of the subsidiary companies are those set out in Note 32 to the financial statements.

2. Results

The results of the Group and the Bank are set out on pages 68 to 71.

3. Dividend

The Directors recommend the payment of a dividend of KShs 6,050,426,000 which represents KShs 2.00 per share in respect of the year ended 31 December 2015 (2014 - KShs 6,050,426,000 representing KShs 2.00 per share). Subject to shareholder and regulatory approval, the dividend shall be paid out partly in cash of KShs 1.00 per share and partly through the issue of scrip dividend of KShs 1.00 per share.

4. Directors

The Directors who served during the year and up to the date of this report are set out on page 63.

All the Directors are non-executive other than the Chief Executive Officer and the Chief Financial Officer.

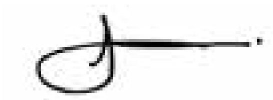
5. Reserves

The reserves of the Group and Bank are set out on pages 74 to 77 and Note 41 to these financial statements.

6. Auditors

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

BY ORDER OF THE BOARD



Mr. Joseph Kania
SECRETARY

Date: 1 March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

for the year ended 31 December 2015

The Directors are responsible for the preparation and presentation of the financial statements of Kenya Commercial Bank Limited and its subsidiaries set out on pages 68 to 155 which comprise the consolidated and separate statements of financial position at 31 December 2015, consolidated and separate statements of profit or loss and consolidated and separate statements of other comprehensive income, statements of changes in equity and statements of cash flows for the year then 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 Companies Act (Cap.486) 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 Companies Act (Cap.486) the Directors are required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Bank as at the end of the financial year and of the operating results of the Group for that year. It also requires the Directors to ensure the Group keeps proper accounting records which disclose with reasonable accuracy the financial position of the Group and the Bank.

The Directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Companies Act (Cap.486). The Directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and the Bank and of the Group operating results.

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

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

Approval of the financial statements

The financial statements, as indicated above, were approved by the Board of Directors on 1 March 2016 and were signed on its behalf by:

Ng'eny Biwott
CHAIRMAN

Joshua N. Oigara
CHIEF EXECUTIVE OFFICER

Charity M. Muya-Ngaruiya

Joseph Kania

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KENYA COMMERCIAL BANK LIMITED

KPMG
Certified Public Accountants
8th Floor, ABC Towers
P.O. Box 40612 - 00100 GPO
Nairobi Kenya

Telephone: +254 20 2806000
Fax: +254 20 2215695
Email: info@kpmg.co.ke
Website: www.kpmg.com/eastafrica

Report on the consolidated financial statements

We have audited the financial statements of Kenya Commercial Bank Limited and its subsidiaries set out on pages 68 to 155 which comprise the consolidated and separate statements of financial position at 31 December 2015, and consolidated and separate statements of profit or loss and other comprehensive income, statements of changes in equity and statements of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

As stated on page 65, the Bank's Directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Cap.486), and for such internal control as the Directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditors' responsibility

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

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the consolidated and separate financial position of Kenya Commercial Bank Limited at 31 December 2015, and the consolidated and separate financial performance and the consolidated and separate cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act (Cap.486).

REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF KENYA COMMERCIAL BANK LIMITED (continued)

KPMG
Certified Public Accountants
8th Floor, ABC Towers
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Nairobi Kenya

Telephone: +254 20 2806000
Fax: +254 20 2215695
Email: info@kpmg.co.ke
Website: www.kpmg.com/eastafrica

Report on other legal requirements

The Companies Act (Cap.486) requires us to expressly report to you, based on our audit, that:

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

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

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

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

KPMG Kenya

Date: 1 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Interest income	8	56,442,500	47,478,416
Interest expense	8	(17,147,978)	(11,527,020)
Net interest income		**39,294,522**	**35,951,396**
Fees and commission income	9	14,159,989	12,739,217
Fees and commission expense	9	(1,057,638)	(796,416)
Net fees and commission income		**13,102,351**	**11,942,801**
Net foreign exchange income	10	4,067,466	4,149,902
Net Income from financial instruments carried At fair value through profit or loss	11	(58,567)	(2,701)
Dividend income	12	1,112	103
Other operating income	13	2,620,183	3,142,260
Total income		**59,027,067**	**55,183,761**
Provision for impairment of loans and advances to customers	14	(2,178,699)	(3,088,593)
Net operating income		**56,848,368**	**52,095,168**
Employee benefits	15	(15,310,898)	(13,993,445)
Depreciation and amortization	16	(2,435,448)	(2,387,942)
Other operating expenses	17	(12,564,449)	(11,926,352)
Profit before income tax	18	**26,537,573**	**23,787,429**
Income tax expense	19(a)	(6,914,502)	(6,938,567)
Profit for the year		**19,623,071**	**16,848,862**
Attributable to:			
Owners of the parent		**19,623,071**	**16,848,862**
Earnings per share (KShs)			
Basic and diluted	20	**6.49**	**5.63**
Dividends (KShs millions)			
Proposed Final		**6,050**	**6,050**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Profit for the year		19,623,071	16,848,862
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension fund	46	(1,092,000)	(254,000)
Related tax at 30%		327,600	76,200
		(764,400)	(177,800)
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations		(6,154,131)	904,406
Available for sale financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		(1,477,234)	30,942
Related tax at 30% - Current year		443,170	(9,283)
Related tax at 30% - Prior years under provision		-	49,019
		(1,034,064)	70,678
Other comprehensive income for the year, net of income tax		**(7,952,595)**	**797,284**
Total comprehensive income for the year		**11,670,476**	**17,646,146**
Attributable to:			
Owners of parent		**11,670,476**	**17,646,146**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

BANK STATEMENT OF PROFIT OR LOSS
for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Interest income	8	48,771,764	40,885,949
Interest expense	8	(15,063,236)	(9,697,802)
Net interest income		**33,708,528**	**31,188,147**
Fees and commission income	9	8,862,340	8,503,864
Fees and commission expense	9	(1,073,383)	(785,106)
Net fees and commission income		**7,788,957**	**7,718,758**
Net foreign exchange gain	10	2,202,692	2,192,237
Net Income from financial instruments carried At fair value through profit or loss	11	(58,567)	(2,701)
Dividend income	12	553,120	704,105
Other operating income	13	1,886,044	3,033,051
Total income		**46,080,774**	**44,833,597**
Provision for impairment of loans and advances to customers	14	(655,671)	(1,256,039)
Net Operating income		**45,425,103**	**43,577,558**
Employee benefits	15	(12,107,360)	(11,232,635)
Depreciation and amortization	16	(1,668,041)	(1,673,479)
Other operating expenses	17	(8,205,086)	(8,309,689)
Profit before income tax	**18**	**23,444,616**	**22,361,755**
Income tax expense	19(a)	(6,945,209)	(6,482,777)
Profit for the year		**16,499,407**	**15,878,978**
Attributable to:			
Owners of the parent		**16,499,407**	**15,878,978**
Earnings per share (KShs)			
Basic and diluted	20	**5.45**	**5.30**
Dividends (KShs millions)			
Proposed Final		**6,050**	**6,050**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

BANK STATEMENT OF OTHER COMPREHENSIVE INCOME

for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Profit for the year		16,449,407	15,878,978
Other comprehensive income, net of income tax			
Items that will not be reclassified subsequently to profit or loss			
Re-measurement of defined benefit pension fund	46	(1,092,000)	(254,000)
Related tax at 30%		327,600	76,200
		(764,400)	(177,800)
Items that are or may be reclassified subsequently to profit or loss			
Available for sale financial assets:			
- Unrealized (loss)/gain arising from measurement at fair value		(1,362,910)	30,942
Related tax at 30% - Current year		396,948	(9,283)
Related tax at 30% - Prior years under-provision		-	49,019
		965,962	70,678
Other comprehensive income for the year, net of income tax		**(1,730,362)**	**(107,122)**
Total comprehensive income for the year		**14,719,045**	**15,771,856**
Attributable to:			
Owners of the parent		**14,719,045**	**15,771,856**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Banks	21	68,219,267	71,458,780
Loans and advances to banks	22	20,286,903	13,177,999
Financial assets held for trading	23	805,790	1,115,943
Financial assets available-for-sale	24	38,298,050	37,193,646
Clearing house	25	891,837	636,020
Other assets and prepayments	26	10,165,813	9,205,027
Loans and advances to customers (Net)	27	345,968,686	283,732,205
Financial assets held to maturity	28	57,844,737	58,888,386
Tax recoverable	19(b)	161,406	183,283
Property and equipment	29(a)	9,027,924	8,838,074
Intangible assets	30	1,427,857	1,374,215
Prepaid operating lease rentals	31	136,578	139,110
Retirement benefit asset	46	980,000	1,835,000
Deferred income tax	33	3,879,306	2,560,636
		558,094,154	**490,338,324**
LIABILITIES			
Deposits from banks	34	23,138,193	14,295,619
Deposits from customers	35	424,390,833	377,271,886
Bills payable	36	1,527,209	1,548,979
Other liabilities and accrued expenses	37	7,240,179	8,721,507
Deferred tax liability	33	100,043	-
Tax payable	19(b)	314,180	131,928
Borrowings	39	20,129,910	12,734,848
		476,840,547	**414,704,767**
EQUITY			
Share capital	40	3,025,213	3,025,213
Share premium	41	20,135,561	20,135,561
Regulatory reserve	41	8,947,452	5,264,936
Other reserves	41	(7,084,795)	867,800
Retained earnings	41	56,230,176	46,340,047
		81,253,607	**75,633,557**
		558,094,154	**490,338,324**

The financial statements set out on pages 68 to 155 were approved by the Board of Directors on 1 March 2016 and were signed on its behalf by:

Ng'eny Biwott (Chairman)

Joshua N. Oigara (Chief Executive Officer)

Charity M. Muya-Ngaruiya (Director)

Joseph Kania (Secretary)

The notes set out on pages 80 to 155 form an integral part of these financial statements.

BANK STATEMENT OF FINANCIAL POSITION

for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
ASSETS			
Cash and balances with Central Banks	21	31,418,554	22,199,607
Loans and advances to banks	22	9,254,721	2,577,662
Financial assets held for trading	23	805,790	1,115,943
Financial assets available-for-sale	24	33,903,957	35,013,035
Clearing house	25	863,095	571,065
Other assets and prepayments	26	10,355,416	7,931,365
Balances due from group companies	38	297,343	
Loans and advances to customers	27	312,079,984	248,823,710
Financial assets held to maturity	28	43,256,718	36,601,868
Tax recoverable	19(b)	-	137,516
Property and equipment	29(b)	7,045,892	5,299,673
Intangible assets	30	1,295,556	1,234,309
Prepaid operating lease rentals	31	134,503	137,000
Investment in subsidiaries and associated companies	32	12,709,192	11,316,942
Retirement benefit asset	46	980,000	1,835,000
Deferred income tax	33	3,340,452	2,174,706
		467,741,173	**376,969,401**
LIABILITIES			
Deposits from banks	34	14,759,625	8,733,510
Deposits from customers	35	347,701,500	276,749,766
Bills payable	36	1,450,514	1,468,272
Other liabilities and accrued expenses	37	5,140,195	4,580,145
Tax payable	19(b)	247,995	-
Balances due to group companies	38	-	1,660,076
Borrowings	39	17,555,386	11,610,293
		386,855,215	**304,802,062**
EQUITY			
Share capital	40	3,025,213	3,025,213
Share premium	41	20,135,561	20,135,561
Regulatory reserve	41	8,044,803	4,005,379
Other reserves	41	(536,480)	1,193,882
Retained earnings	41	50,216,861	43,807,304
		80,885,958	**72,167,339**
		467,741,173	**376,969,401**

The financial statements set out on pages 68 to 155 were approved by the Board of Directors on 1 March 2016 and were signed on its behalf by:

Ng'eny Biwott (Chairman)

Joshua N. Oigara (Chief Executive Officer)

Charity M. Muya-Ngaruiya (Director)

Joseph Kania (Secretary)

The notes set out on pages 80 to 155 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

2015:	Note	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Translation reserve KShs'000	Available -for-sale- reserve KShs'000	Retained earnings KShs'000	Define benefit reserve KShs'000	Total KShs'000
At 1 January 2015		**3,025,213**	**20,135,561**	**5,264,936**	**(326,082)**	**(92,718)**	**46,340,047**	**1,286,600**	**75,633,557**
Profit for the year		-	-	-	-	-	19,623,071	-	19,623,071
Other comprehensive income (net of taxes)									
Foreign currency translation differences for foreign operations		-	-	-	(6,154,132)	-	-	-	(6,154,132)
Change in fair value of available for sale increments (net of tax)		-	-	-	-	(1,034,063)	-	-	(1,034,063)
Transfer to statutory credit risk reserve		-	-	3,682,516	-	-	(3,682,516)	-	-
Re-measurement of defined benefit asset/liability (net of taxes)	46	-	-	-	-	-	-	(764,400)	(764,400)
Total comprehensive income		**-**	**-**	**3,682,516**	**(6,154,132)**	**(1,034,063)**	**15,940,555**	**(764,400)**	**11,670,476**
Transactions with owners recorded directly in equity									
Dividend paid – 2014		-	-	-	-	-	(6,050,426)	-	(6,050,426)
Share based payment transactions		-	-	-	-	-		-	-
Employee share options exercised		-	-	-	-	-	-	-	-
Total contributions and distributions		**-**	**-**	**-**	**-**	**-**	**(6,050,426)**	**-**	**(6,050,426)**
At 31 December 2015		**3,025,213**	**20,135,561**	**8,947,452**	**(6,480,214)**	**(1,126,781)**	**56,230,176**	**522,200**	**81,253,607**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015 (continued)

2014:	Note	Share capital KShs'000	Share premium KShs'000	Statutory credit risk reserve KShs'000	Translation reserve KShs'000	Available -for-sale-reserve KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Total KShs'000
At 1 January 2014		2,984,228	19,330,200	4,371,255	(1,230,488)	(163,396)	36,598,768	1,464,400	63,354,967
Profit for the year		-	-	-	-	-	16,848,862	-	16,848,862
Other comprehensive income (net of taxes)									
Foreign currency translation differences for foreign operations		-	-	-	904,406	-	-	-	904,406
Change in fair value of available for sale increments (net of tax)		-	-	-	-	70,678	-	-	70,678
Transfer to statutory credit risk reserve		-	-	893,681	-	-	(893,681)	-	-
Re-measurement of defined benefit asset/liability (net of taxes)	46	-	-	-	-	-	-	(177,800)	(177,800)
Total comprehensive income		**-**	**-**	**893,681**	**904,406**	**70,678**	**15,955,181**	**(177,800)**	**17,646,146**
Transactions with owners recorded directly in equity									
Dividend paid – 2013		-	-	-	-	-	(5,968,455)	-	(5,968,455)
Share based payment transactions	40	-	-	-	-	-	(245,447)	-	(245,447)
Employee share options exercised	40	40,985	805,361	-	-	-	-	-	846,346
Total contributions and distributions		**40,985**	**805,361**	**-**	**-**	**-**	**(6,213,902)**	**-**	**(5,367,556)**
At 31 December 2014		**3,025,213**	**20,135,561**	**5,264,936**	**(326,082)**	**(92,718)**	**46,340,047**	**1,286,600**	**75,633,557**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015

2015:	Note	Share capital KShs'000	Share Premium KShs'000	Statutory credit risk reserve KShs'000	Available -for-sale reserve KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Total KShs'000
At 1 January 2015		3,025,213	20,135,561	4,005,379	(92,718)	43,807,304	1,286,600	72,167,339
Profit for the year		-	-	-	-	16,499,407	-	16,499,407
Other comprehensive income (net of taxes)								
Transfer to statutory credit risk reserve				4,039,424		(4,039,424)	-	-
Re-measurement of defined benefit asset/ liability (net of taxes)	46	-	-	-	-	-	(764,400)	(764,400)
Change in fair value of available for sale increments (net of taxes)		-	-	-	(965,962)	-	-	(965,962)
Total comprehensive income		**-**	**-**	**4,039,424**	**(965,962)**	**12,459,983**	**(764,400)**	**14,769,045**
Transactions with owners recorded directly in equity								
Dividend paid – 2015	42	-	-	-	-	(6,050,426)	-	(6,050,426)
Share based payment transactions		-	-	-	-	-	-	-
Employee share options exercised		-	-	-	-	-	-	-
Total contributions and distiributions		**-**	**-**	**-**	**-**	**(6,050,426)**	**-**	**(6,050,426)**
At 31 December 2015		**3,025,213**	**20,135,561**	**8,044,803**	**(1,058,680)**	**50,216,861**	**522,200**	**80,885,958**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2015 (continued)

2014:	Note	Share capital KShs'000	Share Premium KShs'000	Statutory credit risk reserve KShs'000	Available -for-sale reserve KShs'000	Retained earnings KShs'000	Defined benefit reserve KShs'000	Total KShs'000
At 1 January 2014		**2,984,228**	**19,330,200**	**3,220,136**	**(163,396)**	**34,927,471**	**1,464,400**	**61,763,039**
Profit for the year		-	-	-	-	15,878,978	-	15,878,978
Transfer to statutory credit risk reserve				785,243		(785,243)	-	-
Re-measurement of defined benefit asset/ liability (net of taxes)	46	-	-	-	-	-	(177,800)	(177,800)
Change in fair value of available for sale increments (net of taxes)		-	-	-	70,678	-	-	70,678
Total comprehensive income		**-**	**-**	**785,243**	**70,678**	**(15,093,735)**	**(177,800)**	**(15,771,856)**
Transactions with owners recorded directly in equity								
Dividend paid – 2013	42	-	-	-	-	(5,968,455)	-	(5,968,455)
Share based payment transactions		-	-	-	-	(245,447)	-	(245,447)
Employee share options exercised	40	40,985	805,361	-	-	-	-	846,346
Total contributions and distributions		**40,985**	**805,361**	-	-	**(6,213,902)**	-	**(5,367,556)**
At 31 December 2014		**3,025,213**	**20,135,561**	**4,005,379**	**(92,718)**	**43,807,304**	**1,286,600**	**72,167,339**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Net cash flows generated from operating activities	43(a)	**4,426,320**	**31,202,576**
Investing activities			
Proceeds from disposal of property and equipment		78,677	56,521
Purchase of intangible assets	30	(574,411)	(471,429)
Purchase of property and equipment	29	(3,264,357))	(2,283,265)
Effects of exchange rate changes on translation of foreign operation		(4,865,709)	904,406
Net cash flows used in investing activities		**(8,445,800)**	**(1,793,767)**
Financing activities			
Proceeds from additional shares floated		-	846,346
Net movement in borrowings	39	7,395,062	4,574,247
Dividends paid	42	(6,050,426)	(5,968,455)
Net cash flows used in financing activities		**1,344,636**	**(547,862)**
(Decrease)/Increase in cash and cash equivalents		(2,674,844)	28,860,947
Cash and cash equivalents at the beginning of the year		70,902,201	42,041,254
Cash and cash equivalents at the end of the year	**43(b)**	**68,227,357**	**70,902,201**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

BANK STATEMENT OF CASH FLOWS
for the year ended 31 December 2015

	Note	2015 KShs'000	2014 KShs'000
Net cash flows generated from operating activities	43(a)	**17,147,102**	**(5,122,842)**
Investing activities			
Proceeds from disposal of property and equipment		93,188	2,308
Purchase of intangible assets	30	(545,845)	(330,579)
Purchase of property and equipment	29	(2,974,654)	(1,166,377)
Investment in subsidiaries	32	(1,392,250)	(1,489,425)
Net cash flows used in investing activities		**(4,819,561)**	**(2,984,073)**
Financing activities			
Proceeds from additional shares floated		-	846,346
Repayment of borrowings	39	5,945,093	4,096,658
Dividends paid	42	(6,050,426)	(5,968,455)
Net cash flows used in financing activities		**(105,333)**	**(1,025,451)**
Increase in cash and cash equivalents		12,222,208	(9,132,366)
Cash and cash equivalents at the beginning of the year		12,812,852	21,945,218
Cash and cash equivalents at the end of the year	43(b)	**25,035,060**	**12,812,852**

The notes set out on pages 80 to 155 form an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015

1. GENERAL INFORMATION

Kenya Commercial Bank Limited is a financial institution licensed under the Banking Act (Chapter 488), and provides corporate and retail banking and Bancassurance services in various parts of the country.

The Bank is incorporated in Kenya under the Companies Act (Cap. 486) and has subsidiaries in Kenya, South Sudan, Tanzania, Uganda, Rwanda and Burundi. The consolidated financial statements of the Bank as at and for the year ended 31 December 2015 comprise the Bank and its subsidiaries (together referred to as the "Group" and individually referred to as the "Bank") and the Group's interest in associates. The address of its registered office is as follows:

Kencom House
Moi Avenue
PO Box 48400 - 00100
Nairobi, Kenya

The Bank has a 100% ownership in Kenya Commercial Finance Company Ltd, Savings & Loan Kenya Ltd, Kenya Commercial Bank Nominees Ltd, Kencom House Ltd, KCB Bank Tanzania Ltd, KCB Sudan Ltd, KCB Bank Rwanda Ltd, KCB Bank Uganda Ltd, KCB Bank Burundi Ltd, KCB Insurance Agency Ltd and a 45% ownership in United Finance Ltd.

The shares of the Bank are listed on the Nairobi Securities Exchange, Uganda Securities Exchange, Dar-es-Salaam Stock Exchange and Rwanda Stock Exchange.

For Companies Act (Cap. 486) reporting purposes, the balance sheet is represented by the statement of financial position and the profit and loss account by the statement of profit or loss and the statement of other comprehensive income in these financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements have been applied consistently across the Group entities and to all periods presented in these financial statements.

2.1 Basis of preparation

The consolidated financial statements of the Bank and its subsidiaries as well as the separate financial statements of the Bank, together referred to as "the financial statements", have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB) and the Companies Act (Cap. 486).

(a) Basis of measurement

The financial statements have been prepared on the historical cost basis except for the following:

- Financial instruments at fair value through profit or loss are measured at fair value;
- Available-for-sale financial assets are measured at fair value;
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation less the net total of the plan assets, plus unrecognised actuarial gains less unrecognised past service cost and unrecognised actuarial losses.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

(b) Use of estimates

In preparing these consolidated financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's 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 estimates are recognised prospectively.

The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

(c) Changes in accounting policies and disclosures

(i) New standards, amendments and interpretations adopted by the Group

- *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 affect the amounts and disclosures of the Group's defined benefits obligations.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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 Depreciations 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 entity).

- *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 Group's transactions with associates or joint ventures.

- *Accounting for Acquisitio ns 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The adoption of these changes is not expected to have a significant impact on the Group's financial statements.

- *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 Group does not have any bearer plants. Consequently, the amendment would not have any impact on the Group's financial statements.

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

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

The amendments to IAS 38 Intangible Assets introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. The presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.
The amendments apply prospectively for annual periods beginning on or after 1 January 2016 and early adoption is permitted.

The adoption of these changes will not affect the amounts and disclosures of the Group'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/will not affect the amounts and disclosures of the Group's interests 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.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *IFRS 14 Regulatory Deferral Accounts(continued)*

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

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

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

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

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

The amendments apply retrospectively for annual periods beginning on or after 1 January 2016, with early application permitted.The adoption of these changes will not affect the amounts and disclosures of the Group's interests in other entities.

- *IFRS 15 Revenue from Contracts with Customers*

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- *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 Group's.

- *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.

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 adoption of this standard is not expected to have a significant impact on the financial statements of the Group.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are investees controlled by the Group. The Group controls an investee when it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(b) Associate

The Group has an investment in an associate which is dormant.

Associates are entities in which the Group has significant influence, but not control, over the financial and operational policies. The Group's investment in its associate is accounted for using the equity method and is recognized initially at cost.

The cost of the investment includes transaction costs. Subsequent to initial recognition, the financial statement includes the Group's share of the profit or loss and other comprehensive income of equity accounted investee until the date in which significant influence ceases.

When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of the investment including any long-term interests that form part thereof, is reduced to zero, and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

The Bank's investment in associate is accounted for at cost in its separate financial statements.

(c) Loss of control

When the Group loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non controlling interest and other components of equity.

Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(d) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

2.3 Foreign currency translation

(a) Functional and presentation currency

The financial statements are presented in Kenya Shillings (KShs), which is the Bank's functional currency. Except as otherwise indicated, financial information presentation in Kenya shillings has been rounded to the nearest thousand (KShs'000). 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.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Foreign currency translation (continued)

(b) Transactions and balances

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 recognized as profit or loss, 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".

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.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss.

Translation differences on non-monetary financial assets, such as equities classified as available for sale, are included in other comprehensive income.

(c) Group Companies

The results and financial position of all the group entities (none of which has the currency of a hyper-inflationary economy as at 31 December 2015 based on our assessment. However, management have identified that South Sudan could potentially become a hyper inflationary economy, which could affect future results) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities of foreign subsidiaries are translated into Kenya Shillings at the rate of exchange ruling at the reporting date;

(ii) income and expenses for each statement of comprehensive income are translated at the weighted average exchange rates for the period; and

(iii) exchange differences arising on translation are recognised in other comprehensive income and accumulated in equity in the translation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is reclassified from equity to profit or loss when the gain or loss on disposal is recognised.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Recognition of income and expense

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific criteria must be met before revenue is recognised.

(i) Interest income and expense

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that discounts the estimated future cash payments and receipts through the expected life of the financial asset or financial liability (or, where appropriate, a shorter period) to the carrying asset or financial liability. When calculating effective interest rate, the Group estimates future cash-flows considering all contractual terms of the financial instrument, but not future credit losses.

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

Interest income and expense recognized in profit or loss include:

- Interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.
- Interest on available for sale investment securities calculated 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 through profit and loss in the income statement.

(ii) Dividend income

Dividend income is recognised when the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

(iii) Fees and commission income

Fees and commission income and expense are recognised on an accrual basis when the service has been provided. Commission and fees arising from negotiation of transactions with third parties, or participating in the negotiation of a transaction for a third party is recognised on completion of the underlying transaction. Fees and commission 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 management fees, sales commission, placement fees and syndication fees, are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and services fee, which are expensed as the services are received

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Recognition of income and expense (continued)

(iii) Rental income

Rental income in respect of operating leases is accounted for on a straight-line basis over the lease terms on ongoing leases.

(iii) Net trading income

Net trading income comprises gains less losses related to trading assets and liabilities and includes all realised and unrealised fair value changes, interest and foreign exchange differences.

2.5 Income tax

Income tax expense comprises current tax and change in deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income for the year using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes, except differences relating to the initial recognition of assets or liabilities in a transaction that is not a business combination and which affects neither accounting nor taxable profit. It is also not recognised for temporary differences related to investments in subsidiaries and associates to the extent that it is probable that they will not reverse in the foreseeable future and the investor is able to control the timing of the reversal of the temporary difference.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets and they relate to income taxes levied by the same tax authority on the same taxable entity or on different tax entities, but they intend to settle current tax assets and liabilities on a net basis or their tax assets and liabilities will be realized simultaneously.

In determining the amount of current and deferred tax, the Group considers the impact of tax exposures, including whether additional taxes and interest may be due. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities would impact tax expense in the period in which such a determination is made.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets and financial liabilities

(i) Recognition

The Group initially recognizes loans and advances, deposits and debt securities on the date at which they are originated. All other financial assets and liabilities (including assets designated at fair value through profit and loss) are initially recognised on the trade date at which the Group becomes a party to the contractual provision of the instrument.

A financial asset or liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are
directly attributable to its acquisition or issue. Subsequent to initial recognition, financial liabilities (deposits and debt securities) are measured at their amortized cost using the effective interest method except where the group designates liabilities at fair value through profit and loss.

(ii) Classification and measurement

The Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen on the table below as follows:

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Group)</th><th>Subclasses</th></tr>
<tr><td rowspan="14">Financial assets</td><td rowspan="2">Financial assets at fair value through profit or loss</td><td>Financial assets held for trading</td><td colspan="2">Debt Securities
Equity Securities
Derivatives – non hedging</td></tr>
<tr><td>Financial assets designated at fair value through profit or loss</td><td colspan="2">Debt Securities
Equity Securities
Loans and advances to banks
Loans and advances to customers</td></tr>
<tr><td rowspan="5">Loans and receivables</td><td colspan="2">Loans and advances to banks</td><td></td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Loans to individuals (retail)</td><td>Overdrafts
Credit cards
Term loans
Mortgages</td></tr>
<tr><td>Loans to corporate entities</td><td>Large corporate customers
SMEs
Others</td></tr>
<tr><td rowspan="2">Investment securities – debt instruments</td><td></td><td>Listed</td></tr>
<tr><td></td><td>Unlisted</td></tr>
<tr><td rowspan="2">Held to maturity investments</td><td rowspan="2">Investment securities – debt securities</td><td></td><td>Listed</td></tr>
<tr><td></td><td>Unlisted</td></tr>
<tr><td rowspan="5">Available for sale financial assets</td><td>Investment securities – debt securities</td><td></td><td>Listed</td></tr>
<tr><td rowspan="2">Investment securities – equity securities</td><td></td><td>Listed</td></tr>
<tr><td></td><td>Unlisted</td></tr>
<tr><td colspan="2">Deposits from banks</td><td></td></tr>
<tr><td>Customers deposits</td><td>Retail customers</td><td></td></tr>
</table>

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets and financial liabilities (continued)

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses
			Large corporate customers	
			SMEs	
Off- balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

Financial assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its investments at initial recognition.

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

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

Investments held for trading are those which were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit-taking exists. Investments held for trading are subsequently re-measured at fair value based on quoted bid prices or dealer price quotations, without any deduction for transaction costs. All related realized and unrealized gains and losses are included in profit or loss. Interest earned whilst holding held for trading investments is reported as interest income.

Foreign exchange forward and spot contracts are classified as held for trading. They are marked to market and are carried at their fair value. Fair values are obtained from discounted cash flow models which are used in the determination of the foreign exchange forward and spot contract rates. Gains and losses on foreign exchange forward and spot contracts are included in foreign exchange income as they arise.

(ii) Loans, advances and receivables

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

(iii) Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. A sale or reclassification of more than an insignificant amount of held to maturity investments would result in the reclassification of the entire category as available for sale. Held to maturity investments includes treasury bills and bonds. They are subsequently measured at amortized cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets and financial liabilities (continued)

(iv) Available for sale

Available for sale financial investments are those non derivative financial assets that are designated as available for sale or are not classified as any other category of financial assets. Available for sale financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at fair value and changes therein are recognised in other comprehensive income and presented in the available for sale fair value reserve in equity. When an investment is derecognised, the gain or loss accumulated in equity is re-classified to profit or loss.

Financial Liabilities

Financial liabilities are recognised when the Group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net or directly attributable transaction costs incurred. Subsequent measurements of financial liabilities is at amortised cost incurred. Subsequent measurements of financial liabilities is at amortised cost using effective interest rate method. Financial liabilities will include deposits from banks or customers, trade payables from the brokerage and lines of credit for which the fair value option is not applied.

(iii) 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. Significant assets found not to be specifically impaired are then collectively assessed for any impairment that may have been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortized 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 not 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 judgment 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 amortized 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 as 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 the income statement.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets and financial liabilities (continued)

Amounts classified as available for sale

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the fair value, less any impairment loss recognised previously in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If in subsequent period, the fair value of an impaired available for sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise any increase in fair value is recognised through OCI. Any subsequent recovery in the fair value of an impaired available for sale equity security is always recognised in OCI.

(iv) De-recognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include repurchase transactions.

(v) Offsetting of financial assets and financial liabilities

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

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

(vi) Restructured Loans

Restructured troubled loans and advances are loans and advances for which the Group has granted a concession to the borrower due to a deterioration of the borrower's financial condition. The restructuring may include:

- A modification of terms, e.g., a reduction in the interest from that originally agreed or a reduction in the principal amount; and
- The transfer from the borrower to the bank of real estate, receivables from third parties, other assets, or equity interest in the borrower in full or partial satisfaction of the loan.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Financial assets and financial liabilities (continued)

(vi) Restructured Loans (continued)

Such restructured loans and advances whose terms have been renegotiated are no longer considered to be past due but are treated as new loans after the minimum number of payments under the new arrangement have been received.

(vii) Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities is the price that would be received to sell an asset or paid to transfer a liability respectively in an orderly transaction between market participants at the measurement date.

(viii) Amortized cost measurement

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

2.7 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition, including: notes and coins on hand, unrestricted balances deposited with the Central Bank of Kenya and highly liquid assets, subject to insignificant risk of changes in their fair value.

Cash and cash equivalents are measured at amortized cost using effective interest method in the statement of financial position.

2.8 Property and equipment

(i) *Recognition and measurement*

Items of property and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses. Costs include expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gains and losses arising on disposal of an item of property and equipment are determined by comparing the net proceeds from disposal with the carrying amount of the item and are recognised net within 'other operating income' in profit or loss.

(ii) Depreciation

Depreciation is recognised in profit or loss on a straight line basis over the estimated useful lives of each part of property and equipment. The annual depreciation rates in use are:

Freehold land	Nil
Leasehold improvements	Rates based on the shorter of the lease term or estimated useful lives
Motor vehicles	25%
Furniture and fittings	10%
Office equipment	20%
Computers	20%

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.8 Property and equipment (continued)

The residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each reporting date. Changes in the expected useful life, residual values or methods of depreciation are accounted for as changes in accounting estimates.

(iii) Subsequent costs

Subsequent expenditure is capitalized only when it is probable that future economic benefits of the expenditure will flow to the Group. Recurrence repairs and maintenance are expensed as incurred.

2.9 Intangible assets

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

Intangible assets with finite lives are amortized on a straight-line basis in profit or loss over their estimated useful economic lives, from the date that they are available for use.

The amortization method, useful life and the residual value are reviewed at each reporting date and adjusted if appropriate. Changes in the expected useful life, residual value or amortization method are accounted for as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

The useful lives of intangible assets are assessed to be either finite or indefinite. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. However, expenditure that enhances or extends the benefits of computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original cost of the software. Computer software development costs recognised as assets are amortized using the straight-line method over a period of five years.

There are no intangible assets with indefinite useful lives.

2.10 Leases

Leases, where a significant portion of the risks and rewards of ownership are retained by the lessor, are classified as operating leases. Payments made under operating leases are charged to the profit and loss account on a straight-line basis over the period of the lease.

Where the Group is a lessor, it presents assets subject to operating leases in Statement of Financial Position according to the nature of the asset. Lease income from operating leases is recognised in income on a straight line basis over the lease term. Costs, including depreciation, incurred in earning the lease income are recognised as an expense.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.10 Leases (continued)

Leases where substantially all the risks and rewards of ownership of an asset are transferred to the lessee are classified as finance leases. Upon recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset as follows:

(i) Operating lease

The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

(ii) Finance lease

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

2.11 Impairment of non-financial assets

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

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.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

Impairment losses are recognised in profit or loss 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.

2.12 Investment in subsidiaries

Investments in subsidiary companies are carried at cost in the Bank's separate financial statements, which is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for control of the acquiree. The carrying amount is reduced to recognize any impairment in the value of individual investments. The impairment loss is taken to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefits

The Group operates both a defined contribution plan and defined benefit plan.

(i) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Group pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as staff costs in profit or loss in the periods during which related services are rendered. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

The Group also contributes to the statutory defined contribution in the various countries in which it operates. The Group's contribution to these schemes are charged to the income statement.

(ii) Defined benefit plans

The Group's net obligation in respect of defined benefit plan is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of the economic benefits available in the form of any refunds from the plan or deductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which compromise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest) are recognised immediately in other comprehensive income. The Group determines the net interest (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during a period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that employees have earned in return for their service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on settlement of a defined benefit plan when the settlement occurs.

(iii) Other long term employee benefits

The Group's net obligation in respect of long-term employee benefits other than pension plans is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the periods in which they arise.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Employee benefits (continued)

(iv) Short-term benefits

Short-term benefits consist of salaries, bonuses and any non-monetary benefits such as medical aid contributions and free services. They exclude equity based benefits and termination benefits. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group 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.

(v) Termination benefits

Termination benefits are expensed at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the end of the reporting period, then they are discounted.

(vi) Share-based payment transactions

The grant date fair value of equity-settled share-based payment awards (i.e. stock options) granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of share awards that do meet the related service and non-market performance conditions at the vesting date.

The fair value of the amount payable to employees in respect of share appreciation rights that are settled in cash is recognised as an expense with a corresponding increase in liabilities over the period in which the employees unconditionally become entitled to payment. The liability is re-measured at each reporting date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

2.14 Fiduciary assets

When the Group acts in a fiduciary capacity such as a nominee or agent, assets and income arising thereon with related undertakings to return such assets to customers are excluded from these financial statements.

2.15 Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are disclosed as contingent liabilities. Estimates of the outcome and the financial effect of contingent liabilities is made by management based on the information available up to the date that the financial statements are approved for issue by the Directors.

2.16 Earnings per share

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

2.17 Dividends

Dividends are recognised as a liability in the period in which they are declared.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.18 Sale and repurchase agreements
Securities sold under sale and repurchase agreements (Repos) are retained in the financial statements with the counterparty liability included in amounts due to banking institutions.
Securities purchased from the Central Bank of Kenya under agreement to resell (reverse Repos), are disclosed as treasury bills as they are held to maturity after which they are repurchased and are not negotiable or discounted during the tenure.

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

2.19 Related parties
In the normal course of business, the Bank has entered into transactions with related parties. The related party transactions are at arm's length.

2.20 Operating segments
An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components, whose operating results are reviewed regularly by the Group's Management Committee (being the chief operating decision maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

2.21 Share capital and reserve
Ordinary shares are classified as share capital in equity. Any premium received over and above the par value of the shares is classified as share premium.

2.22 Fair value measurements
IFRS 13 defines fair value as 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 (i.e. an exit price). That definition of fair value emphasizes that fair value is a market-based measurement, not an entity-specific measurement.

When measuring fair value, an entity uses the assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

The IFRS explains that a fair value measurement requires an entity to determine the following:

- the particular asset or liability being measured;
- for a non-financial asset, the highest and best use of the asset and whether the asset is used in combination with other assets or on a stand-alone basis;
- the market in which an orderly transaction would take place for the asset or liability; and
- the appropriate valuation technique(s) to use when measuring fair value. The valuation technique(s) used should maximise the use of relevant observable inputs and minimise unobservable inputs. Those inputs should be consistent with the input a market participant would use when pricing the asset or liability.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.22 Fair value measurements (continued)

Some IFRSs require or permit entities to measure or disclose fair value of assets, liabilities or their own equity instruments. Because those IFRS were developed over many years, the requirement for measuring fair value and for disclosing information about fair value measurements were dispersed and in many cases did not articulate a clear measurement or disclosure objective. There was hence not always consistent guidance across the IFRSs that refer to fair value hence hampering comparability of information reported in financial statements. IFRS 13 remedies the situation.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new definition of fair value, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the financial statements, which are required under IFRS 13.

3. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks, including credit risk, liquidity risk, market risks and operational risks. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board of Directors of the Group has established the Credit, Audit, Risk, Human Resources and Procurement and Information Technology committees, which are responsible for developing and monitoring the Group risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities.

The Group's risk management policies are established to identify and analyze 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 Risk 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 Committee is assisted in these functions by a Risk and Compliance department which undertake reviews of risk management controls and procedures, the results of which are reported to the Risk Committee.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Group's customers, clients or market counterparties fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(i) Governance and oversight

The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee. Credit Division, reporting to the Board Credit Committee, is responsible for the day-to-day management of credit risk, while the Group Risk Committee is responsible for independent credit risk oversight., 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;
- Periodically reviewing the credit risk strategy, credit risk management policies, and the underlying credit risk management process of the Group as a whole, including the Group's tolerance or appetite for credit risk;
- Establishing the authorization structure for the approval and renewal of credit facilities. Authorization limits are allocated to business unit credit managers. Larger facilities require approval by the Board;
- Reviewing and assessing credit risk. The credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process;
- Limiting concentrations of exposure to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities);
- Developing and maintaining the Group's risk grading in order to categorize 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;
- Regular audits of business units and the Group's credit processes are undertaken by Internal Audit Department.

The Credit Risk Management Committee is responsible for reviewing the Group's credit risk strategy and overseeing the implementation of the Credit Risk Management policies, standards and practices as well as providing advice, guidance and specialist skills to business units to promote best practice throughout the Group in the management of credit risk. The committee also regularly reviews and reports on the quality of the Bank's loan portfolio and compliance of business units with agreed exposure limits, including those for selected industries and product types.

(ii) Management and monitoring

The credit risk management framework enables the Bank to manage credit risk within the limits of its evolving risk appetite, develop risk-response strategies and optimise risk-taking by anticipating and acting on potential opportunities or threats. Specifically, it relies on the Bank's well-established dual control structure, sound credit processes and clear delegation of decision-making authority, amongst other considerations, for the approval of loans.

Credit risk exposures are managed through the Bank's robust credit assessment, structuring and monitoring process. The latter, under the responsibility of the Credit Division, involves the daily monitoring of credit limit excesses as well as the review of all exposures, the frequency of which is increased in accordance to the size and likelihood of potential credit losses to ensure the timely detection of possible default loans. Exposures showing signs of deterioration are placed on early alert list for closer monitoring where appropriate.

The risk division is responsible for independent risk portfolio monitoring and risk measurement methodologies.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(iii) Credit risk measurement

Credit risk measurement consists of appraising the track record of customers as appropriate for the prediction of the likely future behaviour of existing accounts for ongoing credit risk management. Ultimately, the Bank assesses whether individual business areas provide sufficient contribution to the targeted risk-return profile, with the aim to ensure that capital allocation generates an optimum return for the Bank. This is achieved by channeling risk capital away from low-return to high-return business areas, in a manner commensurate with the risks assumed.

The Group's rating grades reflect the range of parameters developed to predict the default probabilities of each rating class in line with international best Practices and in compliance with regulatory requirements. The suitability of the classification of the debt and of the collectible amount is examined by Credit Division.

The Group's internal ratings scale is as follows:
Grade 1 - Normal risk
Grade 2 - Watch risk
Grade 3 - Sub-standard risk
Grade 4 - Doubtful risk
Grade 5 – Loss

The Group also assesses the probability of default of customer or counterparty using internal rating scale tailored to the various categories of counter party as described below;

Retail
Retail credit comprising mainly residential mortgages, unsecured loans and credit cards are managed on a portfolio basis and assessed, based on credit scoring models, records from the Credit Reference Bureaus, customers' behavioral records, as well as the application of relevant risk acceptance criteria. To ensure the robustness and adequacy of the scoring models, the Risk Division independently conducts formal validation of those models. In collaboration with the Credit Division, Risk regularly analyses default trends, identifies the underlying root causes and subsequently and where applicable results in appraisal of the credit scoring parameters.

Corporate
Large corporate credits are assessed using credit softwares which evaluates the counterparty's financial standing and specific non-quantitative factors such as industry risk, access to funding, market standing and management strength. The ratings generated are used to measure the risk profile of the corporate banking customer segment which consumes a sizeable proportion of capital resources of the Bank. The ratings are also used to set tolerance limits for management of excesses. The counterparty risk rating assigned to smaller business borrowers is primarily based on the counterparty's financial position and strength.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(iv) Impairment and allowance policies

The Group establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired.

The impairment allowance recognized in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment allowance is composed largely of the bottom two grades.

The Group's policy requires the review of individual financial assets regularly when individual circumstances require. Impairment allowances on individually assessed accounts are determined by an evaluation of the impairment at reporting date on a case-by-case basis, and are applied to all individually significant accounts. The assessment normally encompasses collateral held (including re-confirmation of its enforceability) and the anticipated receipts for that individual account.

	GROUP		BANK	
Individually impaired	**2015 KShs '000**	**2014 KShs '000**	**2015 KShs '000**	**2014 KShs '000**
Grade 3	4,401,837	3,152,735	3,256,720	2,644,390
Grade 4	7,725,256	4,239,961	6,577,435	3,231,579
Grade 5	11,350,382	11,011,438	9,454,964	7,491,975
Gross amount	23,477,475	18,404,134	19,289,119	13,367,944
Allowance for impairment	(8,051,828)	(9,528,190)	(6,293,700)	(6,735,126)
Carrying amount	**15,425,647**	**8,875,944**	**12,995,419**	**6,632,818**
Collectively impaired				
Grade 1	301,659,376	250,836,465	276,052,686	222,354,562
Grade 2	30,549,855	24,876,342	24,396,353	20,509,474
Gross amount	332,209,231	275,712,807	300,449,039	242,864,036
Allowance for impairment	(1,666,192)	(856,546)	(1,364,474)	(673,144)
Carrying amount	**330,543,039**	**274,856,261**	**299,084,565**	**242,190,892**
Total carrying amount	**345,968,686**	**283,732,205**	**312,079,984**	**248,823,710**

The other financial assets, other than loans and advances, are neither impaired nor past due.

Loans and advances graded 3, 4 and 5 in the Group's internal credit risk grading system include items that are individually impaired. These are advances 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 agreements.

Loans and advances graded 1 and 2 are not individually impaired. Allowances for impairment losses for these loans

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

and advances are assessed collectively.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(iv) Impairment and allowance policies (continued)

The Group also complies with Central Banks' prudential guidelines on general and specific provisioning. Excess allowances for loan losses required to comply with the requirements of Central Banks' prudential guidelines are transferred to statutory credit risk reserve. The internal rating scale assists management to determine whether objective evidence of impairment exists, based on the following criteria set out by the Group:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of Group bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

(v) Past due but not impaired loans and advances

Past due but not impaired loans and advances are those for which contractual interest or principal payments are past due, but the Group believes that impairment is not appropriate on the basis of stage of collection of amounts owed to

	GROUP		BANK	
	2015 KShs '000	2014 KShs '000	2015 KShs '000	2014 KShs '000
Less than 60 days	30,716,043	21,289,713	23,664,462	19,894,188
Between 60 and 120 days	1,442,229	2,437,594	1,309,009	1,674,695
Greater than 120 days	1,110,203	2,613,117	-	-
	33,268,475	**26,340,424**	**24,973,471**	**21,568,883**

the Group. As at 31 December, the ageing analysis of past due but not impaired loans and advances was as follows:

(vi) Credit related commitment risk

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enters into commitments to extend lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

(vii) Write-off policy

The Group writes off a loan balance as and 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's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

(viii) Collateral on loans and advances

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property and 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

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

impaired.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Credit risk (continued)

(ix) Concentration of credit risk

The Group focuses on the diversification of its lending portfolio by setting industry sector limits based on forecasts spanning a one-year horizon to ensure that its performance is not negatively impacted by a large sectoral exposure default. Additionally, regular stress tests are performed on the portfolio to ensure that the Bank holds sufficient capital to withstand any loss arising from significant exposure to a sector, single customer and group of closely related customers.

Overall, it is the policy of the Group to limit credit risk exposures and concentrations within the constraints of its capital base. An analysis of concentrations of credit risk at the reporting date is shown below:

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Construction	60,186,570	49,080,176	54,369,449	40,037,682
Micro credit	76,694,230	80,204,068	71,446,478	74,262,970
Agriculture	13,721,446	10,785,493	13,046,180	9,844,314
SME	37,164,973	30,987,342	31,643,891	24,667,985
Corporate	167,919,488	123,059,862	149,232,160	107,419,028
	355,686,706	**294,116,941**	**319,738,158**	**256,231,979**

(x) Fair value of collateral held

The Group holds collateral against loans and advances to customers in the form of cash, residential, commercial and industrial property; fixed assets such as plant and machinery; marketable securities; bank guarantees and letters of credit.

The Group also enters into collateralised reverse purchase agreements. Risk mitigation policies control the approval of collateral types. Collateral is valued in accordance with the Group's risk mitigation policy, which prescribes the frequency of valuation for different collateral types. The valuation frequency is driven by the level of price volatility of each type of collateral.

Collateral held against impaired loans is maintained at fair value. The valuation of collateral is monitored regularly and is back tested at least annually.

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse purchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held as at 31 December 2015 and 2014. An estimate of fair values of collaterals held against loans and advances to customers at the end of the year was as follows:

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Impaired loans	11,867,690	5,187,100	6,068,222	3,125,202
Performing loans	1,433,286,658	1,120,502,491	1,401,573,421	1,080,652,940
	1,445,154,348	**1,125,689,591**	**1,407,641,643**	**1,083,778,142**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Liquidity risk

Liquidity risk is the risk that the bank, though solvent either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due or can secure them only at excessive costs.

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

The Group's treasury maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole. The 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.

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to deposits from customers.

Details of the reported Group's ratio of net liquid assets to deposits from customers at the reporting date and during the reporting year were as follows:

	GROUP 2015	BANK 2015	GROUP 2014	BANK 2014
At close of the year	48.3%	30.0%	43.7%	31.3%
Average for the year	50.9%	30.3%	44.8%	36.1%
Maximum for the year	68.7%	33.9%	48.1%	41.6%
Minimum for the year	44.4%	26.2%	40.9%	29.9%

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Liquidity risk (continued)

The table below summarizes the Group's liquidity risk as at 31 December 2015 and 31 December 2014, categorized into relevant maturity groupings based on the earlier of the remaining contractual maturities or re-pricing dates.

As at 31 December 2015	Up to 1 month KShs'000	1-3 months KShs'000	3– 12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Banks	68,219,267	-	-	-	-	68,219,267
Loans and advances to Banks	20,286,903	-	-	-	-	20,286,903
Financial Assets held for trading	805,790	-	-	-	-	805,790
Financial Assets Available for sale	-	-	38,298,050	-	-	38,298,050
Financial Assets held to maturity	500	-	9,000,000	3,213	48,841,024	57,844,737
Loans and advances to customers	43,715,575	208,165,910	1,386,197	4,176,439	88,524,565	345,968,686
Clearing house	891,837	-		-	-	891,837
Total financial assets	**133,919,872**	**208,165,910**	**48,684,247**	**4,179,652**	**137,365,589**	**532,315,270**
Deposits from banks	23,138,193	-	-	-	-	23,138,193
Deposits from customers	258,946,416	73,629,734	82,128,485	9,686,198	-	424,390,833
Bills payable	1,527,209	-	-	-	-	1,527,209
Borrowings	276,210	432,926	7,435,791	11,984,983	-	20,129,910
Total financial liabilities	**283,888,028**	**74,062,660**	**89,564,276**	**21,671,181**	**-**	**469,186,145**
	(149,968,156)	**134,103,250**	**(40,880,029)**	**(17,491,529)**	**137,365,589**	**63,129,125**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Liquidity risk (continued)

As at 31 December 2014	Up to 1 month KShs'000	1-3 months KShs'000	3– 12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Total KShs'000
Cash and balances with Central Banks	71,458,780	-	-	-	-	71,458,780
Loans and advances to Banks	13,177,999	-	-	-	-	13,177,999
Financial Assets held for trading	1,115,943	-	-	-	-	1,115,943
Financial Assets Available for sale	341,165	548,644	1,969,225	99,885	34,234,727	37,193,646
Financial Assets held to maturity	584,766	2,008,027	19,244,636	449,090	36,601,867	58,888,386
Loans and advances to customers	41,646,141	240,845,098	45,951	336,451	858,564	283,732,205
Clearing house	-	-	636,020	-	-	636,020
Total financial assets	**128,324,794**	**243,401,769**	**21,895,832**	**885,426**	**71,695,158**	**466,202,979**
Deposits from banks	1,302,695	12,992,924	-	-	-	14,295,619
Deposits from customers	263,694,576	53,885,348	53,682,622	6,009,340	-	377,271,886
Bills payable	-	-	-	-	-	-
Borrowings	-	-	2,051,151	10,683,697	-	12,734,848
Total financial liabilities	**264,997,271**	**66,878,272**	**55,733,773**	**16,693,037**	**-**	**404,302,353**
	(136,672,477)	**176,523,497**	**(33,837,941)**	**(15,807,611)**	**71,695,158**	**61,900,626**

The amounts in the tables above have been compiled based on undiscounted cash flows, which include estimated interest payments.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk

(i) Currency risk

The Group takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions which are monitored daily and hedging strategies used to ensure that positions are maintained within the established limits. Foreign exchange risk arises from our non trading asset and liability positions, denominated in currencies other than the functional currency of the respective entity.

Transactions in foreign currency are recorded at the rate in effect at the date of the transaction. The Group translates monetary assets and liabilities denominated in foreign currencies at the rate of exchange in effect at the reporting date. The Group records all gains or losses on changes in currency exchange rates in profit or loss.

The table below summarizes the foreign currency exposure as at 31 December 2015 and 31 December 2014:

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Assets in foreign currencies	132,324,318	95,297,505	80,126,584	55,358,124
Liabilities in foreign currencies	(127,925,948)	(89,149,075)	(75,187,263)	(53,559,347)
Net foreign currency exposure at the end of the year	**4,398,370**	**6,148,430**	**4,939,321**	**1,798,777**

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	9,632,840	534,905	769,948	213,719	**11,151,412**
Loans and advances to customers	64,065,886	72,642	2,587,353	-	**66,725,881**
Other assets	2,006,894	9,965	58,679	173,753	**2,249,291**
At 31 December 2015	**75,705,620**	**617,512**	**3,415,980**	**387,472**	**80,126,584**
LIABILITIES					
Deposits from banks	849,613	8,835	11,196	41,922	**911,566**
Deposits from customers	36,522,259	541,904	2,397,084	105,801	**39,567,048**
Other liabilities	33,885,670	45,321	567,327	210,331	**34,708,649**
At 31 December 2015	**71,257,542**	**596,060**	**2,975,607**	**358,054**	**75,187,263**
Net statement of financial position exposure	**4,448,078**	**21,452**	**440,373**	**29,418**	**4,939,321**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(i) Currency risk (continued)

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

	At 31 December 2015			At 31 December 2014		
'Million' Assets	Currency Carrying Amount	10% Depreciation	10% Appreciation	Currency Carrying Amount	10% Depreciation	10% Appreciation
USD	75,706	(7,571)	7,571	51,543	(5,154)	5154
GBP	618	(62)	62	439	(44)	44
Euro	3,416	(342)	342	3020	(302)	302
Other	387	(39)	39	356	(36)	36
		(8,014)	**8,014**		**(5,536)**	5,536
Liabilities						
USD	71,258	7,126	(7,126)	48,747	4,875	(4,875)
GBP	596	60	(60)	430	43	(43)
Euro	2,976	298	(298)	4,182	418	(418)
Others	358	36	(36)	200	20	(20)
		7,520	**(7,520)**		**5,356**	**(5,356)**
Total increase/(decrease)		**(494)**	**494**		**(180)**	**180**
Tax charge at 30%		148	(148)		54	(54)
Effect on net profit		(346)	346		(126)	126
As a percentage of net profit		1.8%	1.8%		0.8%	0.8%

At 31 December 2015 if the shilling had weakened / strengthened by 10% against the major trading currencies, with all other variables held constant, net profit would have been KShs 346 million (2014: KShs 126 million) lower/higher.

(ii) Interest rate risk

Interest rate is the risk that the future cash flows of financial instruments will fluctuate because of changes in the market interest rates. Interest margin may increase as a result of such changes but may reduce losses in the event that unexpected movement arises. The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee is the monitoring body for compliance with the set interest rate gaps.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(ii) Interest rate risk (continued)

The Group closely monitors interest rate movements and seeks to limit its exposure by managing the interest rate and maturity structure of assets and liabilities carried on the statement of financial position. Assets and Liabilities Committee monitors compliance with the set interest rate gaps.

The table below shows interest rate sensitivity position of the Group at 31 December based on the earlier of maturity or re-pricing dates. Items not recognized on the statement of financial position do not pose any significant interest rate risk to the Group.

As at 31 December 2015	Weighted interest rates	Up to 1 month KShs'000	1-3 months KShs'000	3–12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	-	68,219,267	68,219,267
Loans and advances to banks	7.8%	20,286,903	-	-	-	-	-	20,286,903
Financial assets held for trading	10.6%	805,790	-	-	-	-	-	805,790
Financial assets available-for-sale	11.0%	-		38,221,308	-	-	76,742	38,298,050
Loans and advances to customers	17.5%	43,715,575	208,165,910	1,386,197	4,176,439	88,524,565	-	345,968,686
Clearing house	-	891,837	-	-	-	-	-	891,837
Financial assets held to maturity	10.6%	500	-	9,000,000	3,213	48,841,024	-	57,844,737
Total assets		**65,700,605**	**208,165,910**	**48,607,505**	**4,179,652**	**137,365,589**	**68,296,009**	**532,315,270**
Deposits from banks	8.2%	23,138,193	-	-	-	-	-	23,138,193
Deposits from customers	4.0%	258,946,416	73,629,734	82,128,485	9,686,198	-	-	424,390,833
Bills payable	-	1,527,209	-	-	-	-	-	1,527,209
Borrowings	3.8%	276,210	432,926	7,435,791	11,984,983	-	-	20,129,910
Total liabilities and equity		**283,888,028**	**74,062,660**	**89,564,276**	**21,671,181**	**-**	**-**	**469,186,145**
Interest rate sensitivity gap		**(218,187,423)**	**134,103,250**	**(40,956,771)**	**(17,491,529)**	**137,365,589**	**68,296,009**	**63,129,125**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(ii) Interest rate risk (continued)

As at 31 December 2014	Weighted interest rates	Up to 1 month KShs'000	1-3 months KShs'000	3–12 months KShs'000	1-5 years KShs'000	Over 5 years KShs'000	Non-interest bearing KShs'000	Total KShs'000
Cash and balances with Central Banks	-	-	-	-	-	-	71,458,780	71,458,780
Loans and advances to banks	7.9%	13,177,999	-	-	-	-	-	13,177,999
Financial assets held for trading	10.0%	1,115,943	-	-	-	-	-	1,115,943
Financial assets available-for-sale	10.9%	341,165	548,644	1,969,225	99,885	34,138,776	95,951	37,193,646
Loans and advances to customers	16.5%	41,646,141	240,845,098	45,951	336,451	858,564	-	283,732,205
Clearing house	-	-	-	-	-	-	636,020	636,020
Financial assets held to maturity	10.2%	584,766	2,008,027	19,244,636	449,090	36,601,867	-	58,888,386
Total assets		**56,866,014**	**243,401,769**	**21,259,812**	**885,426**	**71,599,207**	**72,190,751**	**466,202,979**
Deposits from banks	7.9%	1,302,695	12,992,924	-	-	-	-	14,295,619
Deposits from customers	4.1%	263,694,576	53,885,348	53,682,622	6,009,340	-	-	377,271,886
Bills payable	-	-	-	-	-	-	1,548,979	1,548,979
Borrowings	3.8%	-	-	2,051,151	10,683,697	-	-	12,734,848
Total liabilities and equity		**264,997,271**	**66,878,272**	**55,733,773**	**16,693,037**	**-**	**1,548979**	**405,851,332**
Interest rate sensitivity gap		**(208,131,257)**	**176,523,497**	**(34,473,961)**	**(15,807,611)**	**71,599,207**	**70,641,772**	**60,351,647**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.3 Market risk (continued)

(ii) Interest rate risk (continued)

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 financial position is as follows on profit or loss (balances in millions):

	2015			2014		
GROUP	**Carrying amount**	**1% Increase**	**1% Decrease**	**Carrying amount**	**1% Increase**	**1% Decrease**
Cash and balances with Central Banks	68,219	-	-	71,459	-	-
Loans and advances to banks	20,287	(203)	203	13,178	(132)	132
Financial assets held for trading	806	(8)	8	1,116	(11)	11
Financial assets available-for-sale	38,297	(383)	383	37,194	(372)	372
Clearing house	892	(9)	9	636	(6)	6
Other assets and prepayments	10,166	(102)	102	9,205	(92)	92
Loans and advances to customers (Net)	345,969	(3,460)	3,460	283,732	(2,837)	2,837
Financial assets held to maturity	57,845	(578)	578	58,888	(589)	589
	542,481	**-**	**-**	**475,408**	**-**	**-**
LIABILITIES & EQUITY						
Deposits from banks	23,138	231	(231)	14,296	143	(143)
Deposits from customers	424,391	4,244	(4,244)	377,272	3,773	(3,773)
Bills payable	1,527	-	-	1,549	-	-
Other liabilities and accrued expenses	7,240	-	-	8,722	-	-
Deferred tax liability	100	-	-	-	-	-
Tax payable	314	-	-	132	-	-
Borrowings	20,130	201	(201)	12,735	127	(127)
	476,840	-	-	414,706	-	-
Net interest income Increase/ (decrease)	-	(66)	66	-	4	(4)
Tax Charge @ 30%	-	20	(20)	-	(1)	1
Impact on profit after tax	**-**	**(46)**	**46**	**-**	**3**	**(3)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

3. FINANCIAL RISK MANAGEMENT (continued)

3.4 Operational risk management

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 behavior. Operational risks arise from all of the Group's operations and are faced by all business units.

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 authorization 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 yearly 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's standards is supported by a program of regular reviews undertaken by both the Internal Audit and Compliance department. 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

In preparing these consolidated financial statements, management has made judgments, estimates and assumptions that affect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and the underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

4.1 Judgments

There are no noted judgments that have been made in applying accounting policies that would have significant effects on the amounts recognized in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Assumptions and estimation uncertainties

The information relating to assumptions and estimation uncertainties that have a significant risk of resulting in material adjustment in the financial statements are set out below.

(a) Impairment losses on loans and advances

The estimation of potential credit losses is inherently uncertain and depends upon many factors, including general economic conditions, changes in individual customers' circumstances, structural changes within industries that alter competitive positions and other external factors such as legal and regulatory requirements.

Impairment is measured for all accounts that are identified as non-performing. All relevant considerations that have a bearing on the expected future cash flows are taken into account which include but not limited to future business prospects for the customer, realizable value of securities, the Group's position relative to other claimants and the existence of any court injunctions placed by the borrower. Subjective judgments are made in this process of cash flow determination both in value and timing and may vary from one person to another and team to team. Judgments may also change with time as new information becomes available.

The Group reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognized in profit or loss. In particular, judgment by the Directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and actual results may differ, resulting in future changes in the allowance.

The Group also makes a collective impairment measurement for exposures which, although not specifically identified as non-performing, have an inherent risk of default. The portfolio constitutes a large number of loan and advances account cutting across various industries. Assets with similar risk characteristics are grouped together for the purpose of determining the collective impairment within the group.

(b) Fair value of financial instruments

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

All financial instruments are initially recognized at fair value, which is normally the transaction price. Subsequent to initial recognition, some of the Group's financial instruments are carried at fair value. The fair values of quoted financial instruments in active markets are based on current prices with no subjective judgments. If the market for a financial instrument does not exist or is not active including 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. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

4.2 Assumptions and estimation uncertainties (continued)

(c) Retirement benefits

The cost of the defined benefit pension plan is determined using actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of these plans, such estimates are subject to significant uncertainty and a change in any of the assumptions will alter the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

In determining the appropriate discount rate, the Bank considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

(d) Property and equipment

Property and equipment is depreciated over its useful life taking into account residual values, where appropriate. The actual lives of the assets and residual values are assessed annually and may vary depending on a number of factors. In reassessing asset lives, factors such as technological innovation, product life cycles and maintenance programs are taken into account which involves extensive subjective judgment. Residual value assessments consider issues such as future market conditions, the remaining life of the asset and projected disposal values. The rates used are set out on accounting policy 2.3(ii).

(e) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax balances and deferred tax provisions in the period in which such determination is made

(f) Share based payments

Equity based payments are recognized as an expense based on the fair value of the options rights as at the reporting date. The fair value of the options is estimated through the use of option valuation models which require inputs such as risk free interest rate, expected dividends, expected volatility and the expected option life and is expensed over the vesting period. These inputs to the model are driven by external market forces and are judgmental in nature and use of different input estimates or models could produce different option values, which would result in the recognition of higher or lower expense.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Accounting classification and fair values

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount						Fair value			
2015 - Group Assets	Held for trading KShs '000	Held to maturity KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Other amortized cost KShs '000	Total carrying amount KShs '000	Level 1 KShs000	Level 2 KShs '000	Level 3 KShs '000	Fair value KShs '000
Financial assets										
Cash and balances with Central Banks	-	-	68,219,267	-	-	68,219,267	-	-	-	-
Due from other banks	-	-	20,286,903	-	-	20,286,903	-	-	-	-
Government securities	805,790	57,844,737	-	37,950,078	-	96,600,605	-	96,600,605	-	96,600,605
Investment in other securities	-	-	-	347,972	-	347,972	-	347,972	-	347,972
Loans and advances to customers	-	-	345,968,686	-	-	345,968,686	-	-	345,968,686	345,968,686
Clearing house	-	-	891,837	-	-	891,837	-	-	-	-
Total financial assets	**805,790**	**57,844,737**	**435,366,693**	**38,298,050**	**-**	**532,315,270**		**96,948,577**	**345,968,686**	**442,917,263**
Liabilities										
Due to other banks	-	-	-	-	23,138,193	23,138,193	-	-	-	-
Deposits from customers	-	-	-	-	424,390,833	424,390,833	-	-	-	-
Long term debt	-	-	-	-	20,129,910	20,129,910	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**467,658,936**	**467,658,936**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Accounting classification and fair values (continued)

	Carrying amount						Fair value			
2015 - Bank Assets	**Held for trading KShs '000**	**Held to maturity KShs '000**	**Loans and receivables KShs '000**	**Available for sale KShs '000**	**Other amortized cost KShs '000**	**Total carrying amount KShs '000**	**Level 1 KShs000**	**Level 2 KShs '000**	**Level 3 KShs '000**	**Fair value KShs '000**
Financial assets										
Cash and balances with Central Banks	-	-	31,418,554	-	-	31,418,554	-	-	-	-
Due from other banks	-	-	9,254,721	-	-	9,254,721	-	-	-	-
Government securities	805,790	43,256,718	-	33,555,985	-	77,618,493	-	77,618,493	-	77,618,493
Investment in other securities	-	-	-	347,972	-	347,972	-	347,972	-	347,972
Loans and advances to customers	-	-	312,079,984	-	-	312,079,984	-	-	312,079,984	312,079,984
Clearing house	-	-	863,095	-	-	863,095	-	-	-	-
Balances due from group companies	-	-	-	-	1,664,080	1,664,080	-	-	-	-
Total financial assets	**805,790**	**43,256,718**	**353,616,354**	**33,903,957**	**-**	**433,246,899**	**-**	**77,966,465**	**312,079,984**	**390,046,449**
Due to other banks								-		
Deposits from customers	-	-	-	-	14,759,625	14,759,625	-	-	-	-
Balances due to group companies	-	-	-	-	347,701,500	347,701,500	-	-	-	-
Long term debt	-	-	-	-	1,366,737	1,366,737	-	-	-	-
Balances due from group companies	**-**	**-**	**-**	**-**	17,555,386	17,555,386	**-**	**-**	**-**	**-**
Total financial liabilities	**-**	**-**	**-**	**-**	**381,383,248**	**381,383,248**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Accounting classification and fair values (Continued)

The tables below show the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Carrying amount						Fair value			
2014 - Group Assets	**Held for trading KShs '000**	**Held to maturity KShs '000**	**Loans and receivables KShs '000**	**Available for sale KShs '000**	**Other amortized cost KShs '000**	**Total carrying amount KShs '000**	**Level 1 KShs '000**	**Level 2 KShs '000**	**Level 3 KShs '000**	**Fair value KShs '000**
Financial assets										
Cash and balances with Central Banks	-	-	71,458,780	-	-	71,458,780	-	-	-	-
Due from other banks	-	-	13,177,999	-	-	13,177,999	-	-	-	-
Government securities	1,115,943	58,888,386	-	36,315,676	-	96,320,005	-	96,320,005	-	96,320,005
Investment in other securities	-	-	-	877,970	-	877,970	-	877,970	-	877,970
Loans and advances to customers	-	-	283,732,205	-	-	283,732,205	-	-	283,732,205	283,732,205
Clearing house	-	-	636,020	-	-	636,020	-	-	-	-
Total financial assets	**1,115,943**	**58,888,386**	**369,005,004**	**37,193,646**	**-**	**466,202,979**	**-**	**97,197,975**	**283,732,205**	**380,930,180**
Liabilities										
Due to other banks	-	-	-	-	14,194,381	14,194,381	-	-	-	-
Deposits from customers	-	-	-	-	377,271,886	377,271,886	-	-	-	-
Bills payable	-	-	-	-	-	-	-	-	-	-
Long term debt	-	-	-	-	12,734,848	12,734,848	-	-	-	-
Total liabilities assets	**-**	**-**	**-**	**-**	**404,201,115**	**404,201,115**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

(a) Accounting classification and fair values (continued)

	Carrying amount						Fair value			
2014 - Group Assets	Held for trading KShs '000	Held to maturity KShs '000	Loans and receivables KShs '000	Available for sale KShs '000	Other amortized cost KShs '000	Total carrying amount KShs '000	Level 1 KShs000	Level 2 KShs '000	Level 3 KShs '000	Fair value KShs '000
Cash and balances with Central Banks	-	-	22,199,607	-	-	22,199,607	-	-	-	-
Due from other banks	-	-	2,577,662	-	-	2,577,662	-	-	-	-
Government securities	1,115,943	36,601,868	-	34,147,776	-	72,730,846	72,730,846	-	-	72,730,846
Investment in other securities	-	-	-	865,259	-	865,259	-	865,259	-	865,259
Loans and advances to customers	-	-	248,823,710	-	-	249,823,710	-	-	248,823,710	249,823,710
Clearing house	-	-	571,605	-	-	571,605	-	-	-	-
Total financial assets	**1,115,943**	**36,601,868**	**274,172,584**	**35,013,035**	**-**	**347,768,689**	**72,730,846**	**865,259**	**248,823,710**	**323,419,815**
Financial liabilities										
Due to other banks	-	-	-	-	8,733,510	8,733,510	-	-	-	-
Deposits from customers	-	-	-	-	276,749,766	276,749,766	-	-	-	-
Bills payable	-	-	-	-	-	-	-	-	-	-
Long term debt	-	-	-	-	11,610,293	11,610,293	-	-	-	-
Total financial liabilities	**-**	**-**	**-**	**-**	**297,093,569**	**297,093,569**	**-**	**-**	**-**	**-**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(a) Accounting classification and fair values (Continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal, or in its absence, the most advantageous market to which the Group has access at that date. The fair value of a liability reflects its non-performance risk.

When applicable, the Group measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When there is no quoted price in an active market, the Group uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The following sets out the Group's basis of establishing fair values of financial instruments:

Investment securities with observable market prices including equity securities are fair valued using that information. Investment securities that do not have observable market data are fair valued either using discounted cash flow method or quoted market prices for securities with similar yield characteristics. The table above includes KShs 348 million (2014: KShs 878 million) of securities in both carrying amount and fair value columns that were measured at cost and for which disclosure at fair value was not provided because their fair value was not considered to be reliably measurable.

Loans and advances to customers are net of allowance for impairment. The estimated fair value of loans and advances represents the discounted amount of future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value. A substantial proportion of loans and advances are on floating rates and re-price within 12 months, hence their fair value approximates their carrying amounts.

The estimated fair value of deposits with no stated maturity is the amount repayable on demand. Estimated fair value of fixed interest bearing deposits without quoted market prices is based on discounting cash flows using the prevailing market rates for debts with a similar maturities and interest rates. A substantial proportion of deposits mature within 12 months and hence the fair value approximates their carrying amounts.

Cash and balances with Central Banks are measured at amortized cost and their fair value approximates their carrying amount.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

(b) Valuation hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

	Level 1	Level 2	Level 3
Fair value determined using;	Unadjusted quoted prices in active markets for identical assets or liabilities;	Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;	Valuation models using significant non-market observable inputs.
Types of financial assets	Actively traded government and other agency securities. Listed derivative instruments. Listed equities.	Corporate and other government bonds and loans. Over-the-counter (OTC) derivatives.	Corporate bonds in illiquid markets. Highly structured OTC derivatives with unobservable parameters.
Types of financial liabilities	Listed derivative instruments.	Over-the-counter (OTC) derivatives.	Highly structured OTC derivatives with unobservable parameters.

The fair value hierarchy of financial assets and liabilities has been disclosed in note 5(a).

6. MANAGEMENT OF CAPITAL

The primary objective of the Bank's capital management is to ensure that the Bank complies with capital requirements and maintains healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Kenya. The Central Bank of Kenya sets and monitors capital requirements for the banking industry 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 analyzed into two tiers:

- Core Capital (Tier 1), which includes ordinary share capital, share premium, retained earnings, after deductions for investments in financial institutions, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Supplementary Capital (Tier 2) which includes the regulatory credit risk reserve.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

6. MANAGEMENT OF CAPITAL (continued)

Various limits are applied to elements of the capital base.

The Bank'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 recognized and the Bank recognizes 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 capital management policies of the group remain consistent with prior year.

The Bank's regulatory capital position at 31 December was as follows:	2015 KShs'000	2014 KShs'000
Core Capital (Tier 1):		
Ordinary share capital	3,025,213	3,025,213
Retained earnings	44,688,621	44,312,490
Share premium	20,135,561	20,135,561
Other Reserves	980,000	-
Less: Investments in financial institutions	(10,910,323)	(9,668,073)
Deferred Tax	(1,815,929)	-
Total Core Capital	**56,103,143**	**57,805,191**
Supplementary Capital (Tier 2):	4,969,281	13,405,197
Total regulatory capital	**61,072,424**	**71,210,388**
Risk weighted assets	**397,490,368**	**338,995,357**
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**15.4%**	**21.0%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**14.1%**	**17.1%**
The minimum capital ratios, as per the Central Bank of Kenya regulations, are as follows:		
Total core capital expressed as a percentage of total risk-weighted assets	**14.5%**	**14.5%**
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**10.5%**	**10.5%**

As at end of the year, the minimum core capital requirement by Central Bank of Kenya was KShs. 1 billion. The Bank was in compliance with all statutory capital requirements as at end of the year.

In addition the bank has an Internal Capital Adequacy Assessment Process (ICAAP) document to guide in determining its capital planning and formulating its risk appetite process. Overall, the purpose of the ICAAP document is to provide an informative description of the methodology and procedures that the Bank uses to assess and mitigate its risks and to make sure that adequate capital is kept to support its risks beyond the core minimum requirements.

It delineates the process through which the Bank assesses the extent to which it holds sufficient capital in order to duly support its business activities. Specifically, through the ICAAP, the Bank assesses its forecast capital supply and demand relative to its regulatory and internal capital targets, under various scenarios. The Bank's capital plan is defined every year during the budgeting and strategic planning exercise while financial year risk appetite limits are set by the Board.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

6. MANAGEMENT OF CAPITAL (continued)

Exposures are monitored on a quarterly basis against those limits and reported to the Board Credit and Risk Committees. Stress testing is a risk management exercise that forms an integral part of the ICAAP. As part of the Bank's ICAAP, forecasts are made over a five-year horizon, taking into account the Basel Pillar I and II stresses.

The ICAAP provides for an assessment of the Pillar I risk types (i.e. credit, operational, market risks) and Pillar II risk types (i.e. concentration of risk, liquidity risk, interest rate risk, strategic risks). These assessments are conducted with a view to understanding the sensitivity of the key assumptions of the capital plan to the realisation of possible stress scenarios and in order to evaluate how the Bank can continue to maintain adequate capital under such scenarios. The overriding aim of the stress testing framework for KCB is to ensure that risk management exercises are firmly embedded in the organisation's overall governance culture. This helps to bolster the observance of regulatory requirements with regard to risk management, while contributing to the competitive positioning of the Bank.

7. SEGMENT REPORTING

Reportable segments

The Group's main business comprises of the following reportable segments:

Retail banking – incorporating banking services such as customer current accounts, savings and fixed deposits to individuals. Retail lending are mainly consumer loans and mortgages based lending.

Corporate banking – incorporating banking services such as current accounts, fixed deposits, overdrafts, loans and other credit facilities both in local and foreign currencies.

Mortgages – incorporating the provision of mortgage finance.

Treasury – operates the Group's funds management activities

Other Group's operations comprise of trade finance and forex business. The Group also participates in investments in Treasury Bills and Bonds from the Central Banks.

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

7. SEGMENT REPORTING (continued)

The table below analyses the breakdown of segmental assets, liabilities, income and expenses;

Income Statement

For the year ended 31 December 2015	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
Interest income	20,271,557	19,768,554	9,353,844	6,923,038	125,507	56,442,500
Interest expense	(9,995,055)	(3,718,867)	(2,579,064)	(268,564)	(586,428)	(17,147,978)
Net interest income	10,276,502	16,049,687	6,774,780	6,654,474	(460,921)	39,294,522
Net fees and commission income	3,359,032	9,556,907	-	150,711	35,701	13,102,351
Other income	161,007	705,774	3,870,524	-	1,892,889	6,630,174
Operating expenses	(5,848,847)	(17,380,311)	(926,817)	(496,461)	(7,837,058)	(32,489,494)
Profit before tax	7,947,694	8,932,057	9,718,487	6,308,724	(6,369,389)	26,537,573
Tax expense	(1,669,991)	(1,876,829)	(2,042,075)	(1,325,607)	-	(6,914,502)
Profit after tax	**6,277,703**	**7,055,228**	**7,676,412**	**4,983,117**	**(6,369,389)**	**19,623,071**
For the year ended 31 December 2014						
Interest income	16,774,995	14,431,457	10,504,085	5,744,252	20,926	47,475,715
Interest expense	(7,594,655)	(2,856,856)	(601,252)	(128,008)	(346,249)	(11,527,020)
Net interest income	9,180,340	11,574,601	9,902,833	5,616,244	(325,323)	35,948,695
Net fees and commission income	4,027,881	7,572,060	5,365	84,893	252,602	11,942,801
Other income	70,798	20,708	4,206,030	-	2,993,576	7,291,112
Operating expenses	(3,440,691)	(12,369,521)	(866,621)	(816,961)	(13,901,385)	(31,395,179)
Profit before tax	9,838,328	6,797,848	13,247,607	4,884,176	(10,980,530)	23,787,429
Tax expense	(1,963,414)	(1,356,632)	(2,643,797)	(974,724)	-	(6,938,567)
Profit after tax	**7,874,913**	**5,441,216**	**10,603,810**	**3,909,453**	**(10,980,530)**	**16,848,862**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

7. SEGMENT REPORTING (continued)

For the year ended 31 December 2015	Corporate banking KShs'000	Retail banking KShs'000	Treasury KShs'000	Mortgages KShs'000	Other KShs'000	Total KShs'000
Short term funds	10,087,345	20,765,204	119,720,583	-	13,251,434	163,824,566
Loans and advances	181,299,497	114,640,428	-	49,366,086	662,675	345,968,686
Other assets	-	-	-	-	48,300,902	48,300,902
Total assets	**191,386,842**	**135,405,632**	**119,720,583**	**49,366,086**	**62,215,011**	**558,094,154**
Customer deposits	211,422,269	199,410,106	13,483,980	7,635	66,844	424,390,833
Borrowed funds	-	-	-	-	20,129,910	20,129,910
Other liabilities	629,964	1,091,335	5,379,245	219,906	24,999,355	32,319,804
Shareholders' funds	-	-	-	-	81,253,607	81,253,607
Total liabilities and shareholders' funds	**212,052,233**	**200,501,441**	**18,863,225**	**227,541**	**126,449,716**	**558,094,154**
As at 31 December 2014						
Short term funds	-	8,457,845	120,124,540	-	53,252,368	181,834,753
Loans and advances	146,419,431	96,275,672	-	41,037,102	-	283,732,205
Other assets	1,097,500	4,902,272	2,235,441	830,466	15,705,687	24,771,366
Total assets	**147,516,931**	**109,635,789**	**122,359,981**	**41,867,568**	**68,958,055**	**490,338,324**
Customer deposits	160,154,833	208,432,546	6,021,524	2,517,748	145,235	377,271,886
Borrowed funds	-	-	-	-	12,734,848	12,734,848
Other liabilities	1,017,372	246,448	12,615,887	13	10,818,313	24,698,033
Shareholders' funds	-	-	-	-	75,633,557	75,633,557
Total liabilities and shareholders' funds	**161,172,205**	**208,678,994**	**18,637,411**	**2,517,761**	**99,331,953**	**490,338,324**

Geographical information

Five of the Group companies, KCB Bank Tanzania Limited, KCB Sudan Limited, KCB Bank Uganda Limited, KCB Bank Rwanda Limited and KCB Bank Burundi Limited operate outside the domestic financial market. The following table analyses the regional segments in which the Group operates.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

7. SEGMENT REPORTING (c ontinued)

Geographical information (continued)

Income Statement Group

For the year ended 31 December 2015	Kenya KShs 000	Tanzania KShs 000	South Sudan KShs 000	Uganda KShs 000	Rwanda KShs 000	Burundi KShs 000	Group Elimination KShs 000	Total KShs 000
Interest income	48,831,722	1,984,599	2,098,340	1,420,594	1,829,322	337,881	**(59,958)**	**56,442,500**
Interest expense	(15,063,236)	(724,889)	(24,322)	(547,264)	(767,745)	(80,480)	**59,958**	**(17,147,978)**
Net interest income	33,768,486	1,259,710	2,074,018	873,330	1,061,577	257,401	-	**39,294,522**
Net fees and commission income	8,167,882	494,990	3,313,055	549,914	478,336	98,174	-	**13,102,351**
Other income	4,601,740	255,063	1,582,332	267,464	296,656	178,947	(552,008)	**6,630,194**
Operating expenses	(22,914,733)	(1,613,871)	(4,768,920)	(1,587,784)	(1,406,219)	(484,882)	286,915	**(32,489,494)**
Profit before tax	23,623,375	395,892	2,200,486	102,924	430,350	49,640	(265,093)	**26,537,573**
Tax	(6,964,666)	(119,958)	(370,406)	58,609	(140,985)	91,627	531,277	**6,914,502**
Profit after tax	**16,658,709**	**275,934**	**1,830,080**	**161,533**	**289,365**	**141,267**	**266,184**	**19,623,071**
For the year ended 31 December 2014								
Interest income	40,896,580	1,619,505	2,139,989	1,289,737	1,312,074	217,830	-	**47,475,715**
Interest expense	(9,684,014)	(691,890)	(114,181)	(437,833)	(561,415)	(37,687)	-	**(11,527,020)**
Net interest income	31,212,566	927,615	2,025,808	851,904	750,659	180,143	-	**35,948,695**
Net fees and commission income	7,971,361	518,972	2,487,744	487,045	390,640	87,039	-	**11,942,801**
Other income	5,943,830	203,518	1,178,807	352,970	229,323	86,666	(704,002)	**7,291,112**
Operating expenses	(22,604,745)	(1,398,798)	(4,264,116)	(1,573,058)	(1,215,516)	(338,946)	-	**(31,395,179)**
Profit before tax	22,523,012	251,307	1,428,243	118,861	155,106	14,902	(704,002)	**23,787,429**
Tax	(6,531,884)	(47,500)	(325,644)	4,162	(45,728)	8,027	-	**(6,938,567)**
Profit after tax	**15,991,128**	**203,807**	**1,102,599**	**123,023**	**109,378**	**22,929**	**(704,002)**	**16,848,862**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

7.7. SEGMENT REPORTING (Continued)

Geographical information (Continued)

Statement of financial position

31 December 2015	Kenya KShs 000	Tanzania KShs 000	South Sudan KShs 000	Uganda KShs 000	Rwanda KShs 000	Burundi KShs 000	Group Elimination KShs 000	Total KShs 000
Cash and short term funds	119,449,293	2,683,735	32,565,364	6,939,144	1,523,175	663,855	-	163,824,566
Loans and advances	312,079,984	12,143,242	1,382,483	7,124,463	12,043,551	1,330,638	(135,675)	345,968,686
Other assets	37,084,596	5,275,362	470,272	6,887,961	5,878,510	2,829,049	(10,124,848)	48,300,902
Total assets	**468,613,873**	**20,102,339**	**34,418,119**	**20,951,568**	**19,445,236**	**4,823,542**	**(10,260,523)**	**558,094,154**
Customer deposits	347,701,500	13,588,654	31,425,031	15,842,264	13,274,976	3,367,961	(809,553)	424,390,833
Borrowed funds	17,555,386	-	-	1,024,633	1,549,891	-	-	20,129,910
Other liabilities	20,468,962	3,559,705	251,297	1,598,838	2,835,100	406,612	3,199,290	32,319,804
Shareholders' funds	82,888,024	2,953,980	2,741,791	2,485,833	1,785,269	1,048,970	(12,650,260)	81,253,607
Total liabilities and shareholders' funds	**468,613,873**	**20,102,339**	**34,418,119**	**20,951,568**	**19,445,236**	**4,823,542**	**(10,260,523)**	**558,094,154**
31 December 2014								
Cash and short term funds	98,227,316	6,320,960	62,128,285	8,418,961	5,842,397	1,616,034	(719,198)	181,834,753
Loans and advances	248,823,710	10,586,000	7,324,578	6,461,366	9,027,464	1,509,087	-	283,732,205
Other assets	30,815,031	657,770	2,330,178	1,074,488	879,681	331,158	(11,316,942)	24,771,366
Total assets	**377,866,057**	**17,564,730**	**71,783,041**	**15,954,815**	**15,749,542**	**3,456,279**	**(12,036,140)**	**490,338,324**
Customer deposits	276,749,766	12,376,580	61,541,028	13,640,326	11,370,102	2,313,283	(719,198)	377,271,887
Borrowed funds	11,610,293	-	-	-	1,124,555	-	-	12,734,848
Other liabilities	15,644,143	2,991,643	3,859,158	155,028	1,794,720	253,342	-	24,698,034
Shareholders' funds	73,861,855	2,196,507	6,382,855	2,159,461	1,460,165	889,654	(11,316,942)	75,633,555
Total liabilities and shareholders' funds	377,866,057	17,564,730	71,783,041	15,954,815	15,749,542	3,456,278	(12,036,140)	490,338,324

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

8. INTEREST INCOME AND EXPENSE

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
INTEREST INCOME				
Interest on loans and advances	46,191,995	36,574,907	41,039,720	31,927,540
Available for sale securities	3,469,081	5,479,888	3,127,761	5,229,235
Held to maturity securities	5,629,824	4,355,179	4,369,517	3,279,915
Held for trading securities	76,911	158,844	76,911	158,844
Interest on impaired loans and advances	604,195	427,186	-	-
Interest on placements and bank balances	470,494	482,412	157,855	290,415
	56,442,500	**47,478,416**	**48,771,764**	**40,885,949**
INTEREST EXPENSE				
Interest on deposits	15,295,887	10,633,005	13,717,423	9,019,457
Interest on borrowed funds	1,852,091	894,015	1,345,813	678,345
	17,147,978	11,527,020	15,063,236	9,697,802
NET INTEREST INCOME	**39,294,522**	**35,951,396**	**33,708,528**	**31,188,147**

9. FEES AND COMMISSIONS INCOME

Retail and corporate fee income	5,278,434	4,472,773	4,457,555	4,097,352
Commission income	8,793,785	8,103,867	4,317,015	4,243,935
Custodian fee income	87,770	162,577	87,770	162,577
	14,159,989	12,739,217	8,862,340	8,503,864
Commission expense	(1,057,638)	(796,416)	(1,073,383)	(785,106)
	13,102,351	**11,942,801**	**7,788,957**	**7,718,758**

10. FOREIGN EXCHANGE GAINS

Foreign currency dealings	3,587,684	3,446,211	1,787,681	1,701,938
Translation gains	479,782	703,691	415,011	490,299
	4,067,466	**4,149,902**	**2,202,692**	**2,192,237**

11. NET INCOME FROM FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE THROUGH PROFIT OR LOSS

Treasury bonds	(58,567)	(2,701)	(58,567)	(2,701)
	(58,567)	**(2,701)**	**(58,567)**	**(2,701)**

12. DIVIDEND INCOME

Available for sale investments	1,112	103	553,120	704,105
	1,112	**103**	**553,120**	**704,105**

13. OTHER OPERATING INCOME

Rent income	184,561	182,808	166,133	168,371
Profit on disposal of property and equipment	(45,699)	11,560	(45,840)	12,669
Miscellaneous income	2,481,321	2,947,892	1,765,751	2,852,011
	2,620,183	**3,142,260**	**1,886,044**	**3,033,051**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

	GROUP 2015 KShs000	GROUP 2014 KShs000	BANK 2015 KShs000	BANK 2014 KShs000
14. NET IMPAIRMENT				
Losses on financial assets				
Additional specific allowance (Note 27(b))	3,904,161	6,597,231	1,507,771	4,460,320
Additional/(reversal) collective allowance (Note 27(c))	809,646	(1,512,938)	691,331	(1,446,569)
Bad debts recovered during the year(Note 27(b)	(2,535,108)	(1,995,700)	(1,543,431)	(1,757,712)
	2,178,699	**3,088,593**	**655,671**	**1,256,039**
15. EMPLOYEE BENEFITS				
Salaries and wages	11,533,036	10,806,235	9,071,425	8,662,021
Staff bonus costs	1,463,272	1,571,180	1,300,000	1,400,000
Medical expenses	708,321	628,693	586,644	531,486
Pension costs – Defined benefit scheme	231,262	112,485	68,156	67,550
Pension costs - Defined contribution scheme	412,528	411,740	374,778	276,249
Social security contributions	145,515	167,639	28,500	38,003
Restructuring costs	41,476	41,258	41,476	41,258
Other	775,488	254,215	636,381	216,068
	15,310,898	**13,993,445**	**12,107,360**	**11,232,635**

The number of employees of the Group as at 31 December 2015 was 7,415 (31 December 2014 – 7,084).

	GROUP 2015 KShs000	GROUP 2014 KShs000	BANK 2015 KShs000	BANK 2014 KShs000
16. DEPRECIATION AND AMORTIZATION				
Depreciation of property and equipment (Note 29)	1,911,819	1,885,066	1,180,946	1,240,498
Amortization of intangible assets (Note 30)	521,097	500,344	484,598	430,485
Amortization of prepaid operating lease rentals (Note 31)	2,532	2,532	2,497	2,496
	2,435,448	**2,387,942**	**1,668,041**	**1,673,479**
17. OTHER OPERATING EXPENSES				
Advertising costs	568,167	918,329	455,707	765,103
Software license renewal fees	607,358	656,341	545,920	522,586
Computer hardware maintenance	334,355	419,056	288,265	390,464
Guard services	689,095	696,485	563,177	543,355
Depositor's protection fund premiums	415,699	398,628	392,260	350,077
Staff development cost	265,511	299,938	222,281	259,790
Corporate social responsibility	244,706	219,014	237,864	201,835
Business stationery expenses	319,155	287,924	218,809	210,513
Staff travelling expenses	542,941	551,359	325,461	300,784
Communication expenses	477,536	536,334	311,593	348,083
Consultancy services	283,604	343,299	271,672	323,934
Other administrative expenses	7,816,322	6,599,645	4,367,395	4,093,165
	12,564,449	**11,926,352**	**8,205,086**	**8,309,689**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

18. PROFIT BEFORE INCOME TAX

	GROUP		BANK	
	2015 KShs 000	2014 KShs 000	2015 KShs 000	2014 KShs 000
Profit before tax is arrived at after charging/ (crediting):				
Depreciation	1,911,819	1,885,066	1,180,946	1,240,770
Amortization of intangible assets	521,097	500,344	484,598	430,485
Directors' emoluments:-Fees	110,209	141,451	34,543	42,098
-Others	152,561	155,512	95,430	90,942
Auditors remuneration	39,140	34,800	16,330	15,120
Amortization of prepaid lease rentals	2,532	2,532	2,497	2,496
Net profit on sale of property and equipment	45,480	11,560	45,699	12,669
Loss on disposal of intangible assets	-	(50)	-	(50)

19. INCOME TAX

	GROUP		BANK	
(a) Income statement	2015 KShs 000	2014 KShs 000	2015 KShs 000	2014 KShs 000
Current tax	7,701,260	6,952,974	7,386,407	6,489,465
Prior year overprovision	-	24,579	-	24,579
Deferred tax charge/(credit) (note 33)	(786,758)	(82,943)	(441,198)	(45,056)
Prior year overprovision	-	43,957	-	13,789
	6,914,502	**6,938,567**	**6,945,209**	**6,482,777**
Accounting profit before tax	**26,537,573**	**23,787,429**	**23,444,616**	**22,361,755**
Tax calculated using applicable tax rates based on respective Income Tax Laws	7,961,272	6,907,543	7,033,385	6,708,527
Prior year overprovision	-	68,536	-	38,368
Effects of non-allowable expenses	327,657	238,296	289,845	204,556
Effects of non-taxable income	(1,374,427)	(275,808)	(378,021)	(468,674)
	6,914,502	**6,938,567**	**6,945,209**	**6,482,777**
(b) Statement of financial position				
At 1 January	51,355	560,643	137,516	679,218
Tax paid during the year	7,497,131	6,468,265	7,000,896	5,972,342
Tax charge for the year	(7,701,260)	(6,977,553)	(7,386,407)	(6,514,044)
At 31 December	**(152,774)**	**51,355**	**(247,995)**	**137,516**
Comprising:				
Tax recoverable	161,406	183,283	(247,995)	137,516
Tax payable	(314,180)	(131,928)	-	-
	(152,774)	**51,355**	**(247,995)**	**137,516**

The Group neither has a potential tax liability out of payment of dividends nor material tax cases pending resolution with taxation authorities.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

20. EARNINGS PER SHARE

Basic and diluted earnings per share is calculated on the profit attributable to ordinary shareholders of KShs 19,623 million (2014: 16,848 million) and on the weighted average number of ordinary shares during the year of 3,025 million (2014: 3,025 million shares).

	GROUP		BANK	
	2015 KShs	2014 KShs	2015 KShs	2014 KShs
Basic and diluted earnings per share	6.49	5.63	5.45	5.30

21. CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Cash on hand	11,964,522	33,275,231	7,456,227	8,219,247
Balances with Central Banks:				
Cash reserve ratio	23,353,915	18,343,314	17,514,005	13,980,360
Other current accounts	32,900,830	19,840,235	6,448,322	-
	68,219,267	**71,458,780**	**31,418,554**	**22,199,607**

Cash held with Central Banks represent cash ratio and other non-interest earning current accounts and is based on the value of deposits as adjusted for Central Banks' requirements. Mandatory cash reserve ratio is not available for use in the Group's day-to-day operations.

22. LOANS AND ADVANCES TO BANKS

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Balances in nostro accounts*	4,034,831	6,433,178	3,171,300	2,577,662
Placements with other banks	16,252,072	6,744,821	6,083,421	-
	20,286,903	**13,177,999**	**9,254,721**	**2,577,662**

The Group participates in the inter-bank market for the generation of revenue. Regularly, the counterparties are assessed for creditworthiness in line with the Group credit policies. The weighted average effective interest rate on balances due from other banks at 31 December 2015 was 7.8% (2014 – 7.9%).

*Nostro accounts are accounts held in other banks in a foreign country.

23. FINANCIAL ASSETS HELD FOR TRADING

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Treasury bonds	805,790	1,115,943	805,790	1,115,943

Treasury bonds are debt securities issued by the Government of the Republic of Kenya and acquired by the bank for the generation of revenue from short term fluctuations in interest rates. The weighted average effective interest rates on treasury bonds as at 31 December 2015 was 11.9% (31 December 2014 – 10%)

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

24. FINANCIAL ASSETS AVAILABLE FOR SALE

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Quoted investments	43,431	18,691	43,431	18,691
Unquoted equity investments	33,311	64,549	33,311	64,549
Corporate bonds	271,230	782,019	271,230	782,019
Treasury bonds	37,950,078	36,328,387	33,555,985	34,147,776
	38,298,050	**37,193,646**	**33,903,957**	**35,013,035**

25. CLEARING HOUSE

	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Un-cleared effects	**891,837**	**636,020**	**863,095**	**571,065**

The clearing house balance consists of items in transit to/from other banks through the Central Banks of various countries' clearing system. These items generally clear by end of the next business day.

26. OTHER ASSETS AND PREPAYMENTS

Other receivables	4,626,077	5,432,828	5,177,348	4,689,730
Prepayments	5,539,736	3,772,199	5,178,068	3,241,635
	10,165,813	**9,205,027**	**10,355,416**	**7,931,365**

Other receivables are current and non-interest bearing and are generally between 30 to 90 days terms.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

27. LOANS AND ADVANCES TO CUSTOMERS

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
(a) Loans and advances to customers				
Gross loans and advances to customers	355,686,706	294,116,941	319,738,158	256,231,979
Specific allowances for impairment(Note 27(b))	(8,051,828)	(9,528,190)	(6,293,700)	(6,735,126)
Collective allowances for impairment (Note 27(c))	(1,666,192)	(856,546)	(1,364,474)	(673,143)
	345,968,686	**283,732,205**	**312,079,984**	**248,823,710**
(b) Specific allowance for impairment loss				
At 1 January	9,528,190	6,518,740	6,735,126	4,970,039
Allowance made during the year (Note 14)	3,904,161	6,597,231	1,507,771	4,460,320
Allowance recovered/un required during the year (Note 14)	(2,535,108)	(1,995,700)	(1,543,431)	(1,757,712)
Write downs/write offs during the year	(2,845,415)	(1,592,081)	(405,766)	(937,521)
At 31 December	**8,051,828**	**9,528,190**	**6,293,700**	**6,735,126**
(c) Collective allowance for impairment loss				
At 1 January	856,546	2,369,484	673,143	2,119,712
Allowance made during the year (Note 14)	809,646	(1,512,938)	691,331	(1,446,569)
At 31 December	**1,666,192**	**856,546**	**1,364,474**	**673,143**
(d) Maturity analysis of gross loans and advances to customers:				
Maturing within 1 month	56,045,106	43,634,881	51,765,473	39,573,225
Maturing after 1 month but before 3 months	16,584,524	21,684,140	13,868,704	19,513,795
Maturing after 3 months, but within 1 year	41,173,195	19,227,101	36,523,516	14,649,335
Maturing after 1 year, but within 5 years	114,401,656	98,620,995	101,463,041	81,926,520
Maturing after 5 years	127,482,225	110,949,824	116,117,424	100,569,104
	355,686,706	**294,116,941**	**319,738,158**	**256,231,979**
(e) Sectorial analysis of gross loans and advances to customers:				
Private sector and individuals	286,556,576	228,433,929	250,912,285	190,548,967
Government and parastatals	69,130,130	65,683,012	68,825,873	65,683,012
	355,686,706	**294,116,941**	**319,738,158**	**256,231,979**

The weighted average effective interest rate on loans and advances as at 31 December 2015 was 17.5% (2014: 16.5%).

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

	GROUP		BANK	
28. FINANCIAL ASSETS HELD TO MATURITY	**2015 KShs'000**	**2014 KShs'000**	**2015 KShs'000**	**2014 KShs'000**
(a) Treasury bills				
Maturing within 1 month	1,499,844	584,766	500,000	-
Maturing between 1-3 months	199,468	1,761,811	-	-
Maturing between 3-6 months	3,365,297	18,101,831	-	-
Maturing between 6-12 months	7,339,486	667,442	-	-
	12,404,095	21,115,850	500,000	-
(b) Treasury bonds				
Maturing within 1 month	-	-	-	-
Maturing between 1 and 3 months	570,000	1,146,216	570,000	900,000
Maturing between 3 and 6 months	185,233	3,620,355	-	3,300,000
Maturing between 6 and 12 months	13,085,036	755,007	12,850,000	600,000
Maturing between 1and 5 years	19,841,615	16,815,090	18,007,700	16,366,000
Maturing after 5 years	11,758,758	15,435,868	11,329,018	15,435,868
	45,440,642	37,772,536	42,756,718	36,601,868
TOTAL INVESTMENT IN GOVERNMENT SECURITIES	**57,844,737**	**58,888,386**	**43,256,718**	**36,601,868**

Maturing as follows:-				
Maturing within 1 month	1,499,844	584,766	500,000	-
Maturing between 1-3 months	769,468	2,908,027	570,000	900,000
Maturing between 3-12 months	23,975,052	23,144,635	12,850,000	3,900,000
Maturing between 1-5 years	19,841,615	16,815,090	18,007,700	16,366,000
Maturing after 5 years	11,758,758	15,435,868	11,329,018	15,435,868
	57,844,737	**58,888,386**	**43,256,718**	**36,601,868**

Treasury bills and bonds are debt securities issued by the Government of the Republic of Kenya, Government of Uganda, Government of the Republic of Rwanda, United Republic of Tanzania, Government of the Republic of Burundi and the Republic of South Sudan. The bills and bonds are categorized as amounts held to maturity and carried at amortized cost.
The weighted average effective interest rates on Government securities as at 31 December 2015 was 10.6% (31 December 2014 – 10.2%).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

29. PROPERTY AND EQUIPMENT

(a) GROUP

As at 31 December 2015:

COST:	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
At 1 January 2015	1,802,312	3,681,792	14,924,390	20,408,494
Additions	3,330	212,578	3,048,449	3,264,357
Disposals	(3,115)	-	(796,285)	(799,400)
Translations	-	(1,761,643)	(935,918)	(2,697,561)
At 31 December 2015	1,802,527	2,132,727	16,240,636	20,175,890
DEPRECIATION				
At 1 January 2015	319,642	1,557,050	9,693,728	11,570,420
Charge for the year	17,321	353,933	1,540,565	1,911,819
Disposals	(3,115)	-	(763,447)	(766,562)
Translations	-	(886,856)	(680,855)	(1,567,711)
At 31 December 2014	333,848	1,024,127	9,789,991	11,147,966
CARRYING AMOUNT				
At 31 December 2015	**1,468,679**	**1,108,600**	**6,450,645**	**9,027,924**

(a) GROUP

As at 31 December 2014:

COST:	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
At 1 January 2014	1,809,987	3,325,755	13,983,268	19,119,010
Additions	-	373,532	1,909,733	2,283,265
Disposals	(7,675)	(17,495)	(968,611)	(993,781)
At 31 December 2014	1,802,312	3,681,792	14,924,390	20,408,494
DEPRECIATION				
At 1 January 2014	306,569	1,248,494	9,079,111	10,634,174
Charge for the year	17,200	308,556	1,559,310	1,885,066
Disposals	(4,127)	-	(944,693)	(948,820)
At 31 December 2014	319,642	1,557,050	9,693,728	11,570,420
CARRYING AMOUNT				
At 31 December 2014	**1,482,670**	**2,124,742**	**5,230,662**	**8,838,074**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

29. PROPERTY AND EQUIPMENT (continued)

(b) BANK As at 31 December 2015: COST:	Freehold and leasehold premises KShs'000	Leasehold Improvements KShs'000	Motor vehicle, furniture and Equipment KShs'000	Total KShs'000
At 1 January 2015	1,743,493	77,308	12,008,361	13,829,162
Additions	569	-	2,974,085	2,974,654
Disposals	(3,115)	-	(792,751)	(795,866)
At 31 December 2015	1,740,947	77,308	14,189,695	16,007,950
DEPRECIATION				
At 1 January 2015	301,902	77,308	8,150,279	8,529,489
Charge for the year	16,293	-	1,164,653	1,180,946
Disposals	(3,115)	-	(745,262)	(748,377)
At 31 December 2015	315,080	77,308	8,569,670	8,962,058
CARRYING AMOUNT				
At 31 December 2015	**1,425,867**	**-**	**5,620,025**	**7,045,892**

As at 31 December 2014: COST:	Freehold and leasehold premises KShs'000	Leasehold improvements KShs'000	Motor vehicles, furniture and equipment KShs'000	Total KShs'000
At 1 January 2014	1,751,168	77,308	11,809,768	13,638,244
Additions	-	-	1,166,377	1,166,377
Disposals	(7,675)	-	(967,784)	(975,459)
At 31 December 2014	1,743,493	77,308	12,008,361	13,829,162
DEPRECIATION				
At 1 January 2014	289,613	77,308	7,907,890	8,274,811
Charge for the year	16,417	-	1,224,081	1,240,498
Disposals	(4,128)	-	(981,692)	(985,820)
At 31 December 2014	301,902	77,308	8,150,279	8,529,489
CARRYING AMOUNT				
At 31 December 2014	**1,441,591**	**-**	**3,858,082**	**5,299,673**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

30. INTANGIBLE ASSETS

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
COST				
At 1 January	4,192,332	4,131,495	3,977,241	4,019,021
Additions	574,411	471,429	545,845	330,579
Disposals	-	(410,592)	-	(372,359)
Translations	(6,007)	-	-	-
At 31 December	4,760,736	4,192,332	4,523,086	3,977,241
AMORTISATION				
At 1 January	2,818,117	2,728,315	2,742,932	2,684,756
Amortization for the year	521,097	500,344	484,598	430,485
Disposals	-	(410,542)	-	(372,309)
Translations	(6,335)	-	-	-
At 31 December	3,332,879	2,818,117	3,227,530	2,742,932
CARRYING AMOUNT				
At 31 December	**1,427,857**	**1,374,215**	**1,295,556**	**1,234,309**

The intangible assets are in respect of computer software purchase costs.

31. PREPAID OPERATING LEASE

	GROUP		BANK	
RENTALS	2015	2014	2015	2014
COST	KShs'000	KShs'000	KShs'000	KShs'000
At 1 January	223,035	223,035	219,575	219,575
Disposal	-	-	-	-
At 31 December	223,035	223,035	219,575	219,575
AMORTISATION				
At 1 January	83,925	81,393	82,575	80,079
Charge for the year	2,532	2,532	2,497	2,496
At 31 December	86,457	83,925	85,072	82,575
CARRYING AMOUNT				
At 31 December	**136,578**	**139,110**	**134,503**	**137,000**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES

Investments in subsidiaries: Incorporated in Kenya: Company	Activity	Beneficial ownership %	2015 KShs'000	2014 KShs'000
Kenya Commercial Finance Co. Ltd	Dormant	100	150,000	150,000
KCB Capital	Investment	100	400,000	250,000
Savings & Loan Kenya Ltd	Dormant	100	500,000	500,000
KCB Foundation	Corporate Social Responsibility	100	-	-
Kenya Commercial Bank Nominees Ltd	Nominee Shareholders	100	-	-
Kencom House Ltd	Property Ownership & Management	100	748,645	748,645
KCB Insurance Agency Ltd	Insurance Brokerage	100	100	100
Incorporated outside Kenya:				
KCB Bank Tanzania Limited	Commercial Banking	100	3,026,835	2,245,585
KCB Bank South Sudan Limited	Commercial Banking	100	1,919,400	1,919,400
KCB Bank Rwanda Limited	Commercial Banking	100	1,882,584	1,882,584
KCB Bank Burundi Limited	Commercial Banking	100	936,517	936,517
KCB Bank Uganda Limited	Commercial banking	100	3,144,986	2,683,986
Investment in associates:				
United Finance Ltd	Dormant	45	125	125
			12,709,192	**11,316,942**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

32. INVESTMENT IN SUBSIDIARIES AND ASSOCIATED COMPANIES (continued)

Movement in investment in subsidiaries	2015 KShs'000	2014 KShs'000
Balance at 1 January	11,316,942	9,827,517
Additional investment in KCB Bank Uganda Limited	461,000	210,000
Additional investment in KCB Bank Tanzania Limited	781,250	-
Additional investment in KCB Sudan Limited	-	893,751
Additional investment in KCB Bank Rwanda Limited	-	135,674
Additional investment in KCB Capital Limited	150,000	250,000
Total additional investment in subsidiaries	1,392,250	1,489,425
Balance at 31 December	**12,709,192**	**11,316,942**

The significant risks for the various subsidiaries have been documented in Note 3.

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of banking subsidiaries' assets and liabilities are KShs 99,741 million and KShs 88,725 million respectively (2014: KShs 124,509 million and KShs 111,420 million respectively).

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

33. DEFERRED TAX

a) Deferred TaxAsset	GROUP 2015 KShs'000	GROUP 2014 KShs'000	BANK 2015 KShs'000	BANK 2014 KShs'000
At 1 January	**2,560,636**	**2,445,334**	**2,174,706**	**2,027,503**
Credit for the year	786,758	82,943	441,197	45,056
Over provision previous year	-	(43,957)	-	(13,789)
Retirement Benefit Scheme – through Equity	327,600	76,200	327,600	76,200
AFS Reserve – through Equity	443,170	39,736	396,948	39,736
Translation difference	(138,815)	(39,620)	-	-
At 31 December	**3,779,263**	**2,560,636**	**3,340,452**	**2,174,706**
The net deferred tax asset is attributable to the following items:				
Depreciation over tax allowances	181,570	62,860	333,197	255,542
Provisions	2,889,059	2,597,963	2,794,371	2,430,828
Retirement Benefit Scheme - remeasurement	(223,800)	(551,400)	(223,800)	(551,400)
AFS fair value movement	506,684	8,167	436,684	39,736
Tax losses carried forward	425,750	443,046	-	-
	3,779,263	**2,560,636**	**3,340,452**	**2,174,706**
Comprising:				
Deferred tax asset	3,879,306	2,560,636	3,340,452	2,174,706
Deferred tax liability	(100,043)	-	-	-
	3,779,263	**2,560,636**	**3,340,452**	**2,174,706**

Recognition of deferred tax asset of KShs 3,879 million (2014: KShs 2,561 million) is based on management's profit forecasts (which are based on the available evidence, including historical levels of profitability), which indicates that it is probable that the group's entities will have future taxable profits against which these assets can be used.

34. DEPOSITS FROM BANKS

	GROUP 2015 KShs'000	GROUP 2014 KShs'000	BANK 2015 KShs'000	BANK 2014 KShs'000
Deposits and balances from other banks	**23,138,193**	**14,295,619**	**14,759,625**	**8,733,510**
Payable within 1 month	19,133,905	3,972,972	12,459,414	-
Payable after 1 month, but within 3 months	2,483,045	10,322,647	1,678,878	8,733,510
Payable after 3 months, but within 1 year	1,521,243	-	621,333	-
	23,138,193	**14,295,619**	**14,759,625**	**8,733,510**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

35. DEPOSITS FROM CUSTOMERS

(a) From government and parastatals:				
Payable within 1 month	80,644,677	39,789,890	56,500,093	39,681,688
Payable after 1 month, but within 3 months	26,854,499	13,516,012	18,602,015	13,422,398
Payable after 3 months, but within 1 year	20,697,157	11,943,147	20,689,371	11,878,895
Payable after 1 year, but within 5 years	22,505	700,031	22,505	700,031
	128,218,838	**65,949,080**	**95,813,984**	**65,683,012**
(b) From private sector and individuals:				
Payable within 1 month	178,301,739	223,185,437	149,109,585	143,017,249
Payable after 1 month, but within 3 months	46,775,235	40,369,337	39,780,006	35,740,107
Payable after 3 months, but within 1 year	61,431,328	41,739,475	53,632,124	31,895,167
Payable after 1 year, but within 5 years	9,663,693	6,028,557	9,365,801	414,231
	296,171,995	**311,322,806**	**251,887,516**	**211,066,754**
Total other customer deposits	**424,390,833**	**377,271,886**	**347,701,500**	**276,749,766**
Maturing as follows:				
Payable within 1 month	258,946,416	262,975,327	205,609,678	182,698,937
Payable after 1 month but within 3 months	73,629,734	53,885,349	58,382,021	49,162,505
Payable after 3 months but within 1 year	82,128,485	53,682,622	74,321,495	43,774,062
Payable after 1 year but within 5 years	9,686,198	6,728,588	9,388,306	1,114,262
	424,390,833	**377,271,886**	**347,701,500**	**276,749,766**

The weighted average effective interest rates on interest bearing customer deposits as at 31 December 2015 was 4.0% (31 December 2014 – 4.1%)

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

36. BILLS PAYABLE

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Bills payable	**1,527,209**	**1,548,979**	**1,450,514**	**1,468,272**

Bills payable consist of cheques issued by the bank to customers and suppliers that were not presented for payment at the end of the year.

37. OTHER LIABILITIES

Accruals	2,099,292	3,549,789	2,926,881	3,170,356
Other payables	5,140,887	5,171,718	2,213,314	1,409,789
	7,240,179	**8,721,507**	**5,140,195**	**4,580,145**

38. RELATED PARTY TRANSACTIONS

A number of transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the end of the year and the related expenses and income for the year are as follows:

a) Balances due from group companies	2015 KShs'000	2014 KShs'000
KCB Nominees Limited	-	239
KCB Bank Tanzania Limited	372,185	1,014,065
KCB Bank Burundi Limited	138,106	27,124
KCB Insurance Agency Limited	95,847	6,546
KCB Ethiopia Limited	11,578	-
KCB Bank Rwanda Limited	122,432	100,457
KCB Bank South Sudan Limited	923,932	-
KCB Capital Limited	-	57,492
KCB Bank Uganda Limited	-	188,850
	1,664,080	**1,394,773**

b) Balances due to group companies		
Savings and Loan Kenya Limited	499,766	499,766
Kencom House Limited	433,330	444,511
Kenya Commercial Finance Company Limited	115,069	115,069
KCB Bank Uganda Limited	85,891	-
KCB South Sudan Limited	-	1,995,503
	1,366,737	**3,054,849**
Net balances due to group companies	**297,343**	**(1,660,076)**

Balances due from and due to group companies are non-interest bearing, are current and are generally on 30-90 day term. The balances relate to transactions entered into with the subsidiary companies at arm's length in the ordinary course of business.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

38. RELATED PARTY TRANSACTIONS (continued)

c) Shareholders, Directors and key management personnel

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
i) Loans				
Government of Kenya	495,213	319,483	495,213	319,483
Directors	87,945	104,335	56,773	55,897
Senior management	346,624	322,417	254,624	244,593
	929,782	**746,235**	**806,610**	**619,973**
Movement in loans to Directors and senior management				
At 1 January	426,752	303,176	300,450	265,852
Loans issued during the year	140,234	217,560	113,508	104,779
Loans repayments during the year	(132,417)	(93,984)	(102,601)	(70,181)
At 31 December	**434,569**	**426,572**	**311,357**	**300,450**
Interest income earned	**57,061**	**68,111**	**20,833**	**11,518**
ii) Deposits				
Government of Kenya	55,074,306	41,283,192	55,074,306	41,283,192
Directors	47,986	37,887	43,967	20,017
Senior management	37,297	52,981	37,297	33,308
At 31 December	**55,159,589**	**41,374,060**	**55,155,570**	**41,336,517**
Movement in deposits by Directors and senior management				
At 1 January	90,868	130,503	53,325	114,516
Deposits received during the year	915,997	601,454	876,677	562,027
Deposits withdrawn during the year	(921,582)	(641,089)	(848,738)	(623,218)
At 31 December	**85,283**	**90,868**	**81,264**	**53,325**
Interest expense	**5,853**	**814**	**5,279**	**313**

Interest rates charged on balances outstanding from related parties are approximately half of the rates that would be charged in an arm's length transaction. The interest charged on balances outstanding from related parties amounted to KShs 57,061,000 (2014: KShs 68,111,000). The interest paid on balances outstanding to related parties amounted to KShs 5,853,000 (2014: 814,000). The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel and no specific allowance has been made for impairment losses on balances with key management personnel at the reporting date.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

38. RELATED PARTY TRANSACTIONS (Continued)

iii) Senior management personnel compensation (Included under personnel costs - Note 16)

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Short term employee benefits	506,221	506,221	375,345	375,345

39. BORROWINGS

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Maturing within one year	8,144,927	3,116,995	7,831,495	1,992,440
Maturing after one year, but within five years	11,984,983	9,617,853	9,723,891	9,617,853
	20,129,910	12,734,848	17,555,386	11,610,293

Reconciliation of the movement in the long term debt

Group	2015 KShs'000	2014 KShs'000
At 1 January	12,734,848	7,719,647
Funds received - International Finance Corporation	1,587,683	3,456,000
Funds received - Ghana International Bank	-	2,595,000
Funds received - Standard Chartered Plc	10,230,000	-
Funds received EIB - Rwanda	-	572,244
Payments on principal and interest	(5,921,332)	(2,048,997)
Translation differences	1,498,711	440,954
Net movement in borrowings	7,395,062	5,015,201
At 31 December	**20,129,910**	**12,734,848**

Bank		
At 1 January	11,610,293	7,073,182
Funds received - International Finance Corporation	-	3,456,000
Funds received - Standard Chartered Plc	10,230,000	-
Funds received - Ghana International Bank	-	2,595,000
Payments on principal and interest	(5,762,504)	(1,954,342)
Translation differences	1,477,597	440,453
Net movement in borrowings	5,945,093	4,537,111
At 31 December	**17,555,386**	**11,610,293**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

39. LONG TERM DEBT (Continued)

The long term debt includes:-

(a) A 7 year loan obtained from International Finance Corporation (IFC) in 2011 of USD 100 million by KCB Bank Kenya at interest terms of Libor+2.25 p.a.%.
(b) A 6 year loan obtained from International Finance Corporation in 2015 of USD 40 million by KCB Bank Kenya at interest terms of Libor +3.5 p.a.%.
(c) A 3 year loan obtained from Ghana International Bank of USD 30 million in 2015 by KCB Bank Kenya at interest terms of Libor+ 3.5 p.a.%
(d) A 2 year loan obtained from Standard Chartered PLC of USD 100 million in 2016 by KCB Bank Kenya at interest terms of Libor +2.5p.a.%
(e) A 5 year loan obtained from National Bank of Rwanda (BNR) of RWF 1.03bn by KCB Bank Rwanda, it's effective interest rate is 10.5 p.a.%
(f) A six year loan obtained by KCB Bank Rwanda in 2012 from IFC of RWF 2,200,700,000, it's effective interest rate is 5.4 p.a.%
(g) A 5 year loan of RWF 4,412 million obtained by KCB Bank Rwanda from European Investment Bank , it's effective interest rate is 8.04 p.a.%
(h) A 5 year loan obtained from International Finance Corporation by KCB Bank Uganda in 2015 of USD 10 million at interest terms of Libor +3.5 p.a. %.

40. SHARE CAPITAL

(a) Share capital

	GROUP AND BANK	
	2015 KShs'000	2014 KShs'000
Authorised:		
3,500,000,000 (2014: 3,500,000,000) ordinary shares of KShs 1 each	3,500,000	3,500,000
Issued and fully paid:		
3,025,212,992 (2014: 3,025,212,992) ordinary shares of KShs 1 each	3,025,213	3,025,213

(b) Employee Share Option Plan

The bank had an Employee Share Option plan which offered shares to the employees at a price lower than the market. During the year ended 31 December 2014, this plan was however suspended pending amendments to the vesting conditions and operations of the plan.

	Weighted average exercise price 2014	Number of options 2014
Outstanding at 1 January	21.46	49,098,300
Granted during the period	-	-
Forfeited during the period	20.65	8,113,000
Exercised during the period	20.65	40,985,300
Expired during the year	-	-
Outstanding at 31 December	-	-
Exercisable as at 31 December	-	-

There were no options outstanding as at 31 December 2015 and 31 December 2014, and therefore no expenses were recognized in the profit or loss during the year.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

40. SHARE CAPITAL (continued)

(c) Shareholding

The top ten largest shareholders of the Bank as at 31 December 2015 were:

Shareholder	No. of Shares	%
Permanent Secretary to the Treasury of Kenya	523,600,000	17.31
National Social Security Fund	185,570,067	6.13
CFC Stanbic Nominees Ltd A/c NR 3530153-1	60,000,000	1.98
Standard Chartered Nominees Non Resident A/C 9867	57,298,600	1.89
Standard Chartered Nominee A/c KE 17682	54,793,014	1.81
Standard Chartered Nominee A/c KE 18972	48,228,215	1.59
Kanaksinh Karsandas Babla & Sandip Kana Sinh Babla	47,000,000	1.55
Standard Chartered Nominees A/C Non Resident A/C 9069	46,242,321	1.53
Standard Chartered Nominees Ltd A/c 9688	45,788,323	1.51
Standard Chartered Kenya Nominees Ltd, A/C KE18965	38,971,800	1.29
Total shares	**1,107,492,340**	**36.59**

The distribution of shareholders as at 31 December 2015 was as follows:

Share range	No. of shareholders	Shares held	%
1 to 5000	123,539	203,441,232	6.73
5,001-50,000	26,443	276,351,236	9.13
50,001-100,000	760	52,764,209	1.74
100,001-1,000,000	849	246,489,588	8.15
1,000,001-10,000,000	225	673,468,360	22.26
10,000,001 and above	36	1,572,705,207	51.99
	151,852	**3,025,219,832**	**100.00**

41. RESERVES

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Retained earnings	56,230,176	46,340,047	50,216,861	43,807,304
Share premium	20,135,561	20,135,561	20,135,561	20,135,561
Statutory credit risk reserve	8,947,452	5,264,936	8,044,803	4,005,379
Other reserves:				
- Available-for-sale reserve	(1,126,781)	(92,718)	(1,058,680)	(92,718)
- Re-measurement of defined pension fund	522,200	1,286,600	522,200	1,286,600
- Translation reserve	(6,480,214)	(326,082)	-	-
	(7,084,795)	867,800	(536,480)	1,193,882
	78,228,394	**72,608,344**	**77,860,745**	**69,142,126**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

41. RESERVES (continued)

The *share premium* arises from issue of shares at a price higher than the par value of the shares. This amount is not available for distribution.

The *available-for-sale* reserve arises from marking to market of investment securities classified under available-for-sale category. The reserves are recognized in income statement once the underlying asset has been derecognized. This amount is not available for distribution.

Statutory credit risk reserve represents an amount set aside to cover additional provision for loan losses required to comply with the requirements of Central Banks Prudential guidelines. This amount is not available for distribution.

The *translation reserve* arises from translation of the net investment in foreign subsidiaries to Kenya Shillings. This amount is not available for distribution.

42. DIVIDEND PER SHARE

Dividends are recognized as a liability in the period in which they are declared. At the Annual General Meeting to be held on 29 April 2016, a final dividend in respect of the year ended 31 December 2015 of KShs 6,050,425,984 (2014 – KShs 6,050,425,984) for every ordinary share of KShs 1 is to be proposed. Payment of dividends is subject to withholding tax at the rate of 5% for residents and 10% for non-resident shareholders.

	GROUP AND BANK	
	2015 KShs	2014 KShs
Dividends per share (KShs.)	**2.00**	**2.00**
Group		
At 1 January	558,246	476,275
Dividend proposed	6,050,426	6,050,426
Dividend paid	(6,050,426)	(5,968,455)
At 31 December	**558,246**	**558,246**
Bank		
At 1 January	558,246	476,275
Dividend proposed	6,050,426	6,050,426
Dividend paid	(6,050,426)	(5,968,455)
At 31 December	**558,246**	**558,246**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

43. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		BANK	
	2015	2014	2015	2014
(a) Cash flows from operating activities	**KShs'000**	**KShs'000**	**KShs'000**	**KShs'000**
This has been derived as follows:-				
Profit before tax	26,537,573	23,787,429	23,444,616	22,361,755
Adjustments for:				
Depreciation of property and equipment	1,911,819	1,885,066	1,180,946	1,240,498
Amortization of prepaid operating lease rentals	2,532	2,532	2,497	2,496
Amortization of intangible assets	521,097	500,344	484,598	430,485
Net interest income	(39,294,522)	(35,951,396)	(33,708,528)	(31,188,147)
Dividend income	(1,112)	(103)	(553,120)	(704,105)
Retirement benefit expense	(237,000)	(252,000)	(237,000)	(252,000)
Share based payment	-	(245,447)	-	(245,447)
Loss on disposal of intangible property	-	50	-	50
(Profit)/loss on disposal of property and equipment	(45,839)	(11,560)	(45,699)	(12,669)
Operating profit before movements in operating assets and liabilities	**(10,605,452)**	**(10,285,085)**	**(9,431,690)**	**(8,367,084)**
Cash reserve ratio	(5,010,601)	(7,319,256)	(3,533,645)	(6,863,976)
Financial assets available-for-sale	(2,581,637)	2,057,646	(253,832)	2,923,175
Financial assets held to maturity	(179,832)	(10,342,552)	(6,484,850)	(7,970,931)
Loans and advances	(62,236,481)	(56,010,424)	(63,256,274)	(50,453,641)
Balances due from group companies	-	-	(1,957,419)	(4,306,852)
Other assets	(1,216,603)	1,378,610	(2,716,081)	346,569
Deposits from banks	8,842,574	7,644,642	6,026,115	3,216,893
Other customer deposits	47,118,947	71,612,697	70,951,734	39,536,984
Other liabilities	(1,503,098)	2,983,064	542,292	896,111
	(27,372,183)	**1,719,342**	**(10,113,650)**	**(31,042,752)**
Interest received	56,442,500	47,478,416	48,771,764	40,885,949
Dividend received	1,112	103	553,120	704,105
Interest paid	(17,147,978)	(11,527,020)	(15,063,236)	(9,697,802)
Income taxes paid	(7,497,131)	(6,468,265)	(7,000,896)	(5,972,342)
Net cash flows from operating activities	**4,426,320**	**31,202,576**	**17,147,102**	**(5,122,842)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

43. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

(b) Analysis of cash and cash Equivalents	GROUP 2015 KShs	GROUP 2014 KShs	BANK 2015 KShs	BANK 2014 KShs
Balances with Central Banks	608,411	19,840,235	6,448,322	-
Cash on hand	11,964,522	33,275,231	7,456,227	8,219,247
Financial assets held to maturity	2,269,312	3,492,793	1,070,000	900,000
Advances to banks	52,579,322	13,177,999	9,254,721	2,577,662
Financial assets held for trading	805,790	1,115,943	805,790	1,115,943
	68,227,357	**70,902,201**	**25,035,060**	**12,812,852**

For the purpose of the statement of cash flows, cash and cash equivalents comprise balances with less than three months maturity from the date of acquisition. Cash and cash equivalents excludes, KShs. 23,353 million (2014 KShs. 18,343 million) being the cash reserve requirement held with the Central Banks which is not available for use by the Group.

The cash and cash equivalent components disclosed above are same amounts included in the statement of financial position except held to maturity investments, whose reconciliation is as follows:

	GROUP 2015 KShs	GROUP 2014 KShs	BANK 2015 KShs	BANK 2014 KShs
Balance as per statement of cash flows	2,269,312	3,492,793	1,070,000	900,000
Balances with more than three months maturity from the acquisition date	55,575,425	55,395,593	42,186,718	35,701,868
Balance as per statement of financial position	**57,844,737**	**58,888,386**	**43,256,718**	**36,601,868**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

44. COMMITMENTS

To meet the financial needs of the customers, the Group enters into various irrevocable commitments. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Capital commitments contracted for at year end	46,607	231,080	46,607	231,080
Loans committed but not disbursed at year end	25,225,139	2,308,249	23,967,018	2,308,249
Foreign currency commitments	4,997,057	3,396,636	4,997,057	1,859,996

Commitments to extend credit represent contractual commitments to make loans and other credit facilities to counterparties who, as per the Group credit risk rating model, are rated as either normal or watch. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

45. CONTINGENT LIABILITIES

	GROUP		BANK	
	2015 KShs'000	2014 KShs'000	2015 KShs'000	2014 KShs'000
Letters of credit, acceptances, guarantees, indemnities and other engagements entered into on behalf of customers at year end	73,903,236	108,824,439	69,858,978	104,599,410

Letters of credit, guarantees and acceptances commit the Bank and its subsidiary companies to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods. Guarantees and letters of credit carry the same credit risk as loans.

In addition to this, litigation is a common occurrence in the banking industry due to the nature of the business. The Bank and its subsidiary companies have established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claim may have on its financial standing.

At year end, the Group had several unresolved legal and tax claims. However, the Group believes, based on the information currently available, that the ultimate resolution of these legal proceedings and tax claims would not likely have a material effect on its operations.

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

46. RETIREMENT BENEFIT OBLIGATIONS

KCB Pension Fund and Staff Retirement Benefit Scheme

The Bank operates a funded defined benefit plan. The Fund closed to new entrants effective 1 June 2006. The Fund is non-contributory with the Bank responsible for the cost of benefits accruing. The Fund is established under trust. The Fund assets are invested in a variety of asset classes comprising Government securities, corporate bonds, call and term deposits, investment properties, shares and off shore investments. Old Mutual Asset Managers and Pine Bridge Investments (East Africa) limited are responsible for the investment of assets.

Characteristics and risks of the Fund

The Fund is registered under irrevocable trust with the Retirement Benefits Authority. The Retirement Benefits Act, 1997 ("the Act") and the Regulations under the Act require the Fund to maintain a funding level of 100%. Where the funding level is below, such deficits are required to be amortized over a period not exceeding 6 years.

- The Fund is managed by a Board of Trustees. The Board is responsible for the overall operation of the Fund including making sure benefits are paid to beneficiaries on time.

- 36.3% of the Fund assets are invested in property assets. The exposure is a concentration risk to the property market for the Fund and, by extension, the Company.

- Following the closing of the Fund as at 1 June 2006, some active in-service members opted to transfer their accrued benefits under the Fund to the new Defined Contribution Plan established by the Company. The Fund therefore comprises mainly of pensioners and deferred pensioners, although some in-service members remain in the Fund. Some of the main risks relating to the benefits under the Fund are the rates of pension increases and the rates of return earned on the Fund assets. For the in-service members, rates of salary escalation will also have a direct bearing on the benefits paid under the Fund. In addition, the pension benefits are payable for the duration of the life of the pensioners. Therefore, the Fund's post-retirement mortality experience with respect to the pensioners will also have an impact on the liabilities under the Fund.

The information below summarizes the scheme assets and liabilities:
Composition of fund assets based on the Investment Manager's reports as at 31st December 2015.

Asset Class	KShs'000	Percentage
Property	3,425,000	41.7%
Government securities	1,938,000	23.6%
Fixed and term deposits	88,000	1.1%
Quoted equities	2,031,000	24.7%
Corporate bonds	412,000	5.0%
Cash and demand deposits	317,000	3.9%
Total	**8,211,000**	**100%**

NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2015 (continued)

Changes in the present value of the defined benefit obligation over the year:

	2015 KShs'000	2014 KShs'000
At start of year	6,669,000	6,472,000
Current service cost (net of employer contributions)	79,000	66,000
Interest cost	862,000	831,000
Actuarial gains/(losses) due to experience adjustments	42,000	-
Actuarial gain/(losses)-due to changes in assumptions	(213,000)	-
Benefits paid	(644,000)	(700,000)
At end of year	**6,795,000**	**6,669,000**

Changes in the fair value of plan assets over the year

At start of year	8,504,000	8,309,000
Interest income on plan assets	1,109,000	1,080,000
Employer contributions	69,000	69,000
Actuarial gains/(loss)	(827,000)	(254,000)
Benefits paid	(644,000)	(700,000)
At end of year	**8,211,000**	**8,504,000**

The amounts recognised in the statement of financial position are determined as follows;

	2015 KShs'000	2014 KShs'000
Present value of fund obligations	(6,795,000)	(6,669,000)
Fair value of plan assets	8,211,000	8,504,000
Effect of asset ceiling at end of period	(436,000)	-
Asset recognized in the statement of financial position	**(980,000)**	**(1,835,000)**

NOTES TO THE FINANCIAL STATEMENTS
for the year ended 31 December 2015 (continued)

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Reconciliation of asset in the statement of financial position

	2015 KShs'000	2014 KShs'000
At start of year	1,835,000	1,837,000
Net expense recognised in statement of profit and loss	168,000	183,000
Employer contribution	69,000	69,000
Amount recognised in Other Comprehensive Income	(1,092,000)	(254,000)
At end of year	**980,000**	**1,835,000**

The amount recognised in profit and loss for the year are as follows;

	2015	2014
Service Cost		
Current service cost (employer)	(79,000)	(66,000)
Total Service Cost	**(79,000)**	**(66,000)**
Interest Cost		
Interest cost on defined benefit obligation	(862,000)	(831,000)
Interest income on plan assets	1,109,000	1,080,000
Interest on the effect of the asset ceiling	-	-
Net Interest cost on Balance Sheet liability	**247,000**	**249,000**
Net included in profit and loss in respect of the scheme	**168,000**	**183,000**

Re-measurement (Other comprehensive income)	2015 KShs'000	2014 KShs'000
Actuarial (gain)/loss – obligation	171,000	-
Return on plan assets (excluding amount in interest cost)	(827,000)	(254,000)
Change in effect of asset ceiling (excluding amount in interest cost	(436,000)	-
Amount recognized in Other comprehensive income	**(1,092,000)**	**(254,000)**

The principal actuarial assumptions used are as follows:

Actuarial Assumptions	2015	2014
Discount Rate (% p.a.)	14.0%	13.5%
Future salary increases (% p.a.)	8.5%	8.5%
Future pension increases (% p.a.)	0.0%	0.0%
Mortality (pre-retirement)	A1949-1952	A1949-1952
Mortality (post-retirement)	a(55) ultimate	a(55) ultimate
Withdrawals (voluntary)	At rates consistent with similar arrangements.	At rates consistent with similar arrangements.
Retirement age	55 years	55 years

46. RETIREMENT BENEFIT OBLIGATIONS (Continued)

Sensitivity Analysis

The results of the actuarial valuation will be more sensitive to changes in the financial assumptions than changes in the demographic assumptions. In preparing the sensitivity analysis of the results to the discount rate used, we have relied on our calculations of the duration of the liability. Based on this methodology, the results of our sensitivity analysis are summarized in the table below:

	Current discount rate	Discount rate +1%
Present Value of Obligation	KShs 6,795,000	KShs 7,209,000

Given a large portion of the liability is in respect of inactive members, the sensitivity of the liability to a change in the salary escalation assumption will not be as significant as a change to the discount rate as it affects only in service members.

47. OPERATING LEASE COMMITMENTS

Operating lease commitments – Group as lessee
Non-cancellable operating lease rentals are payable as follows:

	2015 KShs'000	2014 KShs'000
Within 1 year	387,208	64,077
After 1 year but less than 5 years	1,041,868	734,732
After 5 years	87,793	497,140
	1,516,869	**1,295,949**
Operating leases – Group as lessor		
Within 1 year	722,108	711,192
After 1 year but less than 5 years	211,415	249,349
After 5 years	8,407	6,726
	941,930	**967,267**

The Group leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease upon expiry. Lease rentals are increased accordingly to reflect market rentals.

NOTICE OF THE 45TH ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the **45TH ANNUAL GENERAL MEETING** of the Shareholders of **KCB GROUP LIMITED** will be held in **the Safaricom Indoor Arena, Kasarani, Nairobi**, on **Friday, 29 April, 2016 at 11.00 a.m.** when the following business will be transacted, namely:

AGENDA

1. Constitution of the Meeting

To read the notice convening the Meeting and determine if a quorum is present.

2. Ordinary Business

a) Report and Financial Statements for the Year ended 31 December, 2015

To receive, consider and, if thought fit, adopt the Audited Consolidated Financial Statements for the year ended 31 December, 2015 together with the reports of the Directors, the Group Chairman, the Group Chief Executive Officer and the Auditors' thereon.

b) Dividend

To declare a first and final dividend of KShs. 2.00 per share (to be paid out as Kes. 1.00 in cash and Kes. 1.00 in scrip dividend) and to approve the closure of the Register of Members on 3 May 2016.

(In the announcement of financial results made on 2 March, 2016, it was indicated that the Record Date would be 2 May, 2016. The change in the Record Date takes into consideration the fact that Labour Day is on Sunday, 1 May, 2016 and given that Monday, 2 May, 2016 is the day immediately after Labour Day, it will be gazetted as a day of rest and there will be no trading at the Nairobi Securities Exchange (NSE)).

c) Election of Directors

In accordance with Article 94 of the Company's Articles of Association, the following Directors retire by rotation, and being eligible, offer themselves for re-election:

i. Mr. Adil Khawaja
ii. Mr. Tom Ipomai
iii. Mr John Nyerere

In accordance with the provisions of Section 769 of the Companies Act, 2015, the following directors, being members of the Board Audit Committee be elected to continue to serve as members of the said Committee:

i. Mrs. Charity Muya-Ngaruiya
ii. General (Rtd.) Joseph Kibwana
iii. Ms. Georgina Malombe
iv. Mr. John Nyerere

d) Remuneration of Directors

To authorize the Board to fix the remuneration of the Directors.

e) Appointment of Auditors

To re-appoint Messrs. KPMG Kenya, Certified Public Accountants, as the Auditors of the Company until conclusion of the next Annual General Meeting.

f) Remuneration of the Auditors

To authorize Directors to fix the remuneration of the Auditors.

NOTICE OF THE 45TH ANNUAL GENERAL MEETING

3. Special Business

To consider and if thought fit, to pass the following resolutions as recommended by the Directors:

1. Ordinary Resolutions

To consider and if found fit, to pass the following resolutions as ordinary resolutions:

(a) Increase in Authorized Share Capital

"That the authorized share capital of the Company be increased from Kenya Shillings Three Billion, Five Hundred Million (Kes. 3,500,000,000/-) divided into Three Billion, Five Hundred Million (3,500,000,000) ordinary shares with a nominal value of Kenya Shillings One (Kes. 1/-) each to Kenya Shillings Four Billion, Five Hundred Million (Kes. 4,500,000,000/-) by the creation of One Billion (1,000,000,000) new ordinary shares with a nominal value of Kenya Shillings One (Kes. 1/-) each ranking pari passu in all respects with the existing ordinary shares of the Company".

(b) Rights Issue

i. "That subject to the Company receiving all regulatory approvals including, but not limited to, the approval of the Capital Markets Authority, the Directors be and are hereby authorized to raise a maximum of Kenya Shillings Ten Billion (Kes. 10,000,000,000/-) by way of rights to holders of ordinary shares of the Company in such proportion to the existing shares held by them at the close of business on such date to be fixed by the Directors and at such price as shall be determined by the Directors.

ii. That any rights not taken up be offered on such terms and conditions as are determined by the directors and notified to the Shareholders through the press and Company website.

iii. That the Directors be and are hereby authorized to obtain all the required consents and authorizations, including any approval required from the Capital Markets Authority, and generally to do and effect all acts and things required to give effect to the above Resolutions, and to deal with fractions in such manner as they think fit subject to the provisions of the Company's Articles of Association."

2. Special Resolution

Change of Name

To consider and if found fit, to pass the following resolution as a special resolution:

"That the name of the Company be and is hereby changed from "KCB Group Limited" to KCB Group Plc." with effect from the date set out in the Certificate of Change of Name issued in that regard by the Registrar of Companies."

Dated at Nairobi this 7th day of April, 2016.

BY ORDER OF THE BOARD

Joseph Kania
Secretary

NOTICE OF THE 45TH ANNUAL GENERAL MEETING

Note:

1. A member entitled to attend and vote at the meeting and who is unable to attend is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not be a member of the Company. To be valid, a proxy form, which is provided by the Company, must be completed and signed by the member and must be lodged at the offices of The Registrar, KCB Group Limited, **2nd Floor**, Kencom House, Moi Avenue, P.O. Box 48400, GPO 00100, Nairobi, to arrive not later than **11:00 a.m.** on **27th April, 2016** i.e. 48 hours before the meeting or any adjournment thereof.

   If the appointer is a body corporate, the instrument appointing the proxy shall be given under its common seal or under the hand of an officer or duly authorized attorney of such corporation or Government office.

2. A copy of this Notice, Proxy Form and the entire Annual Report & Accounts may be viewed on and downloaded from the Company's website at **www.kcbbankgroup.com.**

3. Registration of members and proxies for the Annual General Meeting will commence at **8:00 a.m.** on **29th April, 2016.** Members and proxies should carry their national ID cards and a copy of the relevant Central Depository and Settlement Corporation (CDSC) account statement for ease of registration process.

4. Transport will be provided to Shareholders from Kencom House to the Safaricom Indoor Arena, Kasarani from **6.30 a.m.** to **10.00 a.m.** and back to Kencom House at the close of the meeting.

BOARD OF DIRECTORS PROFILES

NGENY BIWOTT
GROUP CHAIRMAN

EDUCATION AND PROFESSIONAL BACKGROUND
Ngeny Biwott has over 37 years' experience in the aviation industry and holds an MSc Degree in Civil Emergency, Risk and Crisis Management from University of Hertfordshire. In addition, he obtained specialised certification in risk and strategy from Cranfield University, the University of Southern California, and the Langley NASA Research Centre College.

DATE OF APPOINTMENT TO DESIGNATION
Appointed Group Chairman in August 2013

DATE OF APPOINTMENT TO BOARD
June 2011

HENRY ROTICH
DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND
Henry Rotich is Kenya's Cabinet Secretary for the National Treasury. He holds a Master's Degree in Public Administration (MPA) from the Harvard Kennedy School, Harvard University. In addition, he holds a Master's degree in Economics and a Bachelor's degree in Economics (First Class Honours), both from the University of Nairobi.

DATE OF APPOINTMENT TO BOARD
The office of the Cabinet Secretary of the National Treasury is an institutional director of KCB Group.

ALTERNATE APPOINTED
Julius Mutua serves as alternate on the Board.

He is chairman of the Risk Management Committee and a member of the HR & Nomination and IT & Innovation committees.

He is a member of the Boards of KCB Bank Kenya, KCB Bank Burundi and KCB Capital and is a trustee of KCB Foundation.

CATHERINE KOLA
DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND
Catherine Kola is an advocate of the High Court of Kenya, a Certified Public Secretary of Kenya (CPSK) and an associate member of the Chartered Institutes of Arbitrators. She holds a Bachelor of Law (LLB) Honours degree from the University of Nairobi and has over 30 years' experience in legal practice, development banking, company secretarial and administration in the financial and energy sectors.

DATE OF APPOINTMENT TO BOARD
May 2009

CURRENT KCB GROUP BOARD APPOINTMENTS
Kola is a member of the Strategy & Finance and IT & Innovation committees. She also serves as the chairman of both KCB Bank Burundi and KCB Foundation.

GENERAL JOSEPH RAYMOND KIBWANA, (RET.) EGH, CBS
DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND
An Alumni of the Britannia Royal Naval College, the US Naval Staff College and the US Naval War College, Gen. Kibwana retired from the Kenya Armed Forces in 2005 having served as Chief of the General Staff (2000-2005), Commandant of the National Defence College (1998- 2000) and Commander of the Kenya Navy (1988-1998).

DATE OF APPOINTMENT TO BOARD
June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS
Kibwana is a member of the Audit committee and serves as Chairman of the Finance & Strategy Committee. He also serves as Chairman of both KCB Bank South Sudan and the KCB Staff Pension Fund (Defined Benefit) Scheme.

APPOINTMENTS
Gen. Kibwana has served as the chairman of the Board of Directors of the Kenya Ports Authority. He is currently the Chairman of the Board of Directors of Kenya Trade Network Agency.

ADIL KHAWAJA
DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND
Adil Khawaja holds an LLB (Hons.) degree from the University of Sheffield England, a diploma in Law from the Kenya School of Law and is a Certified Public Secretary of Kenya (CPSK). He is a member of the London Court of International Arbitration (LCIA) and is currently the Managing Partner of law firm, Hamilton Harrison and Mathews, Advocates.

DATE OF APPOINTMENT TO BOARD
June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS

Khawaja is a member of the Risk Management, and Finance & Strategy committees. In addition, he serves as Chairman of the KCB Bank Kenya Board and is a member of the KCB Bank Tanzania Board.

SOCIETY/MEMBERSHIP

He also serves as trustee of Kenya Wild life Services (KWS).

CHARITY MUYA-NGARUIYA

DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND

Charity Muya-Ngaruiya holds a Bachelor of Commerce degree and a Master's degree in Business Administration from the University of Nairobi. She is a Fellow of Certified Accountants (FCCA), Certified Public Secretary of Kenya (CPSK) and of the Chartered Institute of Arbitrators. She holds certificate in investment banking and is a trainer in governance, member of the Institute of Directors, and honorary member of the Institute of Financial Analysts. She is a management and financial restructuring expert with more than 35 years' experience in financial management, information management systems, financial internal control systems, financial accounting and reporting, corporate restructuring, project management and privatization.

DATE OF APPOINTMENT TO BOARD

June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS

Muya-Ngaruiya is a member of the Risk, HR & Nomination and Finance & Strategy committees and is Chairman of the Audit Committee. In addition, she serves as Chairman of the KCB Capital Board and is a member of the KCB Bank Kenya Board.

SOCIETY/ MEMBERSHIP

She has served as a council member of Institute of Certified Public Accountants, a member of the Registration of Accountants Board, the Examination Committee of Kenya Accountants and Secretaries National Examination Board.

TOM IPOMAI

DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND

Tom Ipomai is a corporate finance specialist. He holds a degree in Computer Science from the University of Nairobi and a Master of Philosophy (MPhil) in Management Studies. He is a Certified Chartered Accountant (ACCA).

DATE OF APPOINTMENT TO BOARD

June 2012

CURRENT KCB GROUP BOARD APPOINTMENTS

Ipomai is a member of the Supply Chain and IT & Innovation committees and is Chairman of the HR and Nomination committee. He also serves as a trustee of KCB Foundation Board, a member of the KCB Bank Kenya Board and Chairman of KCB Bank Rwanda Board.

OTHER BOARD/SOCIETY/MEMBERSHIP THAT ADDS VALUE

Previously, Ipomai worked for the Central Bank of Kenya, Barclays Bank in the UK, Kenya and Zambia and at Deloitte's in its Corporate Finance Advisory division. He is currently CEO of Ler Ltd, a real-estate focused investment company.

GEORGINA MALOMBE

DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND

Georgina Malombe is a Certified Public Accountant (CPA (K)) and professional trainer. She holds a Bachelors degree in Agribusiness Management from Egerton University and a Master of Business Administration, Finance Option from the University of Nairobi. She is the Manager: Public Policy and Governance at the Institute of Certified Public Accountants of Kenya (ICPAK). Her key technical competencies include Audit Quality Assurance, Auditing, Accounting, Finance, Budgeting and Budgetary Controls.

DATE OF APPOINTMENT TO BOARD

June 2014

CURRENT KCB GROUP BOARD APPOINTMENTS

Malombe is a Member of the Group Supply Chain, Audit and Risk committees and serves as Chairman of the IT and Innovation committee.

JOHN NYERERE
DIRECTOR

EDUCATION AND PROFESSIONAL BACKGROUND
John Nyerere is a HHH (Fulbright) fellow and holds an MBA, Bachelor of Arts (Hons.) Economics, MBA General Management and Bachelor of Arts Economics and Sociology. He lectures on business management at the United States International University. He has experience in corporate planning, operations management and transformation leadership and his key technical competencies include strategy development and economics.

DATE OF APPOINTMENT TO BOARD
June 2014

CURRENT KCB GROUP BOARD APPOINTMENTS
Nyerere is a member of the Audit, Risk Management, HR & Nominations, and Finance & Strategy committees and is the Chairman of the Supply Chain committee. He also serves as a member of KCB Bank Tanzania and KCB Capital Boards.

OTHER
He is currently a serving Board member of Hashi Energy (K) Limited where he chairs the HR committee.

JOSHUA OIGARA
CHIEF EXECUTIVE OFFICER

EDUCATION AND PROFESSIONAL BACKGROUND
Joshua Oigara holds a Masters degree in Business Administration with a distinction in International Business Management from Edith Cowan University, Australia, a Bachelor of Commerce Degree, Accounting Option, from the University of Nairobi and is an Advanced Management Program Graduate from INSEAD, Fontainebleau, France. He is a graduate of the Program for Management Development (JuMP), Fuqua School of Business, Duke University, North Carolina, USA as well as a Certified Public Accountant of Kenya, CPA (K), having studied at the School of Accountancy, Strathmore University, Kenya.

DATE OF APPOINTMENT TO BOARD
He was appointed KCB Group CEO in January 2013

CURRENT KCB GROUP BOARD APPOINTMENTS
Oigara is a member of the Risk, HR & Nomination, IT & Innovation and Finance & Strategy committees and serves as a member of the KCB Capital and KCB Bank Kenya Boards and is a trustee of KCB Foundation.

LAWRENCE KIMATHI KIAMBI
CHIEF FINANCIAL OFFICER

EDUCATION AND PROFESSIONAL BACKGROUND
Lawrence holds a Bachelor of Science (Accounting option) degree from the United States International University – Africa (USIU) and is a Certified Public Accountant of Kenya (CPAK).

DATE OF APPOINTMENT TO BOARD
May 2015

CURRENT KCB GROUP BOARD APPOINTMENTS
Lawrence serves as a trustee of the KCB Staff Pension Fund (Defined Benefit Scheme).

JOSEPH KANIA
COMPANY SECRETARY

EDUCATION AND PROFESSIONAL BACKGROUND
Joseph Kania has over 25 years' experience as an Advocate of the High Court and 10 years' experience as a Company Secretary. He holds an LLB degree from the University of Nairobi and is an Advocate of the High Court of Kenya. He is a Notary Public, Commissioner of Oaths as well as a Certified Public Secretary of Kenya. He previously served as the Company Secretary at the Housing Finance Company of Kenya. Other roles previously held include Senior Legal Officer at the Industrial and Commercial Development Corporation and Legal Officer at Senator Cards/Southern Credit Corporation.

DATE OF APPOINTMENT TO DESIGNATION
He was appointed Company Secretary June 2013

PROXY FORM

THE SECRETARY
KENYA COMMERCIAL BANK LTD
8TH FLOOR, KENCOM HOUSE, MOI AVENUE
P.O. BOX 48400, NAIROBI, KENYA

I/We ____

holder of ID/Passport No. ______________________________

and of P. O. Box ______________________________________

being a Member/Members of KCB Group Limited, hereby appoint

____

ID/Passport No. ______________________________________

or failing him, the duly appointed Chairman of the meeting to be my/our proxy, to vote on my/our behalf at the 45th Annual General Meeting to be held on 29 April, 2016 at 11.00 am or at any adjournment.

Signed this ____________________ day of ________________, 2016

Signature(s) ____

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Note:

1. If a member is unable to attend personally, this Proxy Form should be completed and returned to reach the Company's Registered Office not later than **11:00 a.m**. on **27 April, 2016** i.e. 48 hours before the meeting or any adjournment thereof.
2. A person appointed as a proxy need not be a member of the Company
3. In case of a member being a corporate body, the Proxy Form must be under its common seal or under the hand of an officer or duly authorized attorney of such corporate body.

NOTES