SCALING GROWTH THROUGH INNOVATION

ANNUAL REPORT

AND FINANCIAL STATEMENTS

2015

TABLE OF CONTENTS

OUR VISION

To establish long term, profitable customer relationships through the provision of a complete range of banking and financial services.

OUR MISSION

To be the leading financial service provider to our target market; we are committed to the highest standards of service and to exceeding our stakeholders' expectations.

OUR STORY

1959 National Industrial Credit Bank Limited incorporated in Kenya

1995 National Industrial Credit Bank Limited obtains Commercial Banking License

1997 National Industrial Credit Bank Limited merges with African Mercantile Bank Limited

2005 Renamed NIC Bank Limited

2005 » NIC develops into Regional "One Stop" Financial Services Shop

WHO WE ARE

OUR HISTORY

NIC Bank (formerly National Industrial Credit Bank Limited) was incorporated in Kenya on 29th September 1959 as a joint venture between Mercantile Credit Limited and Standard Bank. NIC Bank was among the first non-Bank financial institutions to provide hire purchase and instalment credit finance facilities in Kenya.

NIC Bank went public by listing on the Nairobi Securities Exchange (NSE) in 1971. Barclays Bank of Kenya Limited (BBK) acquired 51% of NIC Bank's total shares through the acquisition of Mercantile Credit Limited in the 1970s and thereafter, Standard Bank's shareholding in the 1980s. Between 1993 and 1996, BBK divested all of its shares in NIC Bank by selling them; (i) 38% to the public through the NSE and, (ii) 20% to First Chartered Securities Limited.

In order to effectively diversify into mainstream commercial Banking, NIC Bank merged with African Mercantile Bank Limited (AMBank) in November 1997, through a share swap. Although the Company's name was originally National Industrial Credit Limited, and later National Industrial Credit Bank Limited, all through its history it was known by its initials – NIC - and to reflect this, the Bank's name was in 2005 officially changed to the present NIC Bank Limited.

In 2008, NIC Bank broadened its services to customers by providing investment banking products and services through NIC Capital Limited. Thereafter, it acquired a stock broking business (Solid Investment Securities Limited, later renamed NIC Securities Limited), and also secured a license to sell Bancassurance products through NIC Insurance Agents Limited. This effectively positioned the Bank as a 'one-stop shop' financial services solution provider in the market.

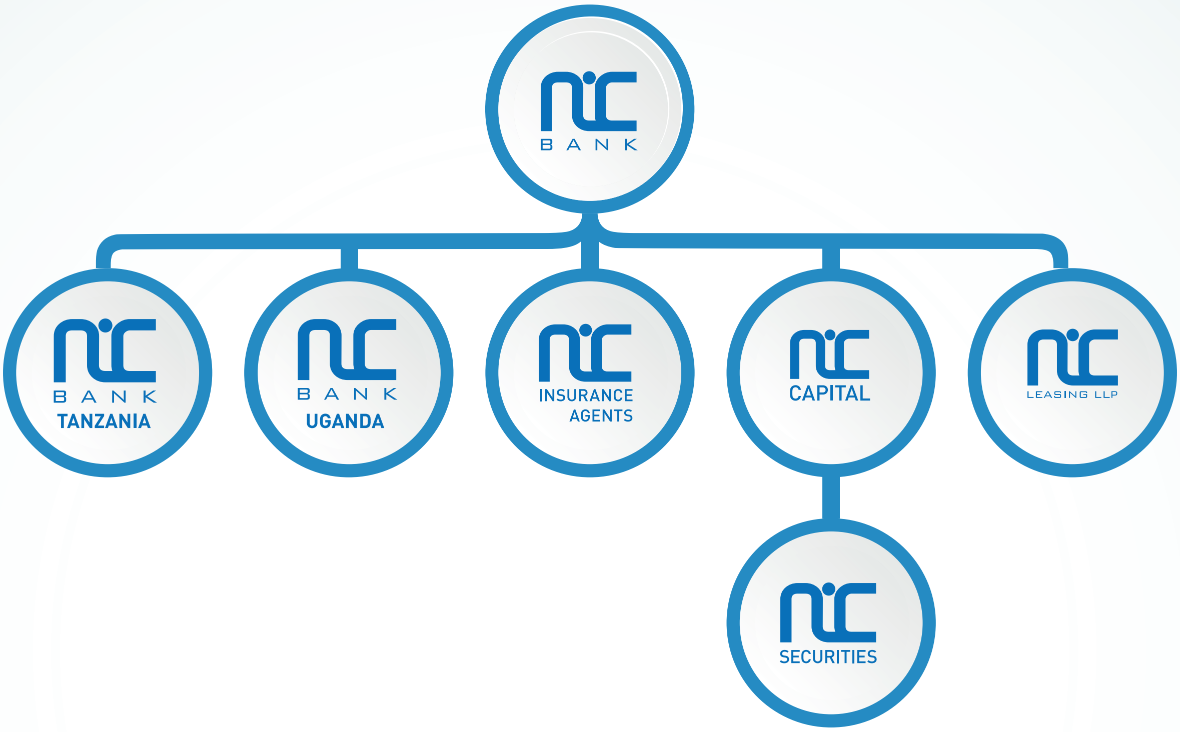
In 2009, NIC Bank acquired 51% of Savings and Finance Commercial Bank and in 2010, rebranded it to NIC Bank Tanzania Limited. As at December 2015, it holds 70% of NIC Bank Tanzania. In 2012, the Group established NC Bank Uganda as a wholly owned green-field subsidiary, which began operations on 1st June 2012. Later in 2012, the Group implemented the Temenos (T24) core banking system.

In 2014, the Group announced a strategic shift towards a new way of banking – branded NOW banking, in answer to the emerging "NOW" generation that demands everything at their fingertips, now. Through the MOVE to NOW initiative the Bank focuses on developing innovative products and services that can be delivered in a fast and efficient manner.

Mid 2014, NIC Bank received a long term credit rating of A+ from Global Credit Ratings. The rating was based on the solid track record of growth exhibited by the Bank over the years, as well as the experienced Executive and Senior management team. Later in the year, the Bank concluded its successful Capital Raising Program, which saw it issue a bond and a Rights Issue. The successful conclusion of the Capital raising effort is viewed as a vote of confidence on the Bank's long term growth strategy.

2015 marked the first year in the Group's current strategy cycle, which called for a strategic shift in our business towards the SME and Retail Banking space. This shift is aimed at rebalancing the business into a full scale universal Bank to ensure future sustainable growth and returns. The growth in 2015 was largely supported by the successful capital raising of over Shs12 billion which NIC Bank undertook in 2014. In February 2015, the Group launched a new leasing unit NIC Leasing LLP, the first for a Kenyan bank. This unit will compliment our market leading Asset Finance business by offering an alternative way to find capital expenditure. The Bank also signed a strategic partnership to become an agent for M-PESA, MoneyGram and Western Union in a bid to reach more Retail and SME customers through its branch network. As part of its ambitious expansion plan to reach more retail customers and grow its SME business, the Bank opened a branch in Machakos County, Lunga Lunga, Industrial Area and Sifa Towers in Kilimani area. NC Uganda, a subsidiary of the Group, also opened a second branch in Kampala, at the Village Mall.

OUR STRUCTURE



RETAIL BANKING

CORPORATE BANKING

ASSET FINANCE

TREASURY

SUBSIDIARIES

OUR PRODUCTS & SERVICES

CORPORATE BANKING

At NIC Bank we strive to be leaders in Corporate banking backed by our competent Trade and Corporate banking experts, wide correspondent banking network and a unique ability to handle your risk management.

We offer a competitive funding solution and an experienced team to help your business in each transaction. We can also help clients leverage non-traditional collateral to access liquidity.

We customize our products and services to meet our clients specific account management, payments, collections and liquidity management requirements.

We offer the following Corporate solutions:

Corporate Loans

- **Term loans**

  This product caters for long term nature of capital expenditure for companies where financing is required for a matching term. Revenue from projects and equipment on term funding is usually generated after completion hence the need to match repayments to the customers future cash flow.

- **Corporate Over Draft**

  This product caters for the financing of customers working capital cycle taking into account the lead times in procurement of stocks, the manufacturing process and any terms of supplier credit including credit extended to customers.

Transactional Banking

NIC Bank has a wide range of transactional banking services including cash management, trade financing, custodial services, online banking, mobile banking and agent banking.

Our consistent performance and commitment to innovation supports the delivery of tailored client solutions that aim to solve challenges at any stage of the business cycle.

Cash Management Solutions

NIC Bank prides itself as one of the leading banks in innovation, efficient service delivery and responsiveness to customers needs without compromising on quality of service delivery. We offer a wide range of cash management solutions to our clients to enable them manage their day-to-day cash management needs.

Below are the cash management solutions we offer:

- **Payment Solutions:**
  - i. Internet banking
  - ii. Mobile banking
  - iii. Strategic branch network
  - iv. Agent banking with Postbank

- **Collection Solutions:**
  - i. Online cheque collection solution
  - ii. Direct Debits
  - iii. Cash in Transit
  - iv. M-Pesa Paybill solutions

Custodial Services

NIC Bank has been offering custodial services for the past ten years to pension schemes and provident funds. The team has gained valuable experience as the industry evolves. Guided by the RBA Act (1997) and Regulations (2000) as well as the CMA Act, we have been able to successfully perform all the Custody duties as expected in both Acts, while accommodating client-specific requirements based on our relationship. Our role as Custodians will be to ensure that all assets under our care are properly controlled and that they are only released from safekeeping in accordance with authorized instructions from our customers or appointed representatives.

The range of services provided include:

- Settlement of trades
- Safe keeping of securities
- Portfolio valuations
- Reporting and communications
- Inward and outward remittances (cash transfers)
- Foreign exchange conversion
- Registration of securities
- Corporate actions
- Income collection
- Tax reclamation
- Proxy voting

Institutional Banking

NIC Bank's Institutional Banking offering is designed for non-borrowing corporate organizations and not-for-profit institutions including local and international non-governmental organizations, donor-funded government parastatals, donor-funded government ministries, diplomatic missions and their affiliate donor/aid entities, faith-based organizations and local and multinational corporate organizations.

We offer the following:

- Interest on current account
- Concessions on current account charges
- Orchard Premium Savings Account
- Deposit Accounts- Time and call deposits

Trade Finance Solutions

NIC Bank provides advice and services that importers and exporters need to achieve their international business objectives.

The Bank offers an extensive range of trade related products, some of which include:

- Import and export financing
- Pre-export financing
- Documentary credits and collections
- Contract pre-payment
- Pre-production financing
- Stock, storage and inventory financing
- Receivables financing and invoice discounting
- Export credit agency supported capital expenditure programs
- Insurance Premium Financing for your trade needs

ASSET FINANCE

This is a credit facility that assists you to finance the purchase of vehicles, machinery and specialized equipment.

We offer the following financing options:

- Hire Purchase (HP)
- Leasing
- Insurance Premium Finance (IPF)
- Bancassurance

Assets we finance

NIC Bank Asset Financing gives you the choice of both motor vehicle and non – motor vehicle financing.

We offer financing for Moveable & Identifiable assets such as:

- Motor vehicles
- Plant & machinery
- Construction equipment
- Agricultural equipment
- IT equipment
- Other specialized equipment eg.medical, telecoms etc.

Insurance Premium Financing (IPF)

We offer Insurance Premium Financing (IPF) which enables clients to pay for their insurance premiums in affordable installments over a period of time. IPF is also available through NIC Insurance Agents to customers of the Group.

TREASURY SERVICES

Cash Transactions or Bureau de Change

Bureau de Change transactions are over-the-counter transactions for purchase and sale of foreign currency. We accept over-the-counter cash for all the major foreign currencies.

Other products on offer include:

- Spot Foreign Exchange Operations
- Inward Foreign Remittances
- Outward Foreign Remittances
- Foreign Demand Drafts
- Foreign Current Accounts
- Foreign Deposits
- Forward Exchange Contracts

RETAIL BANKING

Personal Banking

- Our Personal Banking division recognizes that "people bank with their bankers and not their bank". It is in this spirit that we offer personalized service to our individual customers by providing robust products and services. Our team of dedicated Relationship Managers are readily available to make your banking experience memorable and your financial goals more attainable.

- NIC Personal Banking products range from current and savings accounts, personal loans, online and mobile banking solutions and so on. Our products and services offer you solutions that fit your life and make it easier to do what you need to and achieve what you want.

We offer a wide range of savings and current accounts which include:

- **NIC Savers Account:** This targets general customers with a keen interest on saving their money.
- **Young Movers Savings Account:** A child account specifically tailored to encourage saving on a regular basis, opened by parents and guardians.

All our savings accounts offer great benefits, are available in all major currencies and pay high interest rates.

Our current accounts come in two categories:

- **Pay as you go/transacts –** The pay as you go option allows you to be in full control of the fees you pay on your account as you pay only for the services that you access.
- **Flat fee/bundled options –** The flat fee option allows you to pay one discounted flat fee for a wider range of services for all your transactional needs.

SME Banking

- **NIC Entrepreneur Account**

  This is a contemporary business account that provides customized business solutions for clients' business needs. The NIC Entrepreneur Account is designed to give clients a total solution for all their business needs ranging from transactional, cash flow management, insurance, asset finance to savings and investments.

  This account also gives you access to the NIC Entrepreneur Club. The club regularly hosts workshops that bring together business people across industries. At the workshops, clients network and receive valuable training on emerging issues and needs.

  We offer a wide range of SME products including the following:

  - Business Accounts
  - Business Loans
  - Overdrafts
  - Term Loans
  - Working Capital
  - Entrepreneur Club Membership

Mortgage

At NIC Bank, we have a dedicated team of mortgage specialists to walk with you through the journey towards securing your dream home or property.

NIC Mortgage offers you a variety of options:

- **Equity Release –** Financing against your already existing house
- **Purchase Financing –** Loan that funds to buy a readymade house
- **Top-Up –** Increase in value of your existing mortgage due to reduction of loan amount or appreciation of property value
- **Balance Transfer/Refinance -** Transfer of an existing mortgage from one financier to another
- **Construction Finance –** Loan that funds the building of a residential home or residence
- **Plot Purchase –** Financing to buy vacant land

Credit Card

NIC Bank Credit Cards offer flexibility and convenience in settling of daily transactions. Our cards can be used worldwide at any establishment with a VISA logo to make payments from the supermarket, chemist, fuel station, hospitals among others.

The best thing about our credit cards is that you do not need to have a bank account with us to own your credit card. Find the NIC Credit Card that's right for your personal or business needs now.

We offer the following credit cards to suit your purchase needs:

- **Freedom Credit Card**
  The NIC Freedom Credit Card is a modern and convenient financial tool that facilitates easy and convenient settlement of daily financial transactions. It gives you flexibility, convenience and security. The limit is as low as low as Shs 20,000.

- **The Gold Credit Card**
  The NIC Gold Credit Card delivers the financial freedom that you seek. This card is perfect for individuals who need to make higher financial transactions in the month while enjoying preferential services. The Gold credit card limit ranges between Shs 200,000 and Shs 1,000,000.

- **The Platinum Credit Card**
  The NIC Visa Platinum Credit Card offers the best personal service and hand-picked privileges worldwide. The services attached to the card gives you access to a range of services that reflect your lifestyle and exquisite taste in dining, travel and shopping.

Investment Banking through NIC Capital

NIC Capital is a subsidiary of NIC Bank and has its origins in 2005 when the Board of Directors resolved to establish an Investment Bank that would support the ever growing advisory and financing needs of Kenyan corporates. NIC Capital, through its debt and equity platforms, advises companies on optimal capital raising alternatives. The Investment Bank is qualified in mergers & acquisitions, de-mergers, sale of stake, capital structure advisory as well as in pursuing capital raising initiatives – both in the private and public realms.

Stock Brokerage through NIC Securities

NIC Securities is a stock brokerage firm licensed by the Capital Markets Authority and a member of the Nairobi Securities Exchange. NIC Securities provides investors with a secure platform to participate in a diversified array of investments in the equity and bond markets, backed by solid advice from the research and advisory teams, to enable clients meet their return objectives.

Bancassurance through NIC Insurance Agents

We offer insurance for all through our insurance brokerage function available at all the Group's branches. Products on offer include Health Insurance i.e. inpatient and outpatient medical covers; Business Risks Insurance which covers property damage, Group Personal Accident covers; Travel Insurance which covers medical expenses, loss of luggage, and emergency evacuation for travellers; Home Insurance for household property including personal effects and Motor Vehicle Insurance for both private and commercial vehicles.

Leasing through NIC Leasing LLP

NIC Leasing LLP is a partnership between NIC Bank Limited and Mercantile Finance Company Limited and is part of the NIC Bank Group. The LLP was incorporated in 2015 to undertake direct operating lease business. NIC Leasing LLP allows customers to take up various types of assets on lease over specified periods of time. Maintenance and insurance are part of the lease structuring therefore providing flexibility and convenience for the customer. The customers therefore get to enjoy the use of the assets and derive benefits over the contractual period.

WHO WE ARE (Continued)

VALUE ADDED SERVICES

Online Banking

Customers have access to the NIC Online Banking service from anywhere in the world through the internet. The following are some features that clients enjoy once they have signed up on NIC Online:

- Checking account statements and balances
- Electronic Funds Transfers (EFTs) both within NIC Bank Group and to other banks in Kenya or abroad
- Ordering of Bankers Cheques
- Salary and supplier payment processing
- Analysis of loans and investment options
- M-Pesa functionality - Customers can effect transfers to and from their M-Pesa accounts directly to and from their bank accounts
- KRA tax payments
- Creation and editing of beneficiaries for various types of payments
- Printing of deposit slips and swift payment confirmations

NIC Bank was awarded the Best Online Platform in East Africa at the Banker East Africa Awards.

Mobile Banking

NIC Customers can access their bank accounts at their convenience through the new NOW Mobile Application (App).

NOW Mobile App enables customers with smart phones to conduct all the banking requirements wherever they are.

The App is accessible from most platforms, i.e. Android, Windows and Apple.

The following are some features that clients enjoy once they have downloaded the NOW Mobile App:

- Account balance enquiry and viewing of their mini statements
- Mobile funds transfers via EFT, RTGS, Mobile Money (M-PESA) and internally within NIC
- Mobile requests – Cheque book, statement and forex request
- Mobile airtime top up – for Safaricom, Airtel, Orange & Yu
- Bill payments – KPLC Pre paid & Postpaid, Nairobi Water Postpaid,
- DSTV, Zuku, Access@home, Safaricom Postpaid, Airtel Postpaid, Orange Postpaid
- Mobile lifestyle - Gives you access to traffic cameras, news, religious books and cinema guides
- Standing order requests

Customers on the USSD Mobile Banking service (*488#) continue to access the service and conduct majority of the above transactions and requests.

Borderless Banking

With the T24 core banking system, NIC Bank Group customers now enjoy seamless banking services across the regions.

Agency Banking

NIC Bank in partnership with Postbank Limited offers Agency Banking services. This arrangement allows NIC customers to deposit or withdraw cash from any of the 102 Postbank branches countrywide. Corporate clients also benefit immensely because they can easily collect cash from anywhere in the country and deposit it into their NIC Bank accounts in real time. In 2015 NIC Bank also Introduced MoneyGram, Western Union and M-PESA Super Agent services in all our branches.

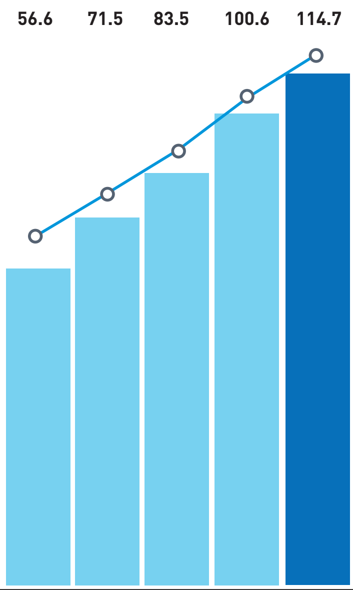
FINANCIAL HIGHLIGHTS / 2011 - 2015

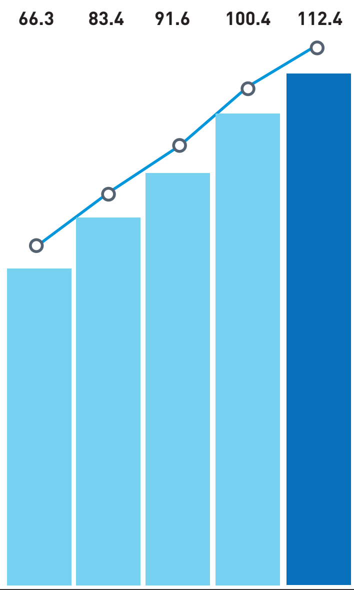
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	2011 Shs`000	2012 Shs`000	2013 Shs`000	2014 Shs`000	2015 Shs`000
Assets					
Government securities	7,500,288	17,478,232	18,093,150	19,223,686	27,911,907
Loans and advances to customers	56,624,621	71,540,092	83,493,313	100,575,330	114,657,644
Property and equipment	967,988	1,009,891	1,119,264	1,079,110	1,063,760
Others	13,891,108	18,320,378	18,357,012	24,902,379	22,154,957
Total Assets	**78,984,005**	**108,348,593**	**121,062,739**	**145,780,505**	**165,788,268**
Liabilities					
Customer deposits	66,293,053	83,379,576	91,565,005	100,434,954	112,364,637
Borrowings	190,280	3,655,414	3,628,169	14,358,480	15,356,190
Other liabilities	1,977,719	5,831,981	8,300,659	7,636,358	11,721,299
Total Liabilities	**68,461,052**	**92,866,971**	**103,493,833**	**122,429,792**	**139,442,126**
Total Equity	10,522,953	15,481,622	17,568,906	23,350,713	26,346,142
Total Liabilities and Equity	**78,984,005**	**108,348,593**	**121,062,739**	**145,780,505**	**165,788,268**
CONSOLIDATED INCOME STATEMENT					
Interest income	6,831,580	11,467,574	11,642,416	13,711,068	17,014,132
Interest expense	2,552,092	5,983,706	4,374,437	5,712,949	7,271,599
Net interest income	**4,279,488**	**5,483,868**	**7,267,979**	**7,998,119**	**9,742,533**
Credit impairment charges	258,151	297,485	1,092,873	329,133	1,652,475
	4,021,337	**5,186,383**	**6,175,106**	**7,668,986**	**8,090,058**
Non-interest income	2,323,246	2,832,257	3,155,207	3,508,139	3,955,634
Operating income	**6,344,583**	**8,018,640**	**9,330,313**	**11,177,125**	**12,045,692**
Operating expenses	2,739,635	3,500,673	4,320,742	4,946,475	5,648,417
Profit before income tax	**3,604,948**	**4,517,967**	**5,009,571**	**6,230,650**	**6,397,275**
Income tax expense	897,811	1,481,173	1,772,270	2,113,976	1,912,150
Profit for the year	**2,707,137**	**3,036,794**	**3,237,301**	**4,116,674**	**4,485,125**
Less profit/ (loss) attributable to non-controlling interests	**54,679**	**52,388**	**(86,080)**	**(4,181)**	**7,770**
Profit attributable to equity holders of the Bank	**2,652,458**	**2,984,406**	**3,323,381**	**4,120,855**	**4,477,355**
Earnings Per Share (Shs) - Basic	5.54	6.03	6.71	7.07	7.00
Dividend Per Share (Shs)	0.50	1.00	1.00	1.00	1.25
OTHER DISCLOSURES					
Non-performing loans and advances					
a) Non-performing loans and advances	1,961,277	2,332,701	4,520,926	4,032,008	13,228,534
b) Allowance for impairment	1,690,526	1,652,986	2,592,033	2,680,360	2,776,628
c) Net Non-performing loans and advances (a-b)	**270,751**	**679,715**	**1,928,893**	**1,351,648**	**10,451,906**
Number of Employees	**712**	**783**	**909**	**1001**	**1111**
Number of Branches	**24**	**24**	**30**	**32**	**35**
KEY PERFORMANCE INDICATORS					
Return on capital employed (ROCE)	34.26%	29.18%	28.51%	26.68%	24.28%
Non-interest income to operating income	35.19%	34.06%	30.27%	30.49%	28.88%
Non-performing loans to total loans	3.46%	3.26%	5.41%	4.01%	11.54%
Return on total assets	4.56%	4.17%	4.14%	4.27%	3.86%
Cost to Income ratio	41%	42%	41%	43%	41%

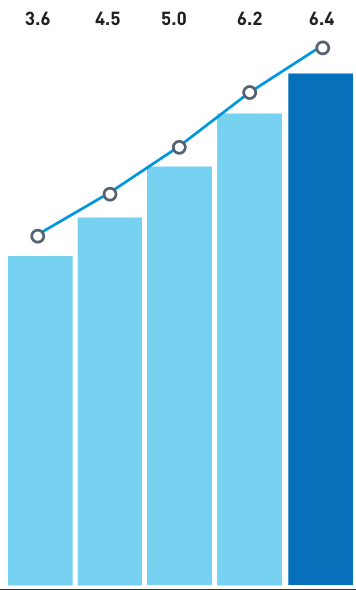
FIVE YEAR FINANCIAL REVIEW

PERCENTAGE INCREASE	LOANS	DEPOSITS	PROFIT BEFORE TAX
	CAGR + 19%	CAGR + 14%	CAGR + 15%

Shs Billions



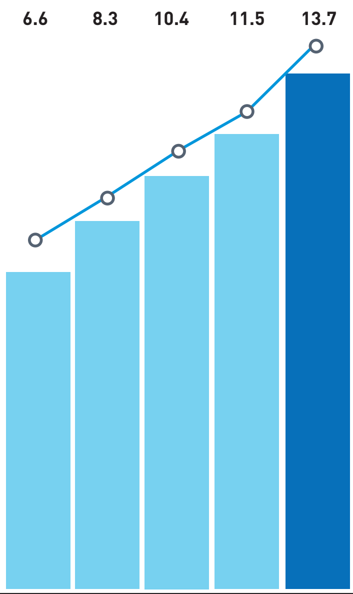


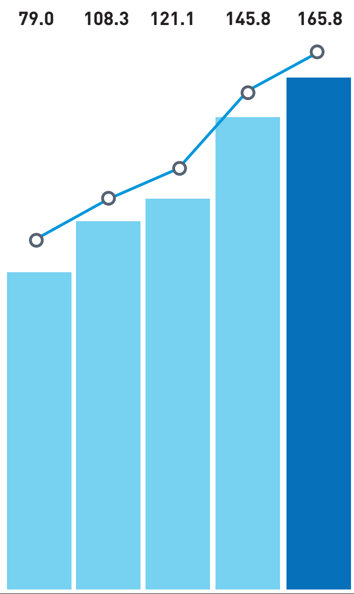


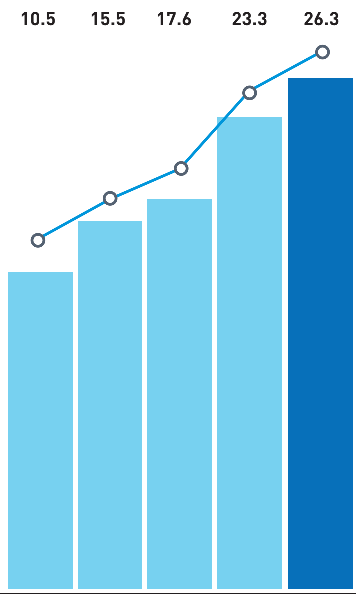
YEARS	2011 - 2015	2011 - 2015	2011 - 2015

PERCENTAGE INCREASE	OPERATING INCOME	TOTAL ASSETS	TOTAL EQUITY
	CAGR + 20%	CAGR + 20%	CAGR +26 %

Shs Billions



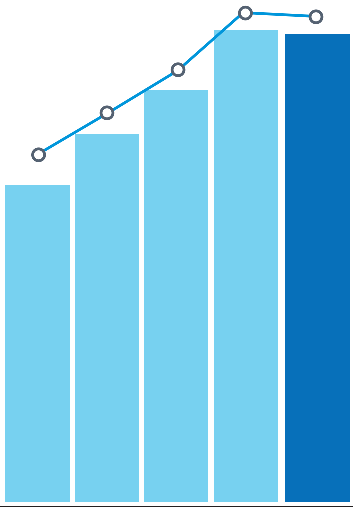
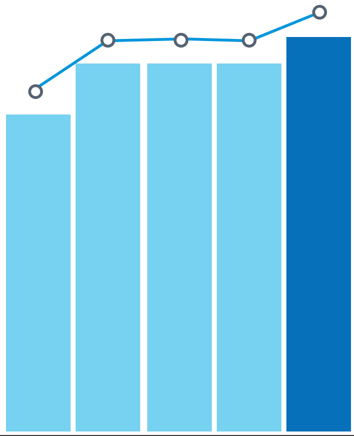
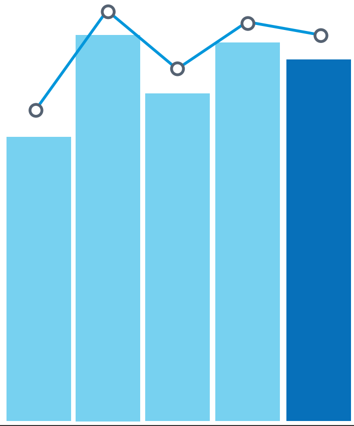


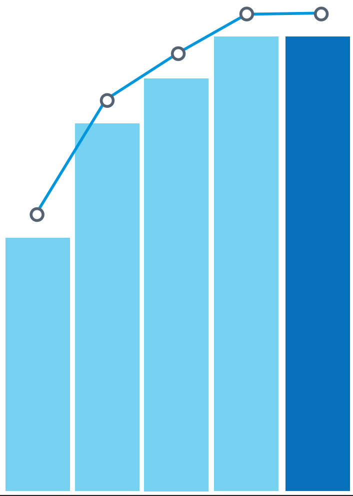
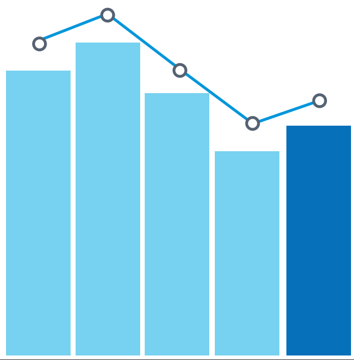
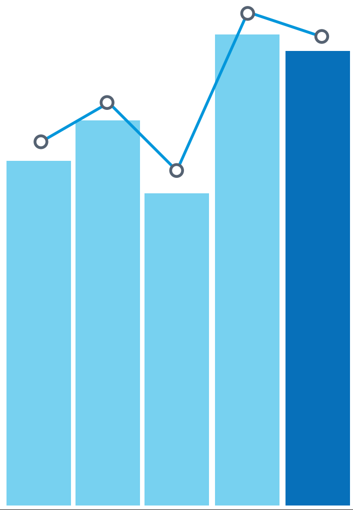


YEARS	2011 - 2015	2011 - 2015	2011 - 2015

CAGR-COMPOUND ANNUAL GROWTH RATE

FIVE YEAR FINANCIAL REVIEW

	EARNING PER SHARE	DIVIDENDS PER SHARE	LIQUIDITY RATIO
	Shs	Shs	
	5.54 6.03 6.71 7.07 7.0	0.5 1.0 1.0 1.0 1.25	27% 35% 29% 33% 30%
			
YEARS	2011 - 2015	2011 - 2015	2011 - 2015

	BANK CAPITAL ADEQUACY RATIOS		
	CORE CAPITAL TO TOTAL DEPOSITS RATIO MINIMUM 8%	CORE CAPITAL TO TOTAL RISK WEIGHTED ASSETS RATIO MINIMUM 10.5%	TOTAL CAPITAL TO TOTAL RISK WEIGHTED ASSETS RATIO MINIMUM 14.5%
	14.7% 16.3% 16.8% 20.5% 20.5%	15.0% 15.6% 14.8% 14.4% 14.5%	15.9% 16.4% 15.6% 20.9% 20.5%
			
YEARS	2011 - 2015	2011 - 2015	2011 - 2015

FROM THE CHAIRMAN'S DESK

JAMES NDEGWA

DEAR STAKEHOLDER,

I am pleased to present the NIC Bank Group Annual Report and Financial Statements for the year ended 31 December 2015.

In what proved to be a challenging period, NIC Bank was able to return a solid performance for the year and it is evidence of the Bank's resilience that it was able to grow its business, especially in the key segments of Retail and Small and Medium Enterprises (SMEs).

OPERATING ENVIRONMENT IN 2015

Despite a strong start to the year, Kenya's overall economic growth projection was revised downwards by the Government from a previous high of 6.5% to 5.8%-6.0% largely off the back of global vulnerabilities. The World Bank followed suit, and reduced their growth forecast for the country to 5.4%, citing challenges in the tourism sector and the depreciating Kenyan shilling. This view was validated by the National Economic Survey published in May 2016 which stated that the economy had grown by 5.6% in 2015.

While most currencies across the globe came under pressure, efforts by the Government to support the Kenyan shilling were successful during the period under review. After dropping to the 106 levels against the US dollar in September, the shilling strengthened to end the year at the 102 levels. The same trend was replicated against all the major world currencies. The shilling strengthened on the back of rising yields and subsequent heightened appetite for Treasury securities. Impetus was also provided by regular CBK intervention which comprised of increased US dollar sales in the market to support the local unit and through mopping up of excess shilling liquidity. The average lending rate increased by 237 bps to 18.30% in December 2015 from 15.93% recorded in January 2015 while the average deposit rate increased to 8.02% in December 2015 from 6.65% recorded in January 2015. Inflation increased in the year to close at 8.01% in December after starting the year at 5.53%. The primary driver was food inflation coupled with an increase in housing and utility prices.

Turning to Tanzania, the economy continued its fast paced growth, with the World Bank projecting a GDP growth of 7.2% for 2015. This was mainly driven by increased growth in the communications, mining and financial services sectors. Inflation remained contained and ended the year at 6.8% compared to 4.8% in 2014. The economy is expected to continue growing strongly, boosted by a more favourable macroeconomic environment, enhanced budgetary management processes and the positive impact arising from significant infrastructure projects such as the construction of the Bagamoyo port.

In Uganda, the World Bank has projected the economy to have grown at 5% in 2015, stronger than the 4% reported in 2014. This was mainly driven by increased production in the agricultural, mining, manufacturing and the services sectors.

Sustained efforts towards closer regional integration are likely to be solidified by a rich pipeline of inter-country infrastructure projects. These include the Standard Gauge Railway (SGR). The Kenyan component of the region's biggest

CHAIRMAN'S STATEMENT (Cont)

infrastructure project is currently under construction and is expected to improve the movement of goods between the Port of Mombasa and its hinterland. The line is eventually expected to reach Kigali, Rwanda, through Kampala, Uganda, with a detachment to Juba, South Sudan.

The region has also attracted investors in the extractive sector, following commercially viable oil finds in Uganda and Kenya and a rich natural gas sector in Tanzania. Recent efforts to improve regional trade e.g. removal of non-tariff barriers and the operationalization of One Stop Border Posts (OSBPs) also hold a lot of promise.

THE KENYAN BANKING SECTOR

The banking sector continued to register good growth in 2015 with gross loans growing by 16.6% to Shs 2.3 trillion, deposits growing 12.2% to Shs 2.6 trillion and total income growing 14.5% to Shs 475 billion.

PROFITABILITY & DIVIDEND PAYOUT

Given the Bank's positive performance over the course of 2015, where it recorded consistent quarter on quarter growth to end the year with a profit before tax of Shs 6.4 billion, the Board of Directors recommended a dividend of 1.25 per share.

This amounts to a total dividend pay-out of Shs 800 million compared to Shs 640 million paid in 2014, representing a growth in dividend pay-out of 25%.

The dividend pay-out is in line with the Bank's strategy to maintain sufficient levels of capital reserves through retained earnings.

EMPLOYEES

During the year the Group grew its workforce to end the year at 1,111. We expect this number to grow in the coming years as we continue with our expansion strategy, especially in Kenya.

The Group continues to actively refine and enhance its employee reward and retention practices to be the "Employer of Choice" as we compete for the best talent in a highly competitive market.

SUBSIDIARIES

The growth and development of our subsidiary companies remains a key strategic objective and one that is aimed at both broadening the range of financial services offered to customers and enhancing earnings diversity in the NIC Bank Group.

In the year under review the Group opened a new leasing unit, NIC Leasing LLP, the first for a Kenyan bank. This unit will complement our market leading Asset Finance business in offering an alternative way to fund capital expenditure.

A key objective of our current strategy is to increase the contribution from our subsidiaries. In the year under review, I am pleased to report that NC Bank Uganda, NIC Bank Tanzania, NIC Capital (Investment Banking), NIC Insurance Agents (Bancassurance) and NIC Securities (Brokerage) all contributed positively to the Group's financial performance in 2015.

CORPORATE GOVERNANCE

NIC Bank Group adheres to the highest standards of corporate governance. We continuously review our corporate governance structures in line with existing and emerging regulatory requirements. Our Group structures and processes, which are outlined in greater detail later in this report, saw the Bank emerge as winner in the Corporate Governance category at the 14th Edition of the Financial Reporting (FiRe Awards), and overall winner at the Champions of Governance Awards for 2015.

CITIZENSHIP

We believe that we can only succeed by partnering with and supporting the communities in which we operate. Our business places the right balance of focus on both the financial performance of our franchise and our role as good citizens in our communities.

NIC Bank is an active participant and signatory to the Sustainable Finance Initiative (SFI), which was spearheaded by the Kenya Bankers Association.

In 2014 the Bank launched a robust three year Citizenship strategy hinged on four key pillars: Education, Innovation, Health and Humanitarian Assistance/Emerging Business Needs.

In 2015, under the Education pillar, the Bank continued its partnership with the Edumed Trust and the Palmhouse Foundation. In May, the Bank partnered with Kenya Community Development Foundation (KCDF) to roll out the Mentenda Initiative, a program where male NIC Bank Staff volunteer to mentor young male students at Upper Hill Boys High School. 2015 also marked the inception of the NIC Bank University Internship Program where the bank brought in 39 top performing students from across the different universities in Kenya to prepare them for a career in banking. A number of these students were absorbed into the bank on a full time basis.

Under the Innovation pillar, the Bank enhanced its engagement with Junior Achievement to introduce an innovation challenge where high school students were tasked to come up with an innovative idea that would be beneficial to the Financial Services Sector. This initiative was conducted in partnership with Craft Silicon Foundation who is a key technology partner of the Bank.

CHAIRMAN'S STATEMENT (Cont)

Our focus on Health saw the Group continue with its support of the Faraja Cancer Support Trust, Dr Choksey Albinism Foundation and the Jigger Eradication Campaign through the Ahadi Trust.

The Group has now also become the official sponsor of the Annual Mombasa Cricket tournament. The tournament, now dubbed the NIC Bank T20 Cricket Cup, has proven to be extremely successful and brings together young and talented players from all over Mombasa. While sports is not a pillar for the Group, we believe that sports support both the Education and Health pillars.

OUTLOOK

While 2016 started on an economically challenging note, we are bullish about the long term economic prospects of the region. The high interest rates that have defined the last quarter of 2015 have now subsided. We have also seen inflation trending downwards during the quarter benefitting from lower food prices following sufficient rainfall and the continued slide in global commodity prices, particularly oil. The Government's continued investment in infrastructure and the growth in the service sector should anchor growth in the medium term. NIC Bank is positioning itself to play a critical role in the region's economic development by constantly innovating to meet the needs of an increasingly sophisticated and technology-savvy clientele.

TRIBUTE

On 10 March 2016 the Board received the sad news that Mr Michael Somen had passed away. Mr Somen was appointed a director of NIC Bank on 21 February 2001 and since that time had proved a highly effective member of the Board who also served on various committees including the Board Credit Risk and Executive Committees. In addition he served as Vice Chairman of the Board until 2005 and was also a member of the Board of NIC Capital.

Mr Somen brought to the Board a deep understanding of the law having been called to the Bar at Grays Inn, England, being an Advocate of the High Court of Kenya and working for Hamilton Harrison & Mathews Advocates from which he retired as Senior Partner and remained as a consultant until 2010. He also brought immense business experience being a significant entrepreneur in his own right and having served on the boards of various private and listed companies, several of which he chaired. At the NIC Board we shall always appreciate, and now greatly miss, his insightful, humorous, enthusiastic and supportive participation that made an important contribution to the growth and success of the NIC Bank Group in the last 16 years.

APPRECIATION

We would not be where we are today without the consistent, unwavering support of our various stakeholders.

The Board, Management and Staff highly appreciate the support of our over 25,000 shareholders. Their support has allowed the Group to continue making critical investments to ensure future growth.

Our customers are the reason for our business. We do not take their support for granted and continually strive to be worthy of the trust bestowed on us.

We also remain highly appreciative of our business partners and the regulators who continue to provide invaluable support, not just in Kenya, but across the region where we have a presence.

On behalf of the board, I wish to thank each and every employee of NIC Bank Group for playing their part in making 2015 another successful year.

Finally, I thank my fellow Directors for their contribution and commitment to the Group at both board and committee levels

J P M Ndegwa
Chairman

TAARIFA YA MWENYEKITI

Nina furaha kuwasilisha kwenu ripoti ya mwaka na taarifa za kifedha ya Shirika la Benki ya NIC ya mwaka unaomalizikia tarehe 31 Disemba 2015.

Katika mwaka ambao ulikuwa na changamoto zake, Benki ya NIC iliweza kupata mafanikio imara katika utendaji wake mwaka huo na hii ikiwa ni ishara ya ujasiri wa Benki hii wa kuweza kukuza biashara yake, hasa katika vitengo muhimu vya reja reja na biashara ndogo hadi za kati (SMEs).

MAZINGIRA YA UTENDAKAZI KATIKA 2015

Licha ya mwaka kunaza ukiwa imara, kwa ujumla makadirio ya ukuaji wa uchumi wa Kenya yalifanyiwa mapitio na kupunguzwa na Serikali kutoka kima cha juu hapo awali cha 6.5% hadi 5.8%-6.0% kwa kiasi kikubwa kutokana na udhaifu wa kimataifa. Benki ya Dunia ilifuata mkondo huo huo, na kupunguza makadirio yao ya ukuaji kwa nchii hadi 5.4%, wakitoa sababu ya changamoto katika sekta ya utalii na kushuka kwa thamani ya shilingi ya Kenya. Mtazamo huu pia ukisisitizwa na Utafiti wa Taifa wa Uchumi uliochapishwa mwezi Mei 2016 uliosema kwamba uchumi ulipata ukuaji wa 5.6% katika mwaka wa 2015.

Wakati sarafu nyingi kote duniani zikipata shinikizo, juhudi za Serikali kusaidia kuhimili shilingi ya Kenya zilifaulu katika muda huo tunaokariria. Baada ya kudorora kwa kiwango cha 106 dhidi ya dola ya Marekani katika Septemba, shilingi iliimarika mwisho wa mwaka hadi kiwango cha 102. Mtindo kama huo uliigwa dhidi ya sarafu muhimu ulimwenguni. Shilingi iliimraika kutokana na kupanda kwa faida na hatimaye kuzidi kuhitajika kwa Hati za dhamana. Msukumo pia ulileta na kuingiliwa mara kwa mara na Benki Kuu ya Kenya kulikojumuisha kuongezeka kwa mauzo ya dola za Marekani katika soko ili kusaidia sarafu ya humu na kupitia kuondoa ukwasi wa ziada wa shilingi. Wastani wa kiwango cha mikopo uliongezeka kwa 237 bps hadi 18.30% katika Desemba 2015 kutoka 15.93% iliyorekodiwa katika Januari 2015 huku wastani wa kiwango cha amana kikiongezeka kwa 8.02% katika Desemba 2015 kutoka 6.65% iliyorekodiwa katika Januari 2015. Mfumuko wa bei uliongezeka katika mwaka huo na kufungia kwa 8.01% katika Desemba baada ya kuanza mwaka katika 5.53%. Kichocheo cha msingi kilikuwa chakula mfumuko wa bei ya chakula pamoja na kuongezeka kwa bei za makazi na matumizi.

Tukigeukia Tanzania, uchumi wake uliendelea kukua kwa kasi, huku Benki ya Dunia ikikisia ukuaji wa Pato la Taifa (GDP) wa 7.2% kwa mwaka wa 2015. Hii iilichochewa hasa kutokana na kuongezeka kwa ukuaji katika sekta za mawasiliano, madini na huduma za kifedha. Mfumuko wa bei ulizidi kuthibitiwa na kumalizia mwaka katika 6.8% ikilinganishwa na 4.8% za mwaka wa 2014. Uchumi unatarajiwa kuendelea kukua kwa uthabiti, ikisaidiwa na mazingira mazuri zaidi ya uchumi, kuimarishwa kwa michakato ya usimamizi wa bajeti na athari za kuleta matuamaini kutokana na miradi ya miundombinu muhimu kama ule ujenzi wa bandari ya Bagamoyo.

Nchini Uganda, Benki ya Dunia ilikuwa imekadiria ukuaji wa uchumi 5% katika 2015, ukiwa thabiti zaidi kwa 4% kama ilivyoripotiwa katika 2014. Hali hii hasa ilizidi kutokana na ongezeko la uzalishaji katika sekta za kilimo, madini, viwanda na huduma.

Juhudi endelevu za kuleta ushirikiano wa karibu wa kikanda zina uwezekano wa kuimarishwa zaidi na miradi mingi iliyopangiwa ya ujenzi wa miundombinu baina ya mataifa haya. Hii ikiwa ni pamoja na ule wa ujenzi wa reli wa Standard Gauge Railway (SGR). Sehemu ya Kenya ya mradi huu mkubwa zaidi wa miundombinu katika kanda sasa umeanza kujengwa na unatarajiwa kuboresha harakati za uhawilisho wa bidhaa kati ya Bandari ya Mombasa na bara yake. Hatimaye reli hii inatarajiwa kufika Kigali, Rwanda, kupitia Kampala, Uganda, na nyingine ikienda hadi Juba, Sudan Kusini.

Eneo hili pia limevutia wawekezaji katika sekta ya uchimbuaji, baada ya kugunduliwa mafuto ya kutosha kibiashara nchini Uganda na Kenya na kupatikana kwa gesi asilia nchini Tanzania. Jitihada za hivi karibuni ili kuboresha biashara ya kikanda k.m kuondolewa kwa vikwazo visivyokuwa vya ushuru na utekelezaji wa mpango wa Sehemu Moja ya Kuvukia Mpaka (OSBPs) pia kunaleta matumaini makubwa.

SEKTA YA BENKI NCHINI KENYA

Sekta ya benki iliendelea kusajili ukuaji mzuri katika 2015 huku jumla ya mikopo ikikuwa kwa 16.6% hadi trilioni Shs2.3, amana kuongezeka kwa 12.2% hadi trilioni Shs 2.6 na jumla ya mapato kuongezeka kwa 14.5% hadi Shs bilioni 475.

TAARIFA YA MWENYEKITI

FAIDA NA MGAWO WA MAPATO

Kutokana na matokeo maridhawa ya Benki katika kipindi cha mwaka wa 2015, pale iliporekodi ukuaji wa robo kwa robo kukiwa na faida ya mwaka kabla ya kulipa kodi ya bilioni Shs 6.4, Bodi hii ya Wakurugenzi inapendekeza mgawo wa 1.25 kwa kila hisa.

Hii ikiwa ni kisai sawa na jumla ya malipo ya mgawo wa milioni Shs 800 ikilinganishwa na milioni Shs 640 katika 2014, ikiwakilisha ukuaji wa malipo ya mgawo wa 25%.

Malipo haya ya mgawo yako samabamba na mkakati wa Benki wa kudumisha viwango vya kutosha vya hifadhi ya mtaji kupitia kubakiza mapato.

WAFANYIKAZI

Katika mwaka huo Kundi lilizidisha idadi ya wafanyikazi na kumalizia mwaka wakiwa na 1,111. Tunatarajia idadi hii kuongezeka katika miaka inayokuja tunapoendelea kutekeleza mkakati wetu wa ukuaji, hasa hapa Kenya.

Kundi hili linaendelea kufuatilia kikamilifu mipango ya kuboresha na kuimarisha malipo ya wafanyakazi wake na njia za kudumu nao ili kuwa "Mwajiri Mteule" wakati tunaposhindania kuwania vipaji bora katika soko hili lenye ushindani mkubwa.

KAMPUNI TANZU

Ukuaji na maendeleo ya makampuni yetu tanzu bado ni muhimu kwa malengo ya mkakati wetu na moja ya lengo la kupanua huduma mbali mbali za kifedha zinazotolewa kwa wateja na kuimarisha utofauti wa mapato katika Kundi hili la Benki ya NIC.

Katika mwaka huu unaotathminiwa Kundi lilifungua kitengo cha kukodisha, NIC Leasing LLP, hii ikiwa ni ya kwanza kwa benki ya hapa Kenya. Kitengo hiki kitasaidia ile biashara yaetu inayoongoza ya kufadhilia rasilimali (Asset Finance) kwa kutoa njia mbadala ya fedha za kufidia mtaji.

Lengo letu muhimu ni kuongeza mchango kutoka matawi yetu. Katika mwaka husika, Mimi nafurahia kawaarifuni kwamba NC Bank Uganda, NIC Bank Tanzania, NIC Capital (Investment Banking), NIC Insurance Agents (Bancassurance) na NIC Dhamana (Brokerage) wote wamechangia vyema katika utendaji bora wa kifedha wa Kundi katika mwaka 2015.

USIMAMIZI WA SHIRIKA

Kundi la Benki ya NIC hufuata viwango vya juu vya usimaizi wa shirika. Sisi tunaendelea kupitia na kutathmini miundo yetu ya Usimaizi wa shirika sambamba na mahitaji ya udhibiti kanuni yaliopo na yanayotokea. Miundo na taratibu za Kundi letu, ambayo ni kama yalivyoainishwa kwa kina zaidi baadaye katika ripoti hii, ilipelekea Benki hii kuibuka mshindi katika kitengo cha Usimamizi Shirika katika toleo la 14 la tuzo za Utoaji Taarifa bora la Financial Reporting (FiRe Awards), na mshindi wa jumla wa Tuzo za Usimamizi Shirika la the Champions of Governance Awards la 2015.

URAIA

Tunaamini ya kuwa tutaweza tu kufaulu kwa kufanya ushirikiano na kuunga mkono jamii tunakoendesha shughuli zetu. Biashara yetu . Biashara yetu inaweka uwiano sawa wa mtazamo juu ya majukumu yote, ya utendaji bora wa kifedha kutokana na biasahara yetu na jukumu letu kama raia mwema katika jamii zetu..

Benki ya NIC ni mshiriki mkuu na mweka saini wa mpango wa endelevu wa maswala ya kifedha uitwao Sustainable Finance Initiative (SFI), ambao uliasisiwa na Chama cha Mabenki nchini Kenya (KBA).

Katika 2014 benki hii ilizindua mkakati madhubuti wa miaka mitatu wa Uraia unaofungamanishwa na nguzo tatu muhimu: Elimu, ubunifu, Afya na Msaada wa Kibinadamu/ Mahitaji ibuka ya Biasahara.

Katika 2015, chini ya nguzo ya Elimu, Benki hii iliendelea na ushirikiano wake na taasisi za ufadhili za Edumed Trust na Palmhouse Foundation. Katika mwezi wa Mei, Benki hii ilifanya ushirikiano na shirika la Kenya Community Development Foundation (KCDF) kufanikisha ule mpango wa Mentenda Initiative, ambapo wafanyikazi wa kiume wa benki ya NIC hujitolea kuwashauri vijana wanafunzi wa kiume wa shule ya upili ya Upper Hill Boys High School. 2015 pia ndio kulianzishwa mpango wa ukufunzi wa wanafunzi wa vyuo vikuu yaani NIC Bank University Internship ambapo benki kuleta wanafunzi 39 waliyo bora zaidi kutoka katika vyuo vikuu mbalimbali nchini Kenya na kuwaandaa kwa ajili ya kazi katika benki. Hatimaye wengi wa wanafunzi hawa walichukuliwa na kuajiriwa kikamilifu na benki

Chini ya nguzo ya Ubunifu, Benki iliimarisha ushirikiano wake na Junior Achievement (Watekelezaji chipukizi) kuanzisha mashindano ya ubunifu ambapo wanafunzi wa shule za upili walipewa jukumu la kuja na wazo bunifu ambalo litaleta manufaa manufaa katika Sekta hii ya Huduma za Kifedha. Mpango huu ulifanywa kwa kushirikiana na shirika la Craft Silicon Foundation ambao ni washirika muhimu wa kiteknolojia wa Benki hii.

Mtazamo wetu juu ya Afya ulipelekea Kundi hili kuendelea na msaada wake kufadhilia Faraja Cancer Support Trust, Dr Choksey Albino Foundation & the Jigger Eradication Campaign (kampeni ya kutokomeza funza) Kampeni kupitia shirika la Ahadi Trust.

Kundi sasa ndio mdhamini rasmi wa mashindano ya kila mwaka kriketi mjini Mombasa ya Annual Mombasa Cricket tournament. Mashindano hayo, sasa yanajulikana kama NIC T20 Cricket Cup, na yameonyesha mafanikio makubwa sana na huleta pamoja vijana wenye vipaji vya uchezaji

TAARIFA YA MWENYEKITI

kutoka kote Mombasa. Huku Michezo ikiwa sio nguzo hasa ya Shirika, tunaamini ya kwamba michezo inasaidia nguzo zote mbili za Elimu na Afya.

MTAZAMO

Wakati mwaka wa 2016 ukianza na hali ya changamoto za kiuchumi, sisi tulikuwa wakakamavu kuhusu matarajio ya muda mrefu ya kiuchumi katika kanda hii. Viwango vya juu vya riba ambavyo vinaelezewa robo ya mwisho wa mwaka 2015 na sasa imepungua. Tumeshuhudia pia mfumuko wa bei kwenda chini katika robo hiyo na kunufaika kupungua kwa bei ya chakula kutokana na mvua ya kutosha na kuzidi kupungua kwa bei za kimataifa za bidhaa, hasa za mafuta. Kuendelea kwa Serikali kuzidi kuwekeza katika miundombinu na kustawi kwa sekta ya huduma na kustahili kudumisha ukuaji katika muda wa kati. NIC Bank inajiweka katika nafasi muafaka ya kuchangia maendeleo makubwa ya kiuchumi ya kanda hii na daima kuwa wabunifu ili kukidhi mahitaji yanayozidi ya wateja wa kisasa na wanaotambua vyema teknolojia.

WASIFA

Mnamo mwezi Machi 10, 2016 tulipokea habari ya kusikitisha kwamba Bw. Michael Somen ameaga dunia. Bw. Somen aliteuliwa kuwa mkurugenzi wa NIC Bank mnamo tarehe 21 mwezi wa Februari mwaka wa 2001 na tangu wakati huo alidhihirisha kuwa mwanachama mtenda kazi kwa ufanisi katika Bodi na pia aliwahi kutumikia katika kamati mbalimbali ikiwa ni pamoja na ile ya Bodi ya Mikopo na Dhima na Kamati za Utendaji. Aidha yeye aliwahi kuwa Makamu wa Mwenyekiti wa Bodi hadi 2005 na pia aliwahi kuwa mjumbe wa Bodi ya NIC Capital.

Bw. Somen alileta kwa Bodi hii uelewa wa kina wa sheria kwa vile alikuwa ameitwa kwa Upau wa Wanasheria katika Grays Inn, Uingereza, na kuwa Wakili wa Mahakama Kuu ya Kenya na kufanya kazi na Shirika la mawakili la Hamilton Harrison & Mathews ambako alistaafu kama Mshirika Mkuu na kusalia kama mshauri hadi 2010. Pia alituletea uzoefu mkubwa wa biashara kwa vile alikwa mjasiria mali mkakamavu mwenyewe na baada ya kutumikia katika bodi za makampuni mbalimbali za mashirika ya kibinafsi na yaliyosajiliwa, ambayo miongoni mwayo alikuwa mwenyekiti. Tutaokosa sana muda wa wadifa wake katika Bodi ya NIC na daima kuuthamini, na tutakosa sana, mawazo yake ya busara, ucheshi, shauku na uungaji mkono na ushiriki wake uliochangia pakubwa katika ukuaji na mafanikio ya Kundi la Benki ya NIC katika miaka 16 iliyopita

SHUKRANI

Hatungeweza kufikia mahala tulipo hivi leo bila ya uungwaji mkono uliyo thabiti, usiotikisika kutoka kwa wadau wetu mbali mbali.

Bodi, Menejimenti na Wafanyakazi wanatoa shukrani za dhati kwa wanahisa zaidi ya 25,000 kwa kutuunga mkono. Msaada wao umewezesha Kundi hili kuendelea kufanya uwekezaji muhimu ili kuhakikisha linafikia ukuaji wa baadaye.

Wateja wetu ndio sababu ya biashara hii yetu. Hatuwezi kuubeza msaada wao kwa nafasi na daima tutajitahidi kuheshimu uaminifu tuliopewa.

Pia tunaendelea kutambua mno washirika wetu wa kibiashara na wasanifu uthibiti ambao wanaendelea kutoa msaada na mchango mkubwa sana, sio tu hapa nchini Kenya, bali kote katika kanda tunakoendesha shughuli zetu.

Kwa niaba ya Bodi hii, napenda kuwashukuru kila mmoja ya wafanyikazi wa Kundi hili la Benki ya NIC kwa kutekeleza jukumu lao la kuufanya mwaka wa 2015 kuwa mwaka mwingine wa mafanikio.

Kutamatisha, nawashukuru Wakurugenzi wenzangu kwa mchango wao na kujitolea kwao kwa Kundi hili katika nyadhifa zote mbili kama wanabodi na kama wanakamati

J P M Ndegwa
Mwenyekiti

FROM THE GROUP MANAGING DIRECTOR'S DESK

JOHN GACHORA

DEAR STAKEHOLDER,

A Year of growth

It is my pleasure to present the summary of our 2015 Financial Performance, Operational Highlights as well as our outlook for 2016.

2015 was the first year of the implementation of our current strategy which calls for a strategic shift in our business towards the SME and Retail Banking space. This shift is aimed at re-balancing our business into a full scale Universal Bank to ensure future sustainable growth and returns. In line with our Strategy, our performance in 2015 was significantly supported by growth in this space.

Over the course of 2015, we delivered progressively strong growth quarter on quarter. The growth was achieved against a balanced scorecard of business growth, operational efficiency, a strong control framework and sound governance.

Our growth in 2015 was largely supported by the successful capital raising of over Shs 12 billion which we undertook in 2014. This additional capital went towards supporting growth in the loan book for SME, retail and corporate segments, and will continue to do so for the next few years.

FINANCIAL PERFORMANCE:

The NIC Bank Group recorded a profit after tax of Shs 4.5 billion for the year ending 31 December 2015 representing an increase of 9% from Shs 4.1 billion net profit recorded in 2014.

In the year under review, the Group's net profit was weighed down by a significant increase in provisions as a result of deterioration in the facilities of a few large corporate customers.

Net operating income for the year excluding credit impairment charges was Shs 13.8 billion, a growth of 19% over 2014. This increase was driven by robust growth in the balance sheet, enhanced business efficiencies and strengthened performance from the Group's subsidiaries.

Net interest income grew by 21% to Shs 9.7 billion, while non-funded income also grew by 21% to Shs 8 billion in line with the Group's strategy to diversify its revenue sources.

Total operating expenses, excluding provisions, grew by 15% mainly due to our branch expansion strategy to reach more retail and SME customers.

GROUP MANAGING DIRECTOR'S STATEMENT (Cont)

The Group's cost to income ratio remains below 42%, representing one of the best efficiency ratios in the market.

The Group's loan book as at 31 December 2015 stood at Shs 116 billion, a 13% increase from Shs 102 billion the prior year, while customers' deposits closed at Shs 112.4 billion reflecting a 12% annual growth from Shs 100.4 billion.

The Group's core capital base closed the year 2015 at Shs 23.4 billion, a growth of Shs 2.7 billion over 2014.

OPERATIONAL HIGHLIGHTS

Innovation remains a key focus area for the Group. In 2015, we continued to build on our NIC NOW philosophy on which our online and mobile banking platforms are built on. We continue to aggressively migrate our customers onto our digital platforms where we have seen an increase in usage in the year under review. The Bank will continue investing in innovative products and technology.

Early in the year, we launched a new leasing subsidiary, NIC Leasing LLP, the first for a Kenyan bank. This fits into the Bank's long term strategic plan which is anchored on an aggressive growth strategy especially in Asset Finance, in which it is currently the market leader.

NIC Bank continues to attract talent to help us achieve our ambitious growth. During the course of the year, the Bank hired David Abwoga as Director of Finance and Strategy, Robert Kibaara joined as the Director of Retail Banking and Jerry Simu as Director of NIC Investment Banking. NIC Investment Banking is a new unit which brings together NIC Securities and NIC Capital.

The Bank also entered into strategic partnerships with Safaricom to enable M-Pesa Dealers and Agents banking with NIC Bank to access float around the clock and in real time, through the bank's online and mobile banking platforms. The collaboration replaces the system that would take up to 48 hours for businesses to realize their float, you can now access your money faster.

The Group grew its branch network to 27 in Kenya with the opening of 3 new branches in Machakos, Lunga Lunga in Nairobi's Industrial Area, and Sifa Towers in the Kilimani area of Nairobi. We also entered into strategic partnerships with MoneyGram and Western Union to reach more retail and SME customers across our branch network.

The Group invested an additional US$ 3.3 million in NC Bank Uganda during the year under review for business expansion. A new branch was also opened in the Bugolobi area of Kampala, to reach more customers.

In July, NIC Bank Tanzania received a long term loan of US$ 7 million from Proparco, a private sector financing arm of Agence Francise de Development (AFD), towards strengthening the Bank's position in the Corporate and SME segments in Tanzania, while in December 2015, we concluded agreements towards a Shs 5.56 billion (Euros 50 million) credit line from the European Investment Bank (EIB). This will go a long way to support the private sector in Kenya through lending to Small and Medium Enterprises (SMEs).

We also continue to be recognized by our partners and key stakeholders and in 2015 the bank received the following industry recognitions:

- Winners in the Corporate Governance Category at the 14th Edition of the FiRe Awards.
- Overall Winners at the Champions of Governance award.
- Best Online Banking Platform at the Banker East Africa Awards
- First Runners up in the Best Bank in Asset Finance category at the Think Banking Awards
- First Runners up in the Investment Bank of the Year and Lead Transaction Advisor of the Year Categories at the Think Business Investment Awards

2016 OUTLOOK

Our strategy calls for a clear focus towards return on capital looking at key segments of the economy (Retail, SME and local corporates), our brand, our people and right-scaling in order to deliver acceptable returns to our shareholders. We remain very optimistic about the future of the Bank.

As a Bank we are well positioned to grow our Retail and SME segments, which will be driven by our branch expansion. This will be complemented by our wide range of products and services, which leverage innovative, new multi-channel solutions and strategic alliances with complementary partners.

On behalf of the Management and Staff of NIC Bank Group, I sincerely extend our appreciation to our Board, Shareholders, Customers, Regulators and Business Partners.

We shall count on your support as we take NIC Bank to even greater heights.

John Gachora
Group Managing Director

TAARIFA YA MKURUGENZI MKUU

Ni furaha yangu kuwasilisha kwenu kwa muhtasari mambo muhimu ya 2015 ya Utendaji wetu wa Kifedha, yalo muhimu katika uendeshaji shughuli kama vile mtazamo wetu wa 2016.

2015 ulikuwa mwaka wetu wa kwanza wa utekelezaji wa mkakati wetu wa sasa unahitaji kuhamishwa kimkakati kwa biashara yetu kuelekea kwa biashara ndogo hadi za kati (SME) na kitengo cha biashara ya Benki ya rejraeja. Kuhama huku kunadhamiriwa kurudisha mizania ya biashara yetu kuwa katika kiwango kamili kama Benki ya Kimataifa ili kuhakikisha ukuaji endelevu wa uchumi na faida hadi baadaye. Sambamba na Mkakati wetu, utendaji wetu mwaka 2015 kwa kiasi kikubwa ulishadidiwa na ukuaji katika kitengo hiki.

Katika kipindi cha mwaka 2015, tuliwasilisha mafanikio thabiti robo juu ya robo. Ukuaji huu ulifikiwa dhidi ya alma kigezo ya uwiano wa ukuaji wa biashara, ufanisi katika uendeshaji shughuli na uwezo wa kudhibiti mfumo na usimamizi bora.

Ukuaji wetu katika 2015 hasa ulisaidiwa zaidi na kufanikiwa kwetu katika kuongezea mtaji kwa zaidi ya Shs bilioni 12 tulikozindua katika 2014. Mtaji huu wa ziada uliekelezwa katika kusaidia ukuaji wa dfatari letu la mkopo kwa vitengo vya biashara ndogo hadi za kati (SME), rejareja na huduma kwa mashirika, na tutaendelea kutekeleza hilo kwa muda wa miaka michache ijayo.

UTENDAJI WA KIFEDHA:

Kundi la Benki ya NIC lilirekodi faida ya baada ya kulipa kodi ya Bilioni Shs 4.5 katika kipindi cha mwaka unaomalizikia tarehe 31 Disemba 2015hii ikiwakilisha ongezeko la 9% kutoka Bilioni Shs 4.1 faida halisi iliyoptikana katika 2014.

Katika mwaka tunaoukuriria, faida halisi ya Kundi ilienda chini kutokana na ongezeko kubwa la masharti kwa ajili ya kuzorota huduma kwa wachache wa wateja wakubwa wa mashirika.

This increase was driven by robust growth in the balance sheet, enhanced business efficiencies and strengthened performance from the Group's subsidiaries. Mapato halisi kutokana na uendeshaji shughuli kwa mwaka bila ya kuzingatia kuaharibika kwa mikopo kuharibika yalikuwa Bilioni Shs 13.8, ikiwa ni ukuaji wa 19% zaidi ya mwaka wa 2014. Ongezeko hili hasa limetokana na ukuaji mkubwa katika mizania ya hesabu, ufanisi wa biashara kuimarishwa na kuimarishwa kwa utendaji bora wa kampuni tanzu za Kundi.

Mapato halisi ya riba yalizidi kwa 21% hadi Bilinio Shs 9.7, huku mapato yasiyo ya kufadhiliwa pia yakizidi kwa 21% hadi Bilioni Shs 8 ikiwa ni sambamba na mkakati wa Kundi wa kutafuta vyanzo mbalimbali vya kuleta mapato.

Jumla ya gharama za uendeshaji, ukiondoa masharti, ilikua kwa 15% hasa zaidi kutokana na mkakati wetu wa upanuzi wa matawi ili kufikia wateja zaidi wa rejareja na wa biashara ndogo hadi za kati (SME).

Gharama ya Kundi kwa uwiano wa mapato bado iko chini ya 42%, ikiwakilisha moja ya uwiano bora zaidi wa ufanisi katika soko hili.

Daftari ya Mkopo ya Kundi ilipofoka tarehe 31 Disemba 2015 ilisimamia katika Bilioni Shs 116, ongezeko la 13% kutoka Bilioni Shs 102 za mwaka wa awali, huku karadha kutoka kwa wateja ikifungia katika Bilioni Shs 112.4 hii ikiakisia ukuaji wa 12 % kutoka Bilioni Shs 100.4.

Shina la mtaji wa Kundi lilitamatisha mwaka wa 2015 katika Bilioni Shs 23.4,huu ukiwa ni ukuaji wa Bilioni Shs 2.7 zaidi ya 2014.

MAMBO MUHIMU KATIKA UTENDAJI

Ubunifu bado unaendelea kuwa lengo kuu kwa Kundi. Katika mwaka 2015, tuliendelea kujenga juu ya falsafa yetu ya NIC NOW ambapo nyenzo yetu ya huduma za benki kupitia mtandao na simu za mkononi zimeshadidiwa humo. Tunaendelea kwa ukakamavu na shughuli ya kuwahamisha wateja wetu hadi kwenye huduma yetu kupitia dijitali ambapo tumeona ongezeko kubwa la matumizi katika mwaka huu tunaoutathmini. Benki itaendelea kuwekeza katika bidhaa bunifu na za teknolojia.

Mapema katika mwaka, tulizindua kampuni tanzu mpya ya kukodisha, NIC Leasing LLP, ikiwa ni ya kwanza kwa benki yoyote hapa Kenya. Hii inaoana na mkakati wa muda mrefu wa Benki hii ambayo inaegemea kwenye mkakati wa ukuaji wenye ukakamavu hasa katika utoaji Fedha za Rasilimali, kitengo ambacho kwa sasa sisi ndio tunaoongoza katika soko hili.

Benki ya NIC inaendelea kuvutia vipaji ili kutusaidia kufanikisha ukuaji kabambe wa uchumi wetu. Wakati wa kipindi cha mwaka, Benki ilimuajiri David Abwoga kama Mkurugenzi wa Fedha na Mkakati, Robert Kibaara alijiunga kama Mkurugenzi wa Kitengo cha biashara ya rejareja na Jerry Simu kama Mkurugenzi wa kitengo cha Kuwekeza cha NIC Investment Banking. NIC Investment Banking ni kitengo kipya ambacho kinajumuisha vitengo vya NIC Securities na NIC Capital.

Benki ilingia katika mikataba ya ubia na Safaricom ili kuwawezesha Wauzaji rasmi wa M-Pesa na mawakala walio wateja wa Benki ya NIC kupata pesa za float kila saa na katika muda halisi, kupitia huduma za benki hii za mtandao na simu. Ushirikiano huu unachukua nafasi ya mfumo ule amabo ungechukua hadi masaa 48 kwa wafanyibiashara hawa kupata float zao, sasa unaweza kupata fedha zako kwa kasi zaidi.

Kundi hili lilikuza matawi yake hadi 27 nchini Kenya kukiwa na ufunguzi wa matawi 3 mapya mjini Machakos, Lunga

TAARIFA YA MKURUGENZI MKUU

Lunga katika Mtaa wa Viwanda jijini Nairobi, najumba la Sifa Towers eneo la Kilimani, Nairobi. Vilevile tuliingia katika ubia na MoneyGram na Western Union ili kufikia wateja zaidi wa rejareja na wa SME kote katika mtandao wa matawi yetu.

Kundi hili liliwekeza Zaidi ya Dola za Marekani Milioni 3.3 katika NIC Bank Uganda kwa minajili ya upanuzi katika kipindi cha muda tunaoukariria. Tawi jipya pia lilifunguliwa katika eneo la Bugolobi mjini Kampala, ili kufikia wateja zaidi.

Mwezi wa Julai, NIC Tanzania ilipokea mkopo wa muda mrefu wa Dola za Marekani milioni 7 kutoka Proparco, kitengo cha kibinafsi cha kutoka fedha cha shirika la Agence Francise de Development (AFD), za kwenda kutilia nguvu nafasi muafaka ya Benki katika vitengo vya Mashirika na Biashara ndogo hadi za kati (SME) nchini Tanzania.

Wakati huo huo katika Desemba ya 2015, tulihitimisha mikataba ya kupata mkopo wa Shs bilioni 5.56 (50,000,000 Đ) kutoka benki ya European Investment Bank (EIB). Hii itasaidia pakubwa sekta ya kibinafsi nchini Kenya kupitia utaoji Biashara ndogo na za kati (SMEs).

Pia tunaendelea kutambulika na washirika wetu na wadau muhimu na katika 2015 benki hii ilituzwa zawadi katika sekta kama ifuatavyo:

- Washindi katika kitengo cha Usimamizi Bora wa Shirika katika toleo la 14 la FiRe Awards.
- Mshindi wa tuzo la Champions of Governance award.
- Benki bora Zaidi kwa masuala ya huduma kupitia mtandao yaani Best Online Banking Platform katika tuzo za Banker East Africa Awards
- Mshindi wa kwanza katika kitengo the Best Bank in Asset Finance category kwenye tuzo za Think Banking Awards
- Mshindi wa kwanza katika vitengo vya Investment Bank of the Year na Lead Transaction Advisor of the Year kwenye tuzo za Think Business Investment Awards

MTAZAMO KATIKA 2016

Mkakati wetu unatarajia mwelekeo sahihi wa kutuelekeza kwenye urudishaji faida kutokana na mtaji wetu kwa kutazama vitengo muhimu vya uchumi (Reja reja, SME na Mashirika ya humu), Chapa yetu, wafanyikazi wetu na kutumia nyenzo sahihi ili kuwasilisha faida za kukubalika kwa wanahisa wetu. Bado tuna matarajio makubwa sana juu ya hatma ya Benki katika siku zijazo

Sisi kama Benki tuna nafasi nzuri ya kukuza vitengo vyetu vya rejareja na SME makundi yetu, ambayo yatakuwa yanaendeshwa na upanuzi wa matawi. Hii itsaidiwa na kuwepo kwa aina mbali mbali ya bidhaa bidhaa na huduma, ambazo zinategemea ubunifu, ufumbuzi mpya wa nyenzo tofauti za suluhisho na ushirikiano wa kimkakati na washirika ziada.

Kwa niaba ya Menejimenti na Wafanyakazi wa Kundi la Benki ya NIC, mimi natoa shukrani zangu za dhati kwa Bodi yetu, Wamilikihisa, Wateja, Wadhibiti kanuni na Washirika wetu wa kibiashara.

Tutakuwa tunatarajia usaudizi wenu ili tuweze kuipeleka Benki ya NIC hadi kwenye kilele cha juu zaidi.

John Gachora
Mkurugenzi Mkuu

INDUSTRY ACCOLADES

2015

- Think Business Investment Awards - 1st Runners up - Transaction Advisor
- Think Business Investment Awards - 1st Runners up - Investment Bank of the Year
- Visa Awards - Winner - Innovation Marketing Award
- FiRe Awards - Winner - Corporate Governance
- The Banking Awards - 1st Runners Up - Best Bank in Asset Finance
- COG Awards - 1st Runners Up - 'Most Improved Organization'
- COG Awards - Winner - 'Finance and Investment Sector'
- COG Awards - Overall Winner
- The Banking Awards - 1st Runners up - Best bank in Asset Finance
- Bank Africa: East Africa Awards - Best online Platform


Winner
Champion of Governance
2015

THE BOARD OF DIRECTORS

From left to right seated: John Gachora | James P M Ndegwa | Frederick M Mbiru

From left to right standing: Andrew S M Ndegwa | Paras V Shah | Francis N Mwanzia | Michael L Somen (Deceased)

I Esther Ngaine I I Ochola – Wilson I George A Maina I Kairo Thuo I Livingstone Murage I Alan J Dodd

THE BOARD OF DIRECTORS

JAMES P M NDEGWA

CHAIRMAN (NON-EXECUTIVE)

Mr. Ndegwa holds a MA (Hons) degree from Oxford University, UK, and is an Associate of the Chartered Insurance Institute, UK. He is the Chairman of First Chartered Securities Limited and a director of several companies. Prior to his present position, he was the Managing Director of Lion of Kenya Insurance Company until 2003. He joined the Board on 19th November 2003 and was appointed Chairman in 2005.

FREDERICK M MBIRU

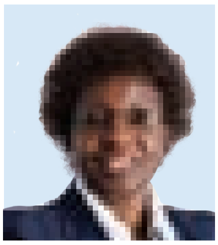
VICE CHAIRMAN (NON-EXECUTIVE) INDEPENDENT)

Mr. Mbiru holds a Bachelor of Arts degree in Business Administration (Hons) degree from Makerere University and is an Associate of the Chartered Institute of Bankers. He is currently a Management Consultant and a director of several companies having retired as General Manager of Barclays Bank of Kenya in 1993. He joined the Board on 16th February 1993.

JOHN GACHORA

GROUP MANAGING DIRECTOR (EXECUTIVE)

Mr. Gachora holds a Masters Degree in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology, USA as well as a Masters in Business Administration from the Wharton School, University of Pennsylvania, USA. He joined NIC from Barclays Africa where he had been Managing Director and Head of Corporate & Investment Banking. Prior to this, he held several executive positions at Absa Bank, in South Africa, as well as Bank of America and Credit Suisse First Boston in the United States. He joined NIC Bank in September 2013 as Group Managing Director and was appointed to the Board on 21 August 2013.



I OCHOLA – WILSON

DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

Mrs. Ochola-Wilson holds a Bachelor of Arts degree from Dar-es-Salaam University and an Masters in Business Administration from University of British Columbia, Canada. She is currently a Business Consultant having retired as a Project Manager for DFID's Business Partnership Programme in 2005. She joined the Board on 5th November 1999.

MICHAEL L SOMEN (Deceased)

DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

Mr. Somen is a Barrister-at-Law, Grays Inn, England, and holds an Masters in Business Administration (Hons) degree from Brasenose College, Oxford. He is an Advocate of the High Court of Kenya. He retired in 2002 as Senior Partner of Hamilton Harrison & Mathews Advocates but remained as a consultant with the firm until 2010. He joined the Board on 21st February 2001.

PARAS V SHAH

DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

Mr Shah, is a lawyer by profession and a Certified Public Secretary. He holds an LLB (Hons) degree, from King's College London, Diploma in legal practice from the College of Law, London, Diploma in Legal practice from Kenya School of Law and Diploma in Management from Henley School of Management. He is an Advocate of the High Court of Kenya and currently a partner at Hamilton Harrison & Mathews Advocates. He joined the Board on 23rd February 2010.

THE BOARD OF DIRECTORS

ALAN J DODD
EXECUTIVE DIRECTOR

Mr. Dodd holds a BA (Hons) degree in Economics from Portsmouth University, UK. He is an Associate of the Chartered Institute of Bankers. He has extensive regional and international banking experience covering East and Southern Africa, Middle East and Asia. He joined NIC Bank in January 2006 as Director, Corporate Banking, and was appointed to the Board on 22nd February 2006.

GEORGE A MAINA
DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

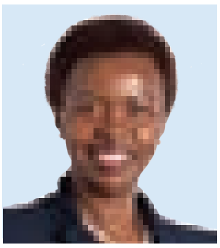
Mr. Maina holds a B. Tech (Hons) degree in Aeronautical Engineering and Design from Loughborough University, UK. He is currently a Business Consultant and a director of several companies. He has extensive experience in the oil industry in Africa, the Caribbean and Central America including being Managing Director of Kenya Shell and BP Kenya Limited from 1998 to 2002. He joined the Board on 1st June 2002.

ANDREW S M NDEGWA
DIRECTOR (NON-EXECUTIVE)

Mr. Ndegwa holds a MA (Hons) degree in Philosophy, Politics and Economics from Oxford University, UK. He is the Executive Director of First Chartered Securities Limited and a director of several companies. He previously worked for Citibank and AMBank until 1995. He joined the Board on 23rd April 1997.

KAIRO THUO
DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

Mr Thuo is both a lawyer and accountant by profession. He is a consultant and a founder member of Viva Africa Consulting LLP and Viva Africa Consulting Limited and was previously responsible for establishing and running the Tax Transaction Advisory group at Deloitte and Touche. He joined the Board on 27th November 2013.



ESTHER NGAINE
DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

Ms. Ngaine, is a senior banker with over 36 years of experience in a global financial institution. Prior to joining the NIC Bank Board, Ms. Ngaine was the Director and Head of Public Sector at Citibank. She has extensive banking experience and over the years has a played a role in the development of the Financial Services Sector in Kenya and the East Africa Region. She joined the Board in June 2014.

FRANCIS N MWANZIA
DIRECTOR (NON-EXECUTIVE) INDEPENDENT)

Mr. Mwanzia holds a Bachelor of Commerce (Hons) degree from University of Nairobi and is a qualified member of the Association of Chartered Certified Accountants, UK and Chartered Institute of Secretaries and Administrators, UK. He is also a member of ICPAK and ICPSK. He is currently a businessman having retired as Group Financial Controller and Company Secretary of NAS Airport Services in 1999. He joined the Board on 3rd August 1995.

LIVINGSTONE MURAGE
GROUP COMPANY SECRETARY (EXECUTIVE)

Mr. Murage holds a Bachelor of Commerce (Hons) degree from University of Nairobi and is a Certified Public Accountant and a Certified Public Secretary. He is also a member of ICPAK and ICPSK. He previously worked for PriceWaterhouse and Mobil Oil before joining the banking sector in 1986. He was appointed Company Secretary on 2nd September 1999.

EXECUTIVE MANAGEMENT

JOHN GACHORA

GROUP MANAGING DIRECTOR (EXECUTIVE)

Mr. Gachora holds a Masters Degree in Electrical Engineering and Computer Science from the Massachusetts Institute of Technology, USA as well as a Masters in Business Administration from the Wharton School, University of Pennsylvania, USA. He joined NIC Group from Barclays Africa where he had been Managing Director and Head of Corporate & Investment Banking. Prior to this, he held several executive positions at Absa Bank in South Africa as well as Bank of America and Credit Suisse First Boston in the United States. He joined NIC Bank in September 2013 as Group Managing Director and was appointed to the Board on 21st August 2013.

ALAN J DODD

EXECUTIVE DIRECTOR

Mr. Dodd holds a BA (Hons) degree in Economics from Portsmouth University, UK. He is an Associate of the Chartered Institute of Bankers. He has extensive regional and international banking experience covering East and Southern Africa, Middle East and Asia. He joined NIC Bank in January 2006 as Director, Corporate Banking and was appointed to the Board on 22nd February 2006.

LIVINGSTONE MURAGE

GROUP COMPANY SECRETARY (EXECUTIVE)

Mr. Murage holds a Bachelor of Commerce (Hons) degree from University of Nairobi and is a Certified Public Accountant and a Certified Public Secretary. He is also a member of ICPAK and ICPSK. He previously worked for PriceWaterhouse and Mobil Oil before joining the banking sector in 1986. He was appointed Company Secretary on 2nd September 1999.

JULIUS KAMAU

DIRECTOR, OPERATIONS & TECHNOLOGY

Mr. Kamau holds a degree in Bachelor of Commerce, Marketing from the University of Nairobi. He joined NIC Bank from Ecobank-Kenya where he was the Head of Operations & Technology. Prior to this, he held various positions at Citi Bank and Standard Chartered Bank respectively. He is a Certified Public Accountant, CPA (K) with 16 years of extensive experience in managing banking, IT operations and projects.

SANKUL MANDAVIA

DIRECTOR, TREASURY

Mr. Mandavia holds a Bachelor of Science in Business Administration from United States International University (USIU). Before his appointment he was the Assistant General Manager Institutional Banking and Liability Management at Commercial Bank of Africa. He also served as Head of Treasury at First American Bank of Kenya.

EXECUTIVE MANAGEMENT

MARGARET KIMUMA
DIRECTOR, CREDIT RISK

Ms. Kimuma holds a Bachelor of Science in International Business Administration from United States International University (USIU) as well as a Diploma in Customer Relationship Management from the Institute of Financial Services (UK). Prior to her appointment, she was the Head of Credit Risk. She has 23 years of experience in banking having also worked for Barclays Bank (K) Limited. Ms. Kimuma is an Associate of the Kenya Institute of Bankers.

ROSALIND KIMANI-GICHURU
DIRECTOR, MARKETING, COMMUNICATION & CITIZENSHIP

Mrs. Gichuru holds a Masters in Business Administration from Northeastern University, Boston, US and a Bachelor of Commerce degree from McMaster University, Hamilton, Ontario, Canada. She is a seasoned Marketer with over 18 years of Marketing Strategy, Trade Execution and Leadership experience in the United States and across Africa. Her Marketing career began at The Gillette Company in Boston Massachusetts where she held Brand Management positions in the Duracell and Oral B / Braun Divisions for the US market. She then joined NIC Bank from The Coca-Cola System where she held leadership positions with Coca-Cola SABCO and The Coca-Cola Company across 39 countries in Sub Sahara Africa.

MONICAH W. KIHIA
DIRECTOR, HUMAN RESOURCES

Mrs. Kihia holds a Masters in Business Administration in Marketing & Strategic Management from the University of Nairobi, and Bachelor of Education (Mathematics & Economics) from Egerton University. Prior to joining NIC Bank, Mrs. Kihia held various roles with Citibank N.A with the latest being Head of Learning & Development – Sub Sahara Africa cluster and Deputy East Africa HR Head & Senior HR Business Partner – Kenya. Monica is a Certified Executive Coach by the Academy of Executive Coaching.

DAVID ABWOGA
DIRECTOR, FINANCE & STRATEGY

Mr. Abwoga holds a Bachelor of Arts degree in Economics from Moi University and an MBA (Strategic Management) from the University of Nairobi. He joined NIC Bank from Citibank N.A where he was the East Africa Cluster Chief Financial Officer (CFO), responsible for Kenya, Tanzania, Uganda and Zambia. Prior to this, he held various executive management positions at Citi, Marshalls (EA) Ltd and Deloitte & Touché. David is a Certified Public Accountant, CPA (K) and CPS (K) with 23 years of extensive experience in Audit, Operations and Finance.

EXECUTIVE MANAGEMENT

JERRY SIMU

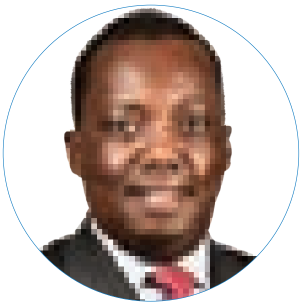
DIRECTOR, INVESTMENT BANKING

Mr. Simu holds an Msc in International Securities Investment Banking from University of Reading, ICMA Centre. Jerry previously worked for HSBC Africa where he held various senior management positions including Head of Coverage, Sub Saharan Africa with responsibility for the Representative Offices in Africa and covering fund raising across debt and equity platforms including syndications, debt capital markets and project export finance. His last position at HSBC was Managing Director prior to joining NIC Group in July 2015 as Director, Investment Banking.

ROBERT KIBAARA

DIRECTOR, RETAIL BANKING

Mr. Kibaara holds a Bachelor of Arts degree in Banking from University of Sunderland (UK) and a Post- Graduate Diploma in Marketing from Chartered Institute of Marketing – UK. He is currently pursuing a Masters of Business Administration degree, at Edinburgh Business School (Heriot Watt University – UK). Prior to joining NIC Bank, he was the Executive Director in charge of Retail and Business Banking at National Bank of Kenya. He has over 21 years of extensive experience in Banking and has held various senior management positions with Barclays Bank and Standard Chartered Bank.



ELLIE CHIURI

DIRECTOR, CORPORATE BANKING

Mr. Chiuri holds an MBA in International Business from Liverpool University. He joined NIC Bank in 2004, as an Analyst within the Corporate Banking Division, and has, over the years grown through the ranks and taken on increasing responsibilities within the Division. In 2014 he was appointed as the Head of Corporate Banking. He was appointed Director, Corporate Banking, in January 2016.

PANKAJ KANSARA

MANAGING DIRECTOR, NIC BANK TANZANIA LTD

Mr. Kansara holds a Masters in Business Administration in Finance and Banking from the University of Wisconsin, USA as well as a Bachelor of Business Administration in Accounting from Loyola College of Baltimore, USA. Mr. Kansara has been in the banking industry for over 25 years having worked with several Local and Multinational Banks in Kenya.

JOHN OKULO

MANAGING DIRECTOR, NC BANK UGANDA LTD

Mr. Okulo holds a Masters in Science and Economics from the University of Gdansk in Poland. He has 14 years of extensive banking experience in East Africa having worked for various multinational banks in both Kenya and Uganda. Mr. Okulo has spent most of his banking career in corporate banking.


nic BANK
YOU SAW
ANOTHER FOREMAN.
WE SAW
A CONTRACTOR.
All great stories have a beginning.

CORPORATE INFORMATION

DIRECTORS

J P M Ndegwa - Chairman
F M Mbiru - Vice Chairman
J Gachora - Group Managing Director•
A Dodd• **
G A Maina
F N Mwanzia
A S M Ndegwa
I Ochola-Wilson
M L Somen - Deceased on 10th March 2016
P V Shah
K Thuo
E N Ngaine

•Executive directors
**British

CREDIT RISK COMMITTEE

F M Mbiru - Chairman
F N Mwanzia
A S M Ndegwa
P V Shah
E N Ngaine

EXECUTIVE COMMITTEE

A S M Ndegwa - Chairman
G A Maina
M L Somen - Deceased on 10th March 2016
P V Shah
E N Ngaine

RISK MANAGEMENT COMMITTEE

G A Maina - Chairman
F M Mbiru
I Ochola-Wilson

AUDIT COMMITTEE

F N Mwanzia - Chairman
F M Mbiru
I Ochola-Wilson
K Thuo

GOVERNANCE AND NOMINATIONS COMMITTEE

G A Maina - Chairman
A S M Ndegwa
P V Shah
E N Ngaine

HUMAN RESOURCES AND COMPENSATION COMMITTEE

I Ochola-Wilson - Chairman
F M Mbiru
A S M Ndegwa

INFORMATION, COMMUNICATION AND TECHNOLOGY COMMITTEE

E N Ngaine - Chairman
A S M Ndegwa
P V Shah
K Thuo

GROUP COMPANY SECRETARY

L Murage
Certified Public Secretary (Kenya)
NIC House, Masaba Road
P.O Box 44599 - 00100
Nairobi

REGISTERED OFFICE

NIC House
Masaba Road
P.O Box 44599 - 00100
Nairobi

REGISTRARS AND TRANSFERS OFFICE

Custody & Registrars Services Limited
6th Floor, Bruce House,
Standard Street
P.O Box 8484 - 00100
Nairobi

AUDITOR

PricewaterhouseCoopers
Certified Public Accountants (Kenya)
PwC Tower
Waiyaki Way/Chiromo Road, Westlands
P.O Box 43963 - 00100
Nairobi

STATEMENT ON CORPORATE GOVERNANCE

Adherence to good corporate governance practices is essential in the sustainable management of companies and delivery of sustainable stakeholder value.

The critical importance of good corporate governance is no more so than in the management of the financial services industry, where recent challenges have revealed weaknesses in governance practices which have had far reaching consequences and continuing repercussions for the various stakeholders.

A selection of some of these governance issues include:

- The need to have appropriate compensation and reward structures that do not encourage imprudent risk taking and increased focus on short-term gain at the expense of the long-term stability of the institution;
- The need to fully understand the risks associated with complex financial structures;
- The need to observe Board approved policies and regulatory guidelines concerning the prudent management of business requirements;
- Risk management structures and controls that keep pace with the increased complexity and size of financial transactions and relationships;
- Adequate disclosures in financial statements about the foreseeable risk factors and about the systems for monitoring and managing risks; and
- Managing conflicts of interest amongst different stakeholders in financial institutions

The strength and wellbeing of the financial system is critical to both economic and social development and the financial regulators have taken measures to ensure that the failures experienced in the recent past do not recur. Our main regulators, the Central Bank of Kenya (CBK), the Bank of Tanzania (BOT), the Bank of Uganda (BOU), the Capital Markets Authority (CMA), the Nairobi Securities Exchange (NSE) and the Insurance Regulatory Authority (IRA), have enhanced their regulations and enriched risk management guidelines to ensure that banks and other financial institutions can effectively mitigate the myriad risks to which they are exposed.

The NIC Bank Group has fully embraced these requirements and remains at the forefront in adopting best practices in corporate governance and risk management in the rapidly evolving financial landscape.

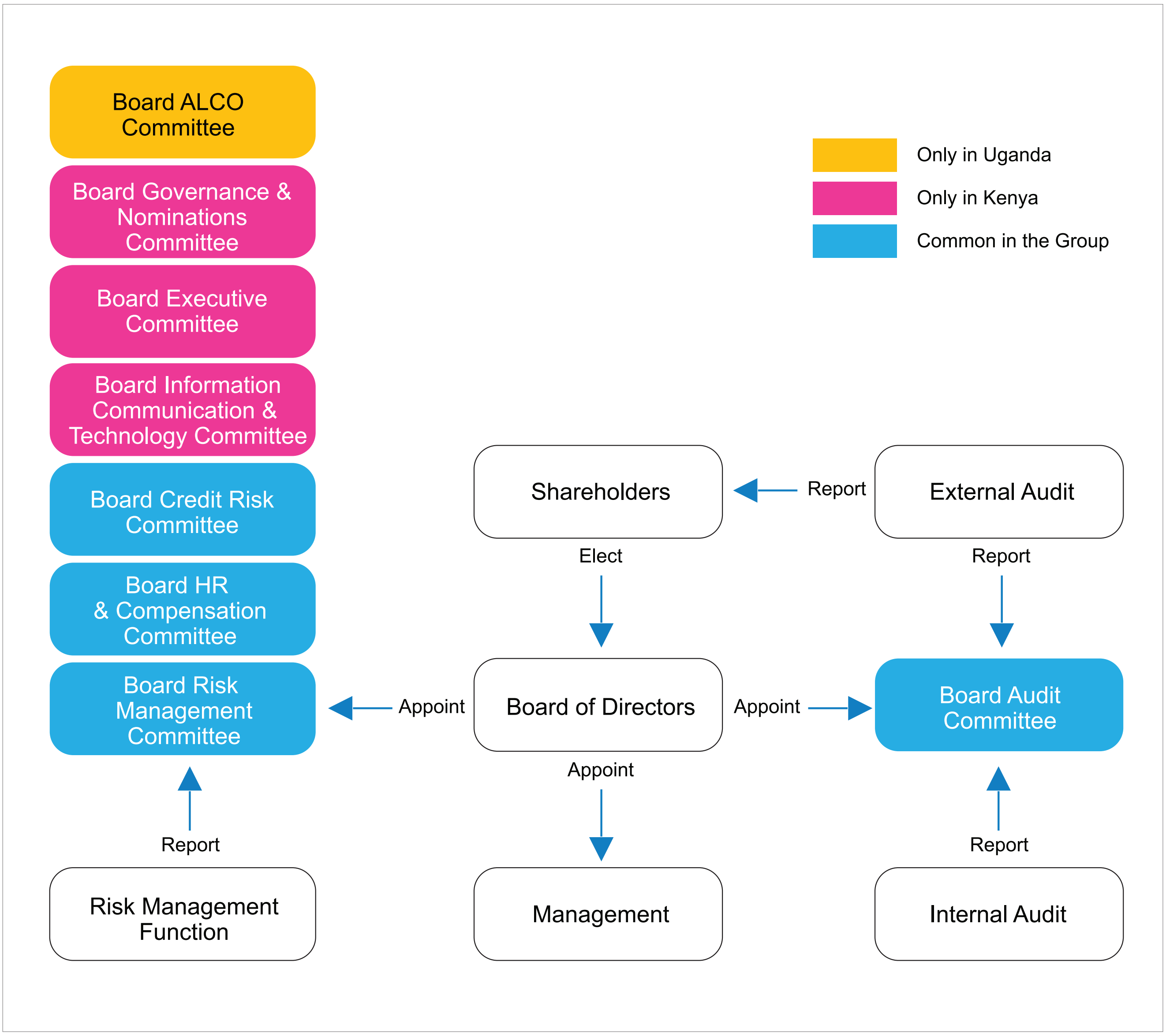
During 2015, the NIC Group achieved high levels of corporate governance through the observance of the following principles amongst others:

- Optimising shareholder returns through the adoption of appropriate strategies aimed at enabling and promoting the long term prosperity of the business;
- Timely, transparent and relevant disclosures to provide stakeholders with a clear understanding of our businesses;
- Implementation of strong audit procedures through ensuring audit independence, maintaining strong internationally recognised accounting principles, ensuring the undertaking of a well scoped annual audit and maintenance of robust internal controls;
- Well defined Board and Management duties and accountabilities, ensuring appropriate director competencies, maintaining an appropriate mix of executive, non-executive and independent non-executive directors, establishment of independent committees and undertaking annual board evaluations;
- Alignment of remuneration with the long term interests of shareholders and employee participation in enhancing stakeholders' long term interests;
- Compliance with laws and disclosure of policies to all relevant stakeholders; and
- Upholding the highest levels of integrity in the organisation's culture and practices through a well defined and implemented code of conduct and ethics

STATEMENT ON CORPORATE GOVERNANCE (Continued)

The Board of Directors is committed to ensuring that the business is run in a professional, transparent, just and equitable manner so as to protect and enhance shareholder value and satisfy the interests of all its stakeholders. In addition to the above considerations, the principles and standards adhered to by the Board and NIC Bank Group's governance structure have been developed with close reference to guidelines on corporate governance issued by the Centre for Corporate Governance, the Capital Markets Authority for publicly listed companies in Kenya, the Central Bank of Kenya for the banking industry, and other best practices including but not limited to the King Principles on Corporate Governance, which provide a practical guidance to Directors and Senior Management of Companies in discharging their Corporate Governance responsibilities.

NIC Bank Group's governance structure is summarized in the chart below:



STATEMENT ON CORPORATE GOVERNANCE (Continued)

The roles played by each of the above committees are described later in this section of the Annual Report.

During 2015, the Board's focus was geared towards the achievement of compliance with the qualitative aspects of good governance whilst ensuring that implementation matches the needs of the business.

Board Size, Composition and Independence

During 2015, the Board consisted of twelve Directors, ten of whom were Non-Executive Directors and eight of whom were Independent Non-Executive Directors.

The Non-executive Directors are independent of Management. Their role is to advise, constructively challenge, provide oversight, and monitor the success of Management in delivering the agreed strategy within the approved risk appetite and control framework that is set by the Board.

The Board is well composed in terms of the range and diversity of skills, background and experience of Directors, and has an appropriate balance of Executive, Non-executive, and Independent Non-executive Directors.

The Directors' abridged biographies appear on page 28 to 29 of this Annual Report.

All the Non-executive Directors are subject to retirement by rotation, and must seek re-election by shareholders at least once every three years in accordance with the Articles of Association. Any Director appointed during the year is required to retire and seek re-election at the next Annual General Meeting.

Board Responsibilities

The Board's principal duty is to promote the long-term success of the Group by creating and delivering sustainable shareholder value. The Board Charter defines the governance parameters within which the Board exists and operates, sets out specific responsibilities to be discharged by the Board, its committees and Directors collectively, as well as certain roles and responsibilities incumbent upon the Directors as individuals.

A summary of the Board's responsibilities is as follows:

- Providing entrepreneurial leadership to the Group within a framework of prudent and effective controls which enable risk to be assessed and managed;
- Strategy formulation and ensuring that there are adequate policies, systems and structures to successfully implement the Group strategies;
- Monitoring the Group's performance against its strategic plans and objectives on an ongoing basis, as well as through mandatory quarterly meetings;
- Review and approval of the publication of the quarterly financial results;
- Reveiw and approval of annual financial statements;
- The selection, appointment and appraisal of senior executive officers who are qualified and competent to manage the affairs of the Group effectively;
- The periodic selection and rotation of independent auditors to ensure independent and objective assessment of the financial, operational and governance systems employed by the Group;
- Approval of the risk management framework, and ensuring that there are adequate structures and systems to identify, measure, control and monitor the key risks facing the Group, including compliance related risks;
- Reviewing the effectiveness of the systems for monitoring and ensuring compliance with the Constitution and relevant laws, regulations, industry rules and standards;
- Determining the terms of reference of all Board Committees, and the reviewing of reports and minutes of those committees' deliberations;
- Developing, reviewing and monitoring the Group's corporate governance policies and practices; and
- Reviewing the Group's capital levels to ensure that there is adequate capacity for the planned growth and expansion within the strategic cycle, and approving major capital expenditure, acquisitions and divestitures.

Chairman and Group Managing Director

The roles and responsibilities of the Chairman of the Board and the Group Managing Director remain distinct and separate. The Chairman provides overall leadership to the Board without limiting the principles of collective responsibility for Board decisions. The Group Managing Director is responsible to the Board and taShs responsibility for the effective and efficient running of the Group businesses on a day-to-day basis.

The Deputy Chairman acts for the Chairman during his absence, or abstention in decision making due to conflict of interest should it arise, at meetings of the Board and supports him in his role.

Board Remuneration

Non-executive Directors are paid a monthly fee, together with a sitting allowance for every meeting attended. They are not eligible for pension scheme membership, and do not participate in any of the Company's remuneration or compensation schemes.

Details of the Directors' fees for the Non-executive Directors and remuneration of the Executive Directors paid in 2015 are set out on page 149 in note 40(c) of these financial statements.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Directors' Shareholding

None of the Directors as at the end of year 2015 held shares in their individual capacity of more than 1% of the Company's total equity.

Board and Strategy Meetings

The Board and its Committees meet regularly in accordance with business requirements. All Directors participate in discussing the strategy, performance and the financial and risk management of the Group. Meetings of the Board are structured to allow sufficient time for consideration of all matters and the Chairman encourages constructive challenge and debate.

The Board Work Plan together with the calendar of meetings for 2015 was fixed in advance and provided to all Directors. Adequate notice was given for each meeting and the agenda and supporting papers were distributed in advance of all Board and its Committee meetings to allow time for appropriate review and to facilitate full discussion at all meetings.

In 2015 in addition to the four scheduled Board meetings and being the first year in the Bank's current Strategic Plan cycle, the Board met in a special session to review the progress of implementing the Plan, consider the impact of the prevailing economic and industry circumstances and deliberated on a number of possible new initiatives.

The Board in the course of the year, reviewed the following reports and matters:

- Progress against financial objectives, business developments, and investor and external relations.
- Board Committees reports on their respective activities.
- Presentations from the Group Managing Director on the macroeconomic environment and the impact on banking business, a review of the financial services industry and capital markets overview, a review of the regulatory and competitive environment, strategy and business development, and the financial performance of the banking industry.
- The Group's risk appetite profile, top and emerging risks, risk management, liquidity, litigations, compliance and any reputational issues.

Members of Executive Management are regularly invited to attend Board and its Committee meetings as required and make presentations to give the Directors greater insights into their business areas.

The Board has ownership over the Group's strategic direction. At each Board meeting, progress towards the targets of the approved business plans is reviewed and guidance provided to Senior Management as appropriate.

Directors are at complete liberty to communicate directly with Senior Management with a view to clarifying any issues that have a significant effect on the Group's performance.

The summary of the Board and Board Committee meetings and attendance is shown on page 45.

Directors' external activities and Conflicts of Interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Group. Business transactions with all parties, including the Directors or their related parties are carried out at arms' length.

In 2015 the Directors submitted their annual declarations of interests which included:

- An acknowledgement that should it come to the attention of a Director that a matter concerning the Group may result in a conflict of interest, they are obliged to declare the same and will exclude themselves from any discussion or decision over the matter in question.
- An acknowledgement that should the Director be appointed to the Board or acquire a significant interest in a business competing with the Group, the Director will be obliged to offer their resignation.
- An acknowledgement that should the Director be appointed to the Board of an entity, including a Government entity, that may expose the Director to potential or actual conflict of interest, the Director will be obliged to declare such appointment, undergo an assessment to determine the extent of such conflict and, where applicable, offer their resignation as a Director where the conflict cannot be mitigated by the existing Board policies for the management of conflicts of interest.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the Directors

Business transactions with the Directors or their related parties are disclosed on page 147 in note 40 of these financial statements.

Board Structure

The Board operates under a comprehensive structure made up of Committees established to assist it in discharging its responsibilities and obligations. The Committees assist the Board in carrying out its functions and ensuring that there is independent oversight of internal controls and risk management.

The Board has determined the purpose and number of Committees required to support it in carrying out its duties and responsibilities and in guiding Management. The Committees, whose mandate and authority has been entrenched in the

STATEMENT ON CORPORATE GOVERNANCE (Continued)

Board Charter, have been established with sets of specific terms of reference which are regularly reviewed and up-dated. The appointment of the members to these Committees draws on the skills and experience of individual Directors. The role played by the Board committees has become increasingly important over the years and forms a principal point of contact between the Directors and Senior Management.

The Board continually reviews the Board structure and membership in light of emerging issues and in 2015 reconstituted the Nominations Committee to become the Board Governance and Nominations Committee. The Board also constituted the Board Information Communication and Technology (ICT) Committee given the inherent ICT risks and the dynamic evolution of technology especially in the banking industry.

The Board Committees are : Audit; Credit Risk; Executive; Human Resources & Compensation; Governance and Nominations; Information Communication Technology (ICT) and Risk Management. These committees are supported by seven key Management Committees: Executive Management (EXCOM), Assets and Liabilities Management (ALCO), Management Credit Risk, Credit Portfolio Review, ICT Steering, Tender and Risk Management Committees.

All the Board Committees have at least three non-executive directors as members. The Chairpersons of the Committees must be non-executive while in some Committees such as the Audit, Governance and Nominations; Information Communication and Technology (ICT), Human Resources & Compensation and Risk Management, they are Independent Non-executive Directors with the majority of their memberships being Independent Non-executive Directors as prescribed by the Central Bank of Kenya Prudential Guidelines.

At every meeting of the Board the Chair of each Committee presents an update of its activities, decisions and recommendations of their respective Committees since the previous Board meeting.

Membership of the various Board Committees is shown on page 34.

The Group Company Secretary sits in all the Board and Committee meetings and is responsible for providing guidance to the Board on its duties and responsibilities and on other matters of governance and monitoring and coordinating the completion and dispatch of Board and Committee agenda papers, and other briefing materials. The Group Company Secretary is also responsible for ensuring that the minutes of the Committees deliberations are circulated in a timely manner to the Committees' members and the Board. All Directors have access to the services and advice of the Group Company Secretary. Details of the skills, experience and expertise of the Group Company Secretary are set out on page 29 of this Report.

Management and external service providers plus any required Subject Matter Experts attend by invitation from time to time as circumstances dictate. Directors' attendance of these committees is provided on page 45. The Board and Directors Evaluations are sent to the Central Bank of Kenya as required by law annually, by the 31st day of March of each year.

Details of these Committees are given here below:

- **Audit Committee**

  The committee plays a vital role in ensuring the integrity of the financial statements prior to the review and approval by the Board. To this end, the Audit Committee reviews the accounting policies, financial reporting and regulatory compliance practices of the Group. The Committee also continually evaluates the effectiveness of the internal control systems of the Group in accordance with its approved audit plan.

  The Committee is involved in the appointment, supervision and performance appraisal of the external auditor and the internal auditor. The Committee receives reports on the findings of the internal and external auditors and Management's corrective actions in response to the findings. The Committee meets quarterly and the external auditors are invited to attend whenever necessary but at least twice in a year where they meet without Senior Management's presence. Each year, the Committee reviews and approves the overall scope and plans for the external audit activities, including the fees which have to be ratified by the shareholders. External audit performance is reviewed annually.

  To maintain independence, objectivity and professionalism, every four years the Committee invites prequalified audit firms to bid for professional audit and tax services. The audit firms make presentations to the Committee and are evaluated on a set criteria and the Committee recommends to the Board the appointment of a suitable audit firm. The Board then recommends to the shareholders the appointment of the proposed auditor subject to approval of the appointment by the Central Bank of Kenya.

  The Audit Committee is also involved in the appointment and performance assessment of the Head of Internal Audit, who reports directly to this Committee. The Committee also reviews the overall scope, annual plans and budget for the Internal Audit function's activities and oversees the alignment of risk management programs and Internal Audit activities. The Committee reviews all Internal Audit reports and has regular direct access to the Head of Internal Audit.

- **Credit Risk Committee**

  The Committee reviews and oversees the overall lending policies of the Group and approves credit applications that

STATEMENT ON CORPORATE GOVERNANCE (Continued)

are above the approval limits for management. It ensures that there are effective procedures to identify and manage irregular and problem facilities, minimise credit loss and maximize recoveries.

The Committee regularly reviews and recommends to the Board discretionary credit limits for the Board Credit Risk Committee and Management Credit Risk Committee.

- **Executive Committee**

  The committee assists the Board in discharging its responsibilities relative to strategy, human resources and general operations oversight. The committee meets regularly to review and recommend for Board approval major capital projects, periodic strategic plans, and key policy guidelines as developed by management.

- **Human Resources and Compensation Committee**

  The Committee reviews the Human Resources policies and procedures and ensures that they adequately support the Group's strategy. It ensures that the Group continues to provide remuneration packages that fairly reward staff for their contribution to the business and continues to attract, motivate and retain staff of the highest caliber.

  The committee ensures succession plans are in place for all senior executive management of the Group. The Committee is also ultimately responsible for developing and approving the compensation structures of management and employees of the Group. These are geared towards minimizing irresponsible and unnecessary risk taking and ensuring that management and employees are motivated to achieve superior performance whilst enhancing the strength and stability of the Group.

- **Governance and Nominations Committee**

  The Governance and Nominations Committee, on behalf of the Board, maintains an overview of the Board's composition and ensures that the Directors collectively provide the expertise and experience required for good Corporate Governance as determined by the Board and its Charter.

  The Committee's objective is to establish a robust Board of Directors who can deliver on NIC's strategic plans; assessing its effectiveness by creating and implementing a Board Charter that ensures the protection, maintenance and enhancement of a sustainable return for NIC's stakeholders.

  The Committee also oversees the Board's annual performance evaluation (referred to on the next page) and is responsible for assessing the extent of any conflict of interest posed by a director's other interests or duties.

- **Risk Management Committee**

  The Risk Management Committee is responsible for setting the strategic risk parameters through policies/ guidelines and tolerance limits, and approving the risk management strategy as well as significant policies and programs. Thereafter, it monitors compliance with the risk policies, limits and programs. It also reviews the adequacy of the risk management framework in relation to the risks faced by the Group and in comparison to the approved tolerances. The Committee is assisted in these functions by various risk management committees which undertake both regular and ad-hoc reviews of the Group's risk management environment, the results of which are reported at appropriate levels for review and action.

  The risk management policies which are reviewed by the committee are detailed on pages 85 to 113 and are in line with International Financial Reporting Standards.

- **Information Communication Technology (ICT) Committee**

  The Committee oversees the cultivation and promotion of an ethical ICT governance and management culture and awareness and provides the required leadership to achieve this institution's strategic objective.

  ICT governance is considered as a framework that supports effective and efficient management of ICT resources to facilitate the achievement of an institution's strategic objectives.

  The Committee ensures that ICT management is a regular item on the Board's agenda and that it is addressed in a structured manner. In addition, the Committee ensures that the Board has the information it needs to make informed decisions that are essential to achieve the ultimate objectives of ICT governance.

  Other objectives of the Committee include; the alignment of ICT and the business; the delivery of value by ICT to the business; the sourcing and use of ICT resources; the management of ICT-related risks; and the measurement of ICT performance.

Management Committees

A significant factor in the Group's ongoing success is the strength of the management team. Members of the management team bring together a vital combination of leadership skills and extensive experience from both local and international banks. To harness that strength, the Group Managing Director has established committees to assist him in the management of the Group. These committees are chaired by the Group Managing Director and include the respective Heads of Departments, with other senior managers being co-opted on a need basis. These committees include:

STATEMENT ON CORPORATE GOVERNANCE (Continued)

- **The Executive Management Committee (EXCOM)**

  This committee meets regularly and at least monthly to discuss strategy formulation and implementation, policy matters and financial performance. It is also charged with the responsibility of ensuring compliance with the regulatory framework and guidelines and adherence to Group policies and procedures. This committee also serves as a link between the Board and Management.

- **The Assets and Liabilities Management Committee (ALCO)**

  This committee meets every month or more frequently if necessary. ALCO, a risk management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposit withdrawals can be met as and when they fall due, and that the Group will not encounter difficulties in meeting its obligations or financial liabilities as they fall due. This includes management of operational risks, interest rate, market and exchange rate risks and ensuring compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, investment policies, and its internal capital adequacy management.

- **The Management Credit Risk Committee**

  This committee meets regularly to approve new credit applications and renewals within the delegated limits set by the Board. The committee also regularly maShs recommendations to the Board Credit Risk Committee on the revision of limits. All approvals are independent of the originating business unit.

- **The Credit Portfolio Review Committee**

  The committee meets monthly to review the performance of the Group's lending book and determine the adequacy of provisions required in accordance with the approved policies and regulatory guidelines while also determining strategies to prudently manage the lending book, taking into consideration the dynamic economic and business environment.

- **Information Communication Technology (ICT) Steering Committee**

  The committee meets regularly to review major ICT projects to ensure that they meet the minimum standards for implementation as per the ICT strategic plan, ensuring that they have undergone appropriate risk assessment and that they will serve the long term needs of the Group in enhancing stakeholder value.

- **Tender Committee**

  The committee meets regularly to review various Group procurement needs, align them to the Group strategic plans and prioritise various needs against critical implementation plans and budgetary allocations and hence ensure prudent allocation of resources in enhancing stakeholder value.

- **Risk Management Committee**

  The Risk Management Committee meets quarterly to review the key risks facing the Group. The source and potential impact of the risks are derived from the risk reports based on the tracking and monitoring initiatives conducted by the Risk Management and Compliance Department. Management develops mitigation and corrective action plans based on the reports discussed during this committee's meetings.

Board and Directors Effectiveness and Evaluation in 2015

In order to ensure that Board members are effective in their contribution to the management of the Group, it is important that they develop a good understanding of the Group and its operations. This is achieved through various training and development sessions to ensure that they understand the relevant facets of the complex and constantly evolving financial services industry. This is particularly important to ensure that they appreciate all the risks to which the Group is exposed, the impact on the Group and its operations, and how to effectively manage and mitigate these risks.

As part of the Continuous Professional Development programme, the Directors attended a full day training on 28th September 2015 covering:

- Corporate Governance for Banks – Central Bank of Kenya and King III
- Risk Management Gap Analysis
- Internal Capital Adequacy Assessment Process (ICAAP)
- Board, Board Committees and Directors' Evaluation Process.

Directors also get further knowledge about the Group through site visit, informal interactions with management and staff, regular in-depth reports and presentations.

In order to assess and improve the capacity, functionality and effectiveness of the Board and its committees an annual peer and self-evaluation review was undertaken. The peer and self-evaluation review measured the capacity, functionality and effectiveness of the Board, its Committees and individual Directors during the financial year. The review was conducted in accordance with the requirements of the Central Bank of Kenya Prudential Guidelines on Corporate Governance.

The evaluation process was conducted through questionnaires and the Directors were evaluated against the following criteria amongst others;

- Effective preparation for and participation at meetings of the Board and its Committees.
- Understanding of business and specifically the financial industry, and keeping abreast of the latest developments

STATEMENT ON CORPORATE GOVERNANCE (Continued)

in the economy generally and particularly the banking sector.

- Communications with fellow Directors, management and other stakeholders.
- Ability to take an independent view on matters brought for discussion at Board and Committee meetings.
- Declaration of personal interests and ensuring that they avoid participation in decision making where such interests are discussed.
- Awareness and compliance with regulatory guidelines.
- Regular attendance at Board and Committee meetings.

Overall it is considered that in 2015 the Board and its Committees;

- Carried out their roles and responsibilities satisfactorily.
- Regularly reviewed, formulated and approved the strategic direction of the Group in light of the business environment and regulatory framework.
- Developed appropriate policy guidelines to assist Management in decision making.
- Fulfilled their role to the Group's various stakeholders.
- Generally guided and supported the Management who have been responsive to the advice provided.

A report on the overall evaluation assessment was submitted to the Central Bank of Kenya in accordance with the Prudential Guidelines on Corporate Governance.

Code of Conduct & Ethics

The Group has a Code of Conduct & Ethics that binds both the Directors and employees. The NIC Group taShs cognizance of the fact that its success is dependent on the environment and the communities in which it operates. The Group policy ensures that its activities meet and exceed the social, economic and environmental expectations of its stakeholders.

The Code of Conduct & Ethics also includes a chapter on Governance Risk and Compliance that highlights the Group's commitment to having an integrated risk management framework.

All Directors, Management and staff of NIC Bank Group must sign an acknowledgement they have read and understood the Code of Conduct & Ethics. The Code of Conduct & Ethics, along with our Vision Statement: "To establish long term, profitable customer relationships through the provision of a complete range of banking and financial services"; our Mission Statement: "to be the leading financial services provider to our target market; we are committed to the highest standards of service and to exceed our stakeholders' expectations"; and our Values: "Integrity, Passion, Responsiveness, Innovation and Professionalism"; guide our ethical decision making and the conduct of our Directors, officers, and employees.

The Group encourages employees and officers to raise concerns about ethical conduct and violations of the Code of Conduct & Ethics. Senior Management investigate complaints and take appropriate action, escalating to the Board Human Resources Committee if necessary. Our whistleblower procedures allow employees to report concerns anonymously, without fear of retaliation.

Relationship with Shareholders

The Group is committed to relating openly with its shareholders by providing regular information on its performance and addressing any areas of concern. This is achieved through quarterly publication of extracts of its financial performance in the daily newspapers in line with the Central Bank of Kenya requirements, publication of annual audited accounts, and holding of the Annual General Meeting. The most recently published financial results are also available on the Group's website, www.nic-bank.com. The Group has an interactive website which has all the relevant information relating to the companies.

In order to foster transparent and accountable long term relationships, the Board through the Group Company Secretary facilitates effective communication between the Group and its shareholders and ensures that their rights are protected at all times. This includes giving them the opportunity to place items on the agenda at Annual General Meetings, accord them the opportunity to question management of the companies and develop a program for regular investor briefings on the Group's economic, social and environmental performance.

The Group has engaged the services of a registrar, Custody & Registrar Services who, together with the Group Company Secretary, regularly address issues raised by the shareholders.

Internal Control

The Directors acknowledge their responsibility as set out on page 61 for the Group's internal control systems, including taking reasonable steps to ensure that adequate systems are being maintained. Internal control systems are designed to meet the particular needs of the Group, and the risks to which it is exposed with procedures intended to provide effective internal financial and operational control. However, it is to be recognized that such systems can only provide reasonable, but not absolute, assurance against material misstatement.

The Board has reviewed the Group's internal control policies and procedures and is satisfied that appropriate controls and procedures are in place.

The Board has put in place a comprehensive risk management framework to identify all key risks, measure these risks, manage the risk positions and determine capital allocations. The policies are integrated in the overall management reporting structure.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

The Group's performance trend is reported regularly to the Board and includes an analysis of performance against budget and prior periods. The financial information is prepared using appropriate accounting policies which are applied consistently.

The Group has an Internal Audit Department which is an independent function that reports directly to the Board Audit Committee and provides independent confirmation that the Group's business standards, policies and procedures are being complied with. Where found necessary, corrective action is recommended.

The Group also has a Risk Management and Compliance Department, headed by a senior officer who reports directly to the Board Risk Management Committee which oversees the development and implementation of the Risk Management and Compliance framework while ensuring adherence to the Group's internal policies and regulatory requirements.

Going Concern

The Board confirms the financial statements are prepared on a going concern basis, as the Directors are satisfied that the Group has adequate resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. For this reason, it continues to adopt the going concern basis when preparing the financial statements.

STATEMENT ON CORPORATE GOVERNANCE (Continued)

SHARE HOLDING PROFILES

The Company, through its Registrar, files returns regularly in line with the requirement of the Capital Markets Authority and the Nairobi Securities Exchange under the listing regulations on transactions related to shareholders.

The number of shareholders as at 31st December 2015 was 25,642 (2014 – 25,376).

A. Principal Shareholders

The top 10 major shareholders, based on the Group's share register as at 31st December 2015 are as follows:

Names	Number of Shares	%
First Chartered Securities Ltd	101,383,047	15.84
ICEA Asset Management Ltd A/C 2000	58,603,280	9.16
Livingstone Registrars Ltd	55,870,153	8.73
Rivel Kenya Ltd	53,063,367	8.29
Saimar Ltd	25,792,967	4.03
Amwa Holdings Ltd	13,592,676	2.12
Makimwa Consultants Ltd	8,664,740	1.35
Murwoki Holdings Limited	7,038,541	1.10
Standard Chartered Nominees A/C 9230	6,384,094	1.00
Thuthuma Limited	6,375,645	1.00
Total	**336,768,510**	**52.62**

B. Distribution Schedule

Category	Number of Shareholders	Number of Shares	%
1-500 shares	8,654	1,589,378	0.24
501-5,000 shares	13,075	26,362,101	4.12
5,001-10,000 shares	1,651	12,073,049	1.89
10,001-100,000 shares	1,824	51,622,436	8.07
100,001-1,000,000 shares	373	107,118,435	16.74
1,000,001 and over	65	441,180,204	68.94
Total	**25,642**	**639,945,603**	**100.00**

C. Shareholder Profile

Category	Number of Shareholders	Number of Shares	%
Local individual investors	23,786	111,724,193	17.46
Local institutional investors	1,642	514,589,814	80.41
Foreign individual investors	192	4,385,253	0.69
Foreign institutional investors	22	9,246,343	1.44
Total	**25,642**	**639,945,603**	**100.00**

STATEMENT ON CORPORATE GOVERNANCE (Continued)

2015 BOARD & BOARD COMMITTEES MEMBERSHIP AND ATTENDANCE

Director	Classification	Designation		Board	Audit	Credit Risk	Risk Management	Human Resources & Compensation	Executive	Strategy & Training*
J P M Ndegwa	Non-executive	Chairman Board	Membership	√						√
			Attendance	4/4						2/2
F M Mbiru	Non-executive	Chairman Credit Risk Committee	Membership	√	√	√	√	√		√
			Attendance	4/4	4/4	11/11	2/2	3/3		2/2
J Gachora	Executive	Group Managing Director	Membership	√		√			√	√
			Attendance	4/4		11/11			2/2	2/2
G A Maina	Non-executive	Chairman Nominations & Risk Management Committees	Membership	√			√		√	
			Attendance	4/4			2/2		2/2	2/2
F N Mwanzia	Non-executive	Chairman Audit Committee	Membership	√	√	√				√
			Attendance	4/4	4/4	11/11				2/2
A S M Ndegwa	Non-executive	Chairman Executive Committee	Membership	√		√		√	√	√
			Attendance	4/4		10/11		3/3	2/2	2/2
I Ochola-Wilson	Non-executive	Chairman Human Resources and Compensation Committee	Membership	√	√		√	√		√
			Attendance	3/4	4/4		2/2	3/3		2/2
M L Somen (Deceased)	Non-executive		Membership	√		√			√	√
			Attendance	3/4		3/4			2/2	-
A Dodd	Executive		Membership	√		√			√	√
			Attendance	4/4		11/11			2/2	1/2
K Thuo	Non-Executive		Membership	√	√					√
			Attendance	4/4	4/4					2/2
P Shah	Non-Executive		Membership	√		√			√	√
			Attendance	4/4		9/11			1/2	2/2
E.Ngaine	Non-Executive		Membership	√		√			√	√
			Attendance	4/4		10/11			2/2	2/2

* Represents strategy and training sessions held by the Board during the year 2015.

Notes:

√ Member of respective committee

- Where a director did not attend a Board or Board Committee meeting, an acceptable apology had been received by the Chairman well in advance of the scheduled meeting.

OUR CITIZENSHIP APPROACH

At NIC Bank, we believe that the strength and sustainability of our business is directly related to our social license to operate, which we must earn daily by keeping our promises to our customers, employees, shareholders and communities.

OUR INTERGRATED CITIZENSHIP STRATEGY

Rosalind Gichuru
Director - Marketing ,
Communications & Citizenship

NIC Bank's Citizenship strategy focuses on four key pillars: Education, Innovation, Health and Humanitarian Assistance/ Emerging Business Needs/Environment. With these four pillars, the Bank seeks to shape a sustainable future for the community through optimising on our existing skill set and synergies with partners.

OUR 4 KEY PILLARS

Education

Education is the most significant indicator of social progress. With the increasing global realization of how the business community can (and should) contribute to social objectives, supporting education is an important agenda for NIC Bank, especially of bright students from disadvantaged backgrounds which is in line with the national agenda that singles out education and training as a vehicle that will drive Kenya into a middle-income economy.

Innovation

NIC Bank in its three year Strategic cycle seeks to "be known as the most Innovative Bank in East Africa." Innovation plays a pivotal role in economic development and we believe as NIC Bank we can be at the forefront of bringing innovation to the Banking and Financial Services Sector.

Health

Social development is a consequence of good health. Unfortunately, health has been poorly invested upon by countries with low human development, and the health sector still remains largely untapped and continues to suffer neglect. As a corporate citizen we must address these challenges. The Bank conducts annual health and safety audits.

Humanitarian Assistance /Emerging Business Needs / Environment

As we endeavor to be a top-tier bank in Kenya, it is important that in the advent of any nationwide crisis, we step up and be seen to be supporting the nation. Additionaly, the Bank has an Enviromental and Social Policy (ESP) manual which assures a systematic and consistent approach to assessing and mitigating the enviromental and social risks.

CORPORATE CITIZENSHIP (Continued)

EDUCATION

Education

PALMHOUSE FOUNDATION

This charitable trust focuses on financing secondary education to deserving students, mentoring them through life which in turn has a positive impact on the society. The foundation sponsors bright students from families that are financially challenged and who have gained admission to national and provincial secondary schools.

NIC Bank started sponsoring Palmhouse in 2008 by supporting 4 students at an amount of Shs. 200,000. NIC Bank sponsored an additional 4 students in 2010 more in 2011 and 8 more for 2012. The sponsorship has grown over the years with the current sponsorship between 2013 - 2016 of Shs 1.82 Million and a total of 26 students throughout the country.

NIC Bank also offers support in sitting in the panel for selection of students as well as offering mentorships during school break.

EDUMED TRUST

The trust's strategic approach is one that aims to address secondary school education needs by being the trusted organization for channelling funds to students through observing the highest standards of integrity and accountability. This is achieved through the students' selection criteria and the prudent use of funds entrusted to it by its partners.

NIC Bank is proud to be associated with this Christian charitable trust due to its achievements. Established in 1996 it started by supporting its first student in 1997 and currently has a portfolio of approximately 254 students.

Similar to Palmhouse Foundation, NIC Bank also offers support in sitting in the panel for selection of students as well as offering mentorships during school break.

JUNIOR ACHIEVEMENT

Junior Achievement is the country's largest organisation dedicated to educating students and youth about entrepreneurship, work readiness and financial literacy through experiential, hands on programs.

The organisation's programs prepare young people for the real world by showing them how to generate wealth and effectively manage it, how to create jobs which make their communities more robust, and how to apply entrepreneurial thinking to the work place.

NIC Bank Group has committed to donate Shs 300,000 annually to the Junior Achievement organisation. During the year NIC hosted students for the Job shadow week and also supports the finals for the Junior Achievement company program for 2015.

CORPORATE CITIZENSHIP (Continued)

EASY LEARNING MATHEMATICS CHARTS

Easy Learning Mathematics Charts are instructional materials (flip charts for teaching mathematics) formulated by Easy Learning Limited. These charts have been evaluated, vetted and approved by the Ministry of Education for use in secondary schools. The charts were developed to address the problem in the learning of mathematics that has been attributed to the inability to master simple and basic concepts. These bright, attractive and pleasantly colored charts capture the logic and essence of mathematics in diagrammatized conceptual images that simplify understanding, reasoning and retention of subject content in all the topics taught in secondary school mathematics.

To mark our entry to Machakos County, the Bank sponsored ten schools in Machakos County namely Kaliluni Girls, Katumani Secondary School, Mumbuni Girls, Kwathanze Secondary, Kyangala Boys, Liyuni Secondary, Machakos SPD, Mua Hills Girls School, Muvuti Secondary and Kyanguli High School.

NSE YOUTH INVESTMENT CHALLENGE

Innovation

Targeting and involving youth in universities and colleges in Kenya, The NIC Securities sponsored Investment Challenge is an edutainment public education initiative that teaches the youth how to invest on the Nairobi Stock Exchange (NSE) through provision of an online Smart Trader software that simulates trading of virtual shares & bonds listed on the NSE as well as loans and fixed deposits.

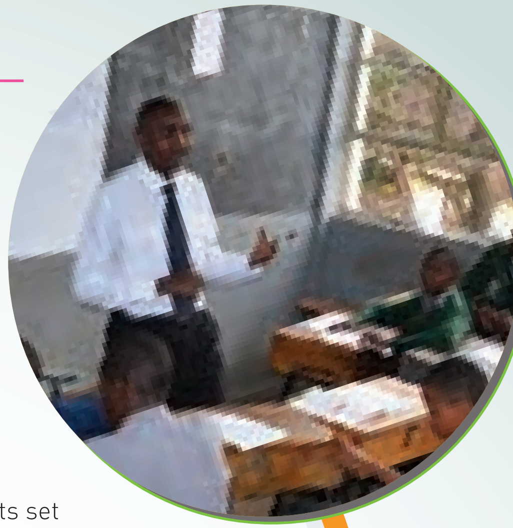
The intention of the competition is to build a culture of saving and investing in the youth hence popularize trading of stocks & bonds at the NSE amongst the youth. NIC Securities has co-sponsored with NSE and Smart Youth since 2010 and has supported the initiative with a total of Shs. 3.1 Million. Furthermore, the team supports the youth through mentorship programmes and has taken in 20 interns over the years.

MENTENDA

The boy child is deemed to be a forgotten group and this is evident in the rising number of delinquents and irresponsible men in our society raised without proper direction. To respond to the lack of direction and mentorship available to boys in today's society, NIC Bank signed up to be a part of MENTENDA, an initiative from Kenya Community Development Foundation (KCDF), with the aim to spur young men in the community to address the pressing challenges facing the boy child in Kenya. The program develops responsibility and leadership skills in boys between the ages 14 – 25 years while unlocking their potential and confidence through life skills.

In the long-term, the initiative will see the boys become men of honor who recognize and unlock their leadership potential while displaying confidence, responsibility and the value of giving. In the short to medium-term, it is expected that the boys will have improved academic performance and discipline, strengthened family and societal values, strong sense of community and volunteerism, enhanced life skills and career opportunities.

CORPORATE CITIZENSHIP (Continued)



This is the second year running of the programme in which NIC male members of staff volunteer their time and expertise to mentor students over a period of one year. The weekly sessions cover topics including careers, family, being a man, sexuality and community service. The initiative is a true reflection of the Bank's commitment to the community and development of the youth through education to nurture, care and inspire.

INNOVATION CHALLENGE

NIC Bank has partnered with Junior Achievement Kenya and Craft Silicon Foundation to launch an innovation challenge for both high school and university students set to identify, cultivate and reward innovative ideas that address financial literacy amongst the youth. As financial literacy and innovation are at the core of the Bank's Citizenship agenda, the challenge provides the opportunity to educate and develop financial solutions by spurring creativity in the youth.

At the high school level, the innovation challenge has been introduced as an award category in the annual secondary schools' Student Entrepreneurship Competitions. The university innovation challenge identifies innovative ideas where those shortlisted are invited to participate in an innovation boot camp.

The aim of the challenge is to involve the youth in identifying and developing solutions that address the gaps and needs in the financial sector. Acknowledging that the talent and creativity in the youth promotes innovation, the context of this challenge falls under three categories.

1. **Financial Inclusion** - this is delivery of financial services at affordable costs to sections of young, disadvantaged and low-income segments of society e.g. apps, games, products.
2. **Financial Literacy** - These are innovations that will advance financial literacy i.e. earning, managing, and investing such as a repository of financial information or an app that encourages students to save.
3. **Financial Solutions** - these are products and services that address monetary needs e.g. to ease payment processes

DR. CHOKSEY ALBINISM FOUNDATION

Albinism is a genetic condition present from birth occurring due to lack of the melanin skin pigment in the skin, hair and eyes. This causes extreme skin sensitivity to ultra violet radiation from the sun and skin cancer in cases of prolonged exposure. In Kenya, there are many misconceptions of the condition, with the most common being a curse, which leads to those suffering from the condition being treated as outcasts in society. Nationwide stigma prevents these children from receiving an education while poverty impedes corrective health treatments. Over 99% of children with albinism are not legally blind contrary to popular misconception. Unfortunately, a large proportion study in schools for the blind without professional consultation from an eye specialist.

Health

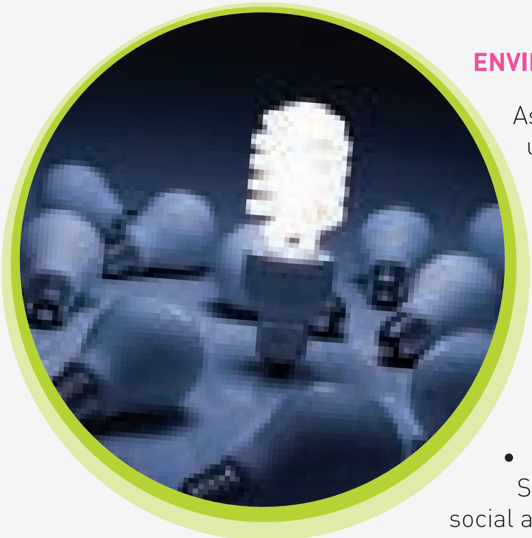
NIC Bank thus partnered with The Dr. Choksey Albinism Foundation, ran by Dr. Prabha Choksey, a leading Kenyan ophthalmologist, to improve the quality of life of children with albinism through provision of education and professional advice for visual

CORPORATE CITIZENSHIP (Continued)

imparities. The partnership has proven a clear correlation between misdiagnosis of visual impairment and education opportunities, offering children with albinism the chance for integration and empowerment.

As part of the Bank's health and education pillars, the mission of the partnership focuses on:

- Raising awareness about albinism
- Providing corrective treatment for skin care and visual impairment
- Sponsoring education for children with albinism



ENVIRONMENTAL POLICY

As part of the commitment to environmental sustainability, the Bank has undertaken various initiatives to ensure less energy consumption, wastage and thus a lower carbon footprint. Within the working environment, NIC Bank:

- Adopts open plan offices to reduce the need for electricity and maximize on natural light
- Introduced water saving mechanisms and energy saving bulbs at all units to reduce consumption
- Allocates printer ID codes for accountability on paper usage while developing and encouraging the use of e-documents
- Is a member of the Kenya Bankers Association Working Group on Sustainable Finance Initiative developing guidelines on environmental, social and governance policy to enable Bank's o operate in a sustainable manner.

Through the Environmental Social Management System (ESMS), NIC Bank is able to ensure that day to day business incorporates environmental and social sustainability. ESMS is an assessment for corporate clients taking facilities from the Bank for large projects to ensure that their operations and processes do not adversely affect the environment and the community. With the use of this system, NIC Bank is better able to perpetuate a positive change of environmental sustainability in the corporate environment.

NIC Bank's Director of Marketing, Communications and Citizenship, Rosalind Gichuru hands over a cheque donation to the Special Olympics committee in support of Kenyan athletes with intellectual disabilities to participate in the Special Olympics.

CORPORATE CITIZENSHIP (Continued)

Humanitarian Assistance /Emerging Business Needs / Environment

NIC Bank Group Managing Director, John Gachora fits a pair of shoes for a primary school student during the Ahadi Trust Kenya Outreach program in Machakos.

NIC Bank Director Finance & Strategy, David Abwoga, hands over a sponsorship gift to the First Lady, Her Excellency Margaret Kenyatta to support SOS Children's Village in Meru. The Bank has sponsored a home which the Meru branch staff regularly supports.

NIC Bank staff warm up before the 2015 Mater Heart Run. Other than rallying staff to participate, the Bank also gives an annual monetary contribution to the cause.

NIC Bank staff participating in the annual Faraja Cancer Support Trust water rafting challenge held in Sagana.

EMPLOYEE WELFARE

At NIC Bank Group, we continue to recognize that our people are the custodians of Customer experience and brand, and as such empowering our people and developing a compelling employer brand with great leaders remained an area of focus. In 2015, we continued to ensure that our people have the right skills and tools to do their jobs properly as we invested in targeted training and development programmes, with focus on leadership and technical skills development across the group. We also continue to create a supportive working environment that allows us to attract, develop and retain the best staff through enhancement of employee benefits such as staff loans and clear career progression structure, Employee Welfare is among the cogs that move the strategy wheels of the business. The Group's priorities are focused on promoting efficient management of human resources and a continuous increase in employees' professional skills, motivation, health and safety.

Monicah W. Kihia
Director - Human Resources

NIC BANK INTERNSHIP PROGRAM

As an "Employer of Choice", NIC Bank is committed to ensuring it remains competitive and attracts the best in the market. In May 2015, NIC Bank re-launched its internship program to introduce a more sustainable and impactful proposition. Targeting third and fourth year students from local and international universities, the program aims to provide students with an opportunity to enhance classroom learning through practical work experience and mentorship. This program enables NIC Bank to attract top talent to generate innovative ideas that contribute to making NIC the most 'Innovative Bank'. In 2015, out of the 5,000 applicants who responded to the advertisements in May and October, the Bank recruited 33 interns for the three month program. By the end of the year, the Bank was able to absorb 21 of the interns to join the dynamic NIC Bank Group team.

EMPLOYEE WELFARE (Continued)

NIC WELLNESS

As an Employer of Choice, NIC Bank always strives to meet the needs of its employees so as to create a productive and healthy workforce. The NIC Wellness Program was set up to promote all round health and wellness to NIC Bank staff. Each year, staff are invited to free health checks which help staff to keep track of their health and also take charge of their wellbeing by always maintain a healthy life style. In 2015, 447 staff members participated in a free health check at the Head Office. Staff are encouraged to do physical exercises, manage their weight and lifestyle choices so as to avoid illness and live life to their full potential not only at work but also at home.

STAFF TOWNHALLS

The NIC Bank Townhall meeting was held on the 21st August 2015 at NIC House. The meeting was organized to enable colleagues to share ideas and information with regards to the business. The GMD kicked off the meeting with a statement on business performance and forecasts for the Bank. Thereafter, colleagues had the opportunity to ask questions regarding plans for the business as well as share ideas to improve efficiency and services. The Bank's Human Resources Director also had the opportunity to re-emphasize the values that colleagues serve by; Integrity, Professionalism, Responsiveness, Passion and Innovation. The Townhall proved to be a success and important part of the NIC Bank culture to ensure that staff are able to freely share information, gain insight and improve trust amongst colleagues.

THE NIC FUN COUNCIL

To strengthen its commitment to being the employer of choice, NIC Bank has recruited a Fun Council which represents staff who have been voted in from various bank departments for the purpose of creating fun activities and interactive forums for NIC Bank staff. The Fun Council is also responsible for organizing staff team building events which are an ideal opportunity for colleagues to catch up and forge new relationships across the network. The activities in 2015 included Staff Team Building at the Bomas Of Kenya, Quiz Night and a Treasure Hunt to foster trust, communication and team work.

EMPLOYEE WELFARE (Continued)

NIC STAFF TRAINING PROGRAMME

The Bank attaches great importance to staff learning and development as a means of ensuring that employees have requisite competencies to perform their jobs. On joining employment, staff undergo a planned induction program that includes training in customer service and Training on the,Bank's Products and Services (TOPS).

Below are some of the programs that were conducted for the group:

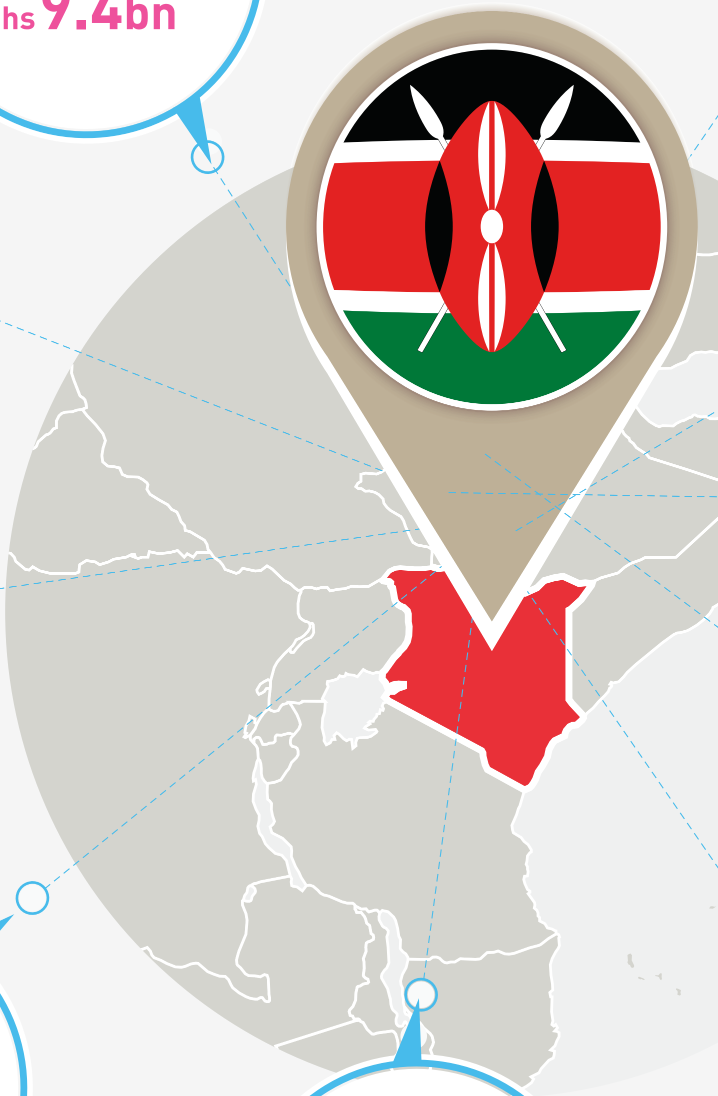
- Products Training that covered everybody in the Bank
- NIC Leadership Program for management staff
- Fast forward leadership program for Business Heads
- Harvard Manage Mentor course through eLearning
- Various Credit Skills development courses
- Compliance courses which includes first aid training
- Enterprise risk management
- Advanced structured trade finance

NIC Bank's contribution to the Kenyan Economy - 2015

2,835
vehicles financed valued at
Shs 9.4bn

39
Trained university students through our Internship Program

72
Customers supported in buying a new home
Shs 768m
disbursed



Shs 3.0bn
in Corporate and other Taxes paid

Facilitated
2.39m
mobile banking transactions

26,000
new CASA account opened and remained active

822,000
Internet banking transactions processed totaling
Shs 124bn

1,237
SME Customers financed.
Shs 20.6bn disbursed

582
Trade transactions processed valued at
US $2bn

Shs 14m
Spent on Citizenship Initiatives

Annual Growth Highlights

John Gachora
Group Managing Director

Over the course of 2015, we maintained progressively good growth, delivering against a balanced scorecard of growth and efficiency supported by a strong governance and control framework.

DIRECTORS' REPORT

The Board of Directors has pleasure in submitting the annual report together with the audited financial statements for the year ended 31 December 2015 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which discloses the state of affairs of NIC Bank Limited (the "Bank"/"Company") and its subsidiaries (together, the "Group").

1. ACTIVITIES

The principal activities of the Group are the provision of retail and corporate banking, stock brokerage, bancassurance, leasing and investment banking service.

2. RESULTS FOR THE YEAR

The Group profit for the year of Shs 4,485,125,000 (2014: Shs 4,116,674,000) has been added to retained earnings

3. MEDIUM TERM NOTE /BOND

An interim dividend of Shs 0.25 per share amounting to Shs 159,986,000 (2014: Nil) was paid to shareholders on 22nd October 2015. The Board has resolved to recommend to the shareholders at the forthcoming Annual General Meeting, scheduled for 17th May 2016, the payment of a final dividend for the year of Shs 1.00 (2014: first and final dividend of Shs 1). The dividend will be payable to the shareholders registered on the company's register at the close of business on 7th April 2016 and will be paid on or after 17th May 2016. The register will remain closed for one day on 8th April 2016.

The total dividend for the year, therefore is Shs 1.25 (2014: Shs 1.00) for every one ordinary share amounting to Shs 799,932,000 (2014: Shs 639,946,000).

4. NIC LEASING LIMITED LIABILITY PARTNERSHIP

During the year, NIC Bank in partnership with Mercantile Finance Company formed a motor vehicle and equipment leasing company, NIC Leasing Limited Liability Partnership. The Bank holds 50% and contributed Shs 50,000,000 towards capital.

5. NC BANK UGANDA LIMITED

In line with the Group's expansion strategy, NIC Bank injected additional capital of Shs 376,200,000 into their Ugandan subsidiary to boost their capital ratios and drive business growth.

6. DIRECTORS

The directors who held office during the year and to date are shown on page 34.

In accordance with articles 108, 109 and 110 of the Articles of Association, JPM Ndegwa, I Ochola-Wilson and PV Shah retire by rotation and, being eligible, offer themselves for re-election.

7. AUDITOR

The auditor, PricewaterhouseCoopers, has expressed its willingness to continue in office in accordance with Section 159(2) of the Kenyan Companies Act (Cap.486).

8. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 2nd March 2016

BY ORDER OF THE BOARD

L MURAGE
Group Company Secretary

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

(i) Designing, implementing and maintaining internal control necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error;

(ii) Selecting and applying appropriate accounting policies; and

(iii) Making accounting estimates and judgements that are reasonable in the circumstances.

The directors are of the opinion that the financial statements give a true and fair view of the state of the financial position of the Group and of the Bank at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

Approved by the Board of Directors on 2nd March 2016 and signed on its behalf by

J P M NDEGWA
(Chairman)

J GACHORA
(Group Managing Director)

pwc

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF NIC BANK LIMITED

Report on the consolidated financial statements

We have audited the accompanying financial statements of NIC Bank Limited (the "Bank") and its subsidiaries (together, the "Group"), set out on pages 63 to 149. These financial statements comprise the consolidated statement of financial position at 31 December 2015 and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, together with the statement of financial position of the Bank standing alone at 31 December 2015 and the statements of profit or loss, comprehensive income, changes in equity and cash flows of the Bank for the year then ended, and a summary of significant accounting policies and other explanatory information

Directors' responsibility for the financial statements

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act 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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank'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 the directors, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Report on other legal requirements

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

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

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

iii) the Bank's statements of financial position and profit or loss account are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditor's report is CPA Kang'e Saiti – P/No 1652.

Certified Public Accountants
Nairobi
3rd March 2016

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
P O Box 43963 – 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

Partners: A Eriksson K Muchiru M Mugasa F Muriu P Ngahu A Murage, SN Ochieng, R Njoroge B Okundi K Saiti R Shah

STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2015

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
15,509,237	12,376,325	Interest income	7	17,014,132	13,711,068
(6,661,165)	(5,096,846)	Interest expense	8	(7,271,599)	(5,712,949)
8,848,072	**7,279,479**	**NET INTEREST INCOME**		**9,742,533**	**7,998,119**
(1,539,452)	(295,494)	Credit impairment charges	12(c)	(1,652,475)	(329,133)
7,308,620	**6,983,985**	**Net interest income after credit impairment charges**		**8,090,058**	**7,668,986**
1,670,776	1,356,149	Fee and commission income	9	1,844,430	1,532,293
(63,794)	(52,283)	Fee and commission expense	9	(76,527)	(65,041)
1,606,982	**1,303,866**	**NET FEE AND COMMISSION INCOME**		**1,767,903**	**1,467,252**
1,391,914	1,344,782	Net trading income	10	1,563,091	1,448,056
356,140	286,131	Other operating income	11	624,640	592,831
10,663,656	**9,918,764**	**NET OPERATING INCOME**		**12,045,692**	**11,177,125**
(2,466,156)	(2,051,939)	Employee benefits	13	(3,063,909)	(2,560,942)
(382,524)	(391,854)	Depreciation and amortisation	14(a)	(492,455)	(504,635)
(1,555,320)	(1,393,690)	Other operating expenses	14(b)	(2,092,053)	(1,880,898)
(4,404,000)	**(3,837,483)**	**OPERATING EXPENSES**		**(5,648,417)**	**(4,946,475)**
6,259,656	**6,081,281**	**PROFIT BEFORE INCOME TAX**		**6,397,275**	**6,230,650**
(1,868,333)	(2,062,114)	Income tax expense	15(a)	(1,912,150)	(2,113,976)
4,391,323	**4,019,167**	**PROFIT FOR THE YEAR**		**4,485,125**	**4,116,674**
		Profit for the year attributable to:			
4,391,323	4,019,167	Equity holders of the Bank		4,477,355	4,120,855
-	-	Non-controlling interests		7,770	(4,181)
4,391,323	**4,019,167**			**4,485,125**	**4,116,674**
Shs 6.86	**Shs 6.90**	**EARNINGS PER SHARE (SHS) - BASIC**	**16**	**Shs 7.00**	**Shs 7.07**

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

Bank				Group	
2015 Shs'000	2014 Shs'000		Note	2015 Shs'000	2014 Shs'000
4,391,323	**4,019,167**	**PROFIT FOR THE YEAR**		**4,485,125**	**4,116,674**
		OTHER COMPREHENSIVE INCOME:			
		Items that will not be subsequently reclassified to profit or loss			-
		Items that may be subsequently reclassified to profit or loss			
(363,786)	7,166	Fair value (loss)/ gain on available for sale investments, net of deferred tax	36(c)	(342,050)	(79,089)
-	-	Exchange differences on translation of foreign operations	36(d)	(316,478)	42,269
(363,786)	**7,166**	**OTHER COMPREHENSIVE INCOME FOR THE YEAR NET OF TAX**		**(658,528)**	**(36,820)**
4,027,537	**4,026,333**	**TOTAL COMPREHENSIVE INCOME FOR THE YEAR**		**3,826,597**	**4,079,854**
		Attributable to:			
4,027,537	4,026,333	Equity holders of the Bank		3,818,827	4,084,035
-	-	Non-controlling interests		7,770	(4,181)
4,027,537	**4,026,333**			**3,826,597**	**4,079,854**

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2015

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
		ASSETS			
7,291,629	9,106,501	Cash and balances with Central Banks	17	8,940,056	10,539,496
804,882	484,521	Items in the course of collection	18	848,819	519,958
5,464,120	7,843,903	Due from banking institutions	19	6,675,640	8,753,909
25,012,995	16,454,111	Government securities	20	27,911,907	19,223,686
-	118,781	Derivative assets	21	-	118,781
106,516,052	92,957,230	Loans and advances to customers	22	114,657,644	100,575,330
1,030,367	1,060,332	Other assets	23	1,192,994	1,286,699
-	56,570	Current income tax	15(c)	112,729	185,185
2,436,739	2,098,420	Due from group companies	24	-	-
5,709,359	5,398,306	Investments	25	1,517,656	1,615,965
809,600	843,775	Property and equipment	27	1,063,760	1,079,110
511,896	548,776	Intangible assets	28	991,513	1,045,559
7,000	7,125	Operating lease prepayments	29	523,000	523,125
1,167,586	109,113	Deferred income tax	26	1,352,550	313,702
156,762,225	**137,087,464**	**Total assets**		**165,788,268**	**145,780,505**
		LIABILITIES			
105,194,000	92,791,078	Customer deposits	30	112,364,637	100,434,954
7,734,613	4,625,406	Due to banking institutions	31	9,064,552	5,411,664
14,131,007	13,844,209	Borrowings	32	15,356,190	14,358,480
77,389	-	Derivative liabilities	21	77,389	-
1,059,017	809,452	Due to group companies	33	-	-
138,567	-	Current income tax	15(c)	148,480	12,613
1,920,775	1,676,419	Other liabilities	34	2,378,407	2,129,198
52,471	82,883	Unclaimed dividends	35	52,471	82,883
130,307,839	**113,829,447**	**Total liabilities**		**139,442,126**	**122,429,792**
		EQUITY			
		Capital and reserves attributable to equity holders of the Bank			
3,199,728	3,199,728	Share capital	36(a)	3,199,728	3,199,728
2,700,017	2,731,255	Share premium	36(a)	2,700,017	2,731,255
179,983	184,764	Revaluation surplus on property	36(b)	179,983	184,764
(566,443)	(202,657)	Investments revaluation reserve	36(c)	(627,333)	(285,283)
-	-	Foreign currency translation reserve	36(d)	(810,627)	(494,149)
937,629	919,004	Regulatory reserve(s)	36(e)	1,314,333	1,041,058
-	-	Other reserves	36(f)	(157,172)	(157,172)
19,363,526	15,785,977	Retained earnings	36(g)	19,421,923	16,012,992
639,946	639,946	Proposed dividend	35	639,946	639,946
26,454,386	**23,258,017**	**Total capital and reserves attributable to equity holders of the Bank**		**25,860,798**	**22,873,139**
-	-	Non-controlling interests	37	485,344	477,574
26,454,386	**23,258,017**	**Total equity**		**26,346,142**	**23,350,713**
156,762,225	**137,087,464**	**Total liabilities and equity**		**165,788,268**	**145,780,505**

The financial statements on pages 63 to 149 were approved and authorised for issue by the Board of Directors on 2nd March 2016 and were signed on its behalf by

J P M NDEGWA
(Chairman)

J GACHORA
(Group Managing Director)

F N MWANZIA
(Director)

L MURAGE
(Group Company Secretary)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

		Non-Distributable							Distributable				
	Note	Share Capital Shs'000	Share Premium Shs'000	Revaluation surplus on property Shs'000	Investments revaluation reserve Shs'000	Foreign currency translation reserve Shs'000	Regulatory Reserves Shs'000	Other Reserves Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Capital and reserves attributable to equity holders of the Bank Shs'000	Non-controlling interests Shs'000	Total Equity Shs'000
At start of year		**2,714,922**	**1,208,068**	**189,545**	**(206,194)**	**(536,418)**	**975,617**	**(154,126)**	**12,592,743**	**407,238**	**17,191,394**	**377,512**	**17,568,906**
Profit for the year		-	-	-	-	-	-	-	4,120,855	-	**4,120,855**	(4,181)	**4,116,674**
Other comprehensive income, net of tax		-	-	-	(79,089)	42,269	-	-	-	-	**(36,820)**	-	**(36,820)**
Total comprehensive income for the year		**-**	**-**	**-**	**(79,089)**	**42,269**	**-**	**-**	**4,120,855**	**-**	**4,084,035**	**(4,181)**	**4,079,854**
Transfer of excess depreciation	36 (b)	-	-	(6,830)	-	-	-	-	6,830	-	**-**	-	**-**
Deferred income tax on transfer of excess depreciation	36 (b)	-	-	2,049	-	-	-	-	(2,049)	-	**-**	-	**-**
Transfer to regulatory reserves		-	-	-	-	-	65,441	-	(65,441)	-	**-**	-	**-**
Transactions with owners, recorded directly through equity													
Rights Issue of shares	36(a)	213,315	1,887,839	-	-	-	-	-	-	-	**2,101,154**		**2,101,154**
Bonus issue of shares	36(a)	271,492	(271,492)	-	-	-	-		-	-			
Rights issue expenses paid	36(a)	-	(93,160)	-	-	-	-		-	-	**(93,160)**		**(93,160)**
Rights issue of shares to non-controlling interests in NIC Bank Tanzania	37(a)	-		-	-	-	-	-	-	-		117,888	**117,888**
Acquisition of interest from non-controlling interests in:													
- NIC Bank Tanzania Limited	37(a)	-	-	-	-	-	-	(2,669)	-	-	**(2,669)**	(13,339)	**(16,008)**
- NIC Securities Limited	37(b)	-	-	-	-	-	-	(377)	-	-	**(377)**	(306)	**(683)**
Dividend paid – Final for 2013	35	-	-	-	-	-	-	-	-	(407,238)	**(407,238)**	-	**(407,238)**
Dividend proposed – Final for 2014	35	-	-	-	-	-	-	-	(639,946)	639,946	**-**	-	**-**
At end of year		**3,199,728**	**2,731,255**	**184,764**	**(285,283)**	**(494,149)**	**1,041,058**	**(157,172)**	**16,012,992**	**639,946**	**22,873,139**	**477,574**	**23,350,713**
At start of year		**3,199,728**	**2,731,255**	**184,764**	**(285,283)**	**(494,149)**	**1,041,058**	**(157,172)**	**16,012,992**	**639,946**	**22,873,139**	**477,574**	**23,350,713**
Profit for the year		-	-	-	-	-	-	-	4,477,355	-	**4,477,355**	7,770	**4,485,125**
Other comprehensive income, net of tax		-	-	-	(342,050)	(316,478)	-	-	-	-	**(658,528)**	-	**(658,528)**
Total comprehensive income for the year		**-**	**-**	**-**	**(342,050)**	**(316,478)**	**-**	**-**	**4,477,355**	**-**	**3,818,827**	**7,770**	**3,826,597**
Transfer of excess depreciation	36 (b)	-	-	(6,830)	-	-	-	-	6,830	-	**-**	-	**-**
Deferred income tax on transfer of excess depreciation	36 (b)	-	-	2,049	-	-	-	-	(2,049)	-	**-**	-	**-**
Transfer to regulatory reserves		-	-	-	-	-	273,275	-	(273,275)	-	**-**	-	**-**
Transactions with owners, recorded directly through equity													
Rights Issue expenses paid	36 (a)		(31,238)	-	-	-	-	-	-	-	**(31,238)**	-	**(31,238)**
Dividend paid – Final for 2014	35			-	-	-	-	-	-	(639,946)	**(639,946)**	-	**(639,946)**
Dividend paid – Interim for 2015	35								(159,984)		**(159,984)**		
Dividend proposed – Final for 2015	35			-	-	-	-	-	(639,946)	639,946	**-**	-	**(159,984)**
At end of year		**3,199,728**	**2,700,017**	**179,983**	**(627,333)**	**(810,627)**	**1,314,333**	**(157,172)**	**19,421,923**	**639,946**	**25,860,798**	**485,344**	**26,346,142**

BANK STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	Share Capital Shs'000	Share Premium Shs'000	Revaluation surplus on property Shs'000	Investments revaluation reserve Shs'000	Regulatory reserve Shs'000	Retained earnings Shs'000	Proposed dividend Shs'000	Total Equity Shs'000
As start of the year		**2,714,921**	**1,208,068**	**189,545**	**(209,823)**	**729,104**	**12,591,875**	**407,238**	**17,630,928**
Profit for the year		-	-	-	-	-	4,019,167	-	**4,019,167**
Other comprehensive income, net of tax		-	-	-	7,166	-	-	-	**7,166**
Total comprehensive income for the year		**-**	**-**	**-**	**7,166**	**-**	**4,019,167**	**-**	**4,026,333**
Transfer of excess depreciation	36 (b)	-	-	(6,830)	-	-	6,830	-	**-**
Deferred tax on transfer of excess depreciation	36 (b)	-	-	2,049	-	-	(2,049)	-	**-**
Transfer to regulatory reserve		-	-	-	-	189,900	(189,900)	-	**-**
Transactions with owners, recorded directly through equity									
Bonus issue of shares	36(a)	271,492	(271,492)	-	-	-	-	-	
Rights issue of shares	36(a)	213,315	1,887,839						**2,101,154**
Rights issue expenses paid	36(a)	-	(93,160)	-	-	-	-		**(93,160)**
Dividend paid – Final for 2013	35	-	-	-	-	-	-	(407,238)	**(407,238)**
Dividend proposed – Final for 2014	35	-	-	-	-	-	(639,946)	639,946	
At end of year		**3,199,728**	**2,731,255**	**184,764**	**(202,657)**	**919,004**	**15,785,977**	639,946	**23,258,017**
Start of year		**3,199,728**	**2,731,255**	**184,764**	**(202,657)**	**919,004**	**15,785,977**	639,946	**23,258,017**
Profit for the year		-	-	-	-	-	4,391,323	-	**4,391,323**
Other comprehensive income, net of tax		-	-	-	(363,786)	-	-	-	**(363,786)**
Total comprehensive income for the year		**-**	**-**	**-**	**(363,786)**	**-**	**4,391,323**	**-**	**4,027,537**
Transfer of excess depreciation	36 (b)	-	-	(6,830)	-	-	6,830	-	**-**
Deferred Income tax on transfer of excess depreciation	36 (b)	-	-	2,049	-	-	(2,049)	-	**-**
Transfer to regulatory reserve		-	-	-	-	18,625	(18,625)	-	**-**
Transactions with owners, recorded directly through equity									
Rights issue expenses paid	36 (a)	-	(31,238)	-	-	-	-	-	**(31,238)**
Dividends paid – Final for 2014	35	-	-	-	-	-		(639,946)	**(639,946)**
Dividend paid – Interim for 2015	35	-	-	-	-	-	(159,984)	-	**(159,984)**
Dividend proposed – Final for 2015	35	-	-	-	-	-	(639,946)	639,946	
At end of year		**3,199,728**	**2,700,017**	**179,983**	**(566,443)**	**937,629**	**19,363,526**	**639,946**	**26,454,386**

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
		CASH FLOWS FROM OPERATING ACTIVITIES			
(2,284,891)	4,815,676	Cash generated from / (used in) operations	39 (a)	(2,683,944)	3,364,099
(2,136,132)	(2,213,588)	Income tax paid	15 (c)	(2,147,137)	(2,284,718)
(4,421,023)	**2,602,088**	**Net cash from/ (used in) operating activities**		**(4,831,081)**	**1,079,381**
		CASH FLOWS FROM INVESTING ACTIVITIES			
		Investment in NIC Bank Tanzania:			
-	(16,008)	- acquisition of interest from non-controlling interest	37 (a)	-	(16,008)
-	-	Investment in NIC Securities	37 (b)	-	(683)
		Investment in NIC Properties:			
-	(550,000)	- Acquisition (Share capital)	25 (a)	-	-
-	-	- Leasehold land addition	29	-	(516,000)
-	-	- Goodwill	28 (b)	-	(34,000)
(50,000)	-	Investment in Leasing LLP	25 (b)	-	
(376,200)	-	Investment in NC Uganda	25 (b)	-	
(173,663)	(233,254)	Purchase of property and equipment	27	(248,434)	(293,402)
(146,187)	(95,658)	Purchase of intangible assets	28 (a)	(160,612)	(105,329)
115,147	-	Proceeds from Corporate bonds	25 (a)	115,147	
8,500	1,245	Proceeds from sale of motor vehicle and equipment	39 (c)	24,778	1,245
(622,403)	**(893,675)**	**Net cash used in investing activities**		**(269,121)**	**(964,177)**
		CASH FLOWS FROM FINANCING ACTIVITIES			
(830,342)	(396,588)	Dividends paid	35	(830,342)	(396,588)
-	-	Rights issue of shares to non-controlling interests in NIC Bank Tanzania	37 (a)	-	117,888
-	2,101,154	Rights issue of shares	36 (a)	-	2,101,154
(31,238)	(93,160)	Bonus and rights issue expenses paid	36 (a)	(31,238)	(93,160)
(861,580)	**1,611,406**	**Net cash generated from/(used in) financing activities**		**(861,580)**	**1,729,294**
(5,905,006)	**3,319,819**	**NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS**		(5,961,782)	**1,844,498**
8,229,118	**4,909,299**	**CASH AND CASH EQUIVALENTS AT START OF YEAR**		**9,528,431**	**7,561,599**
-	-	Effect of foreign exchange rate changes		24,599	122,334
2,324,112	**8,229,118**	**CASH AND CASH EQUIVALENTS AT END OF YEAR**	**39 (b)**	**3,591,248**	**9,528,431**

The notes on pages 69 to 149 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1) Reporting Entity

NIC Bank Limited (the "Bank"/"Parent") and its subsidiaries (together, the "Group") provide retail banking, corporate banking, brokerage, bancassurance, leasing and investment banking services. NIC Bank Limited is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya.

The Bank's shares are listed on the Nairobi Securities Exchange (NSE). NIC Bank Limited and its subsidiaries operate in Kenya, Tanzania and Uganda through its subsidiaries NIC Bank Tanzania Limited and NC Bank Uganda Limited.

The address of its registered office is as follows:

LR Plot No.8182
NIC House, Masaba Road
P O Box 44599-00100
Nairobi

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

2) Standards and interpretations affecting the reported result or financial position

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

Basis of preparation

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

i) Basis of measurement

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

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

2) Standards and interpretations affecting the reported result or financial position (Continued)

Basis of preparation(Continued)

ii) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise their judgment in the process of applying the Group's and Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5.

iii) Changes in accounting policy and disclosures

New standards, amendments and interpretations adopted by the Group

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

New and revised standards and interpretations not yet adopted

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

IFRS 16, 'Leases', will replace the current IAS 17 standard on leases. The new standard requires that for lessees all leases, regardless of whether they are operating or financial in nature, will be on balance sheet and accounted for as "financial leases". IFRS 16 will significant change the way lessees account for leases, however lessor accounting remains largely the same and the classification as a finance lease or operating lease is still a consideration. This means that straight-lining of operating leases will remain for lessors. The effective date is 1 January 2019.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities and introduces new rules for hedge accounting. The complete version of IFRS 9 was issued in July 2015. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments.

IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI without recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there are no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess the full impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers', which replaces IAS 11, IAS 18 and their interpretations (SIC 13 and IFRIC 13, 15,and 18). It establishes a single and comprehensive framework for revenue recognition to apply consistently across transactions, industries and markets. It is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing concept of risks and rewards. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service.

NOTES TO THE FINANCIALS STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

2) Standards and interpretations affecting the reported result or financial position (Continued)

Basis of preparation (Continued)

iii) Changes in accounting policy and disclosures (Continued)

The new standard is effective for annual periods beginning on or after 1 January 2018. The Group is currently assessing the impact of the amendment on its financial statements.

Amendments to IFRS 7, applicable to annual periods beginning on or after 1 January 2016 provides guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

Amendments to IAS 1 titled "Disclosure initiative" applicable to annual periods beginning on or after 1 January 2016 which clarify the guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

The Directors are assessing the impact of the standards and will subsequently choose the adoption date.

3. Summary of significant accounting policies

a) Consolidation

i) Subsidiaries

The consolidated financial statements comprise the financial statements of NIC Bank Limited and its subsidiary companies (together, the "Group") made up to 31 December. Subsidiary undertakings have been fully consolidated. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies have been eliminated.

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. A listing of the Bank's subsidiaries is set out in Note 25 (b).

The acquisition method of accounting is used when subsidiaries are acquired by the Group. The cost of an acquisition in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the consideration transferred by the Group, liabilities assumed by the Group from the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the acquired identifiable assets and the liabilities assumed are generally measured and recognized at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

In the event that the amounts of net assets acquired is in excess of the aggregate of the consideration transferred, the amount of non-controlling interest and the fair value of Group's previously held equity interest, the difference is recognised immediately in profit or loss as a bargain purchase.

In a business combination achieved in stages, the previously held equity interest is re-measured at the acquisition-date fair value with the resulting gain or loss recognised in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Additional information required by the regulatory bodies is included where appropriate.

NOTES TO THE FINANCIALS STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

a) Consolidation (Continued)

ii) Changes in ownership interest in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

b) Foreign currencies

i) Functional and presentation currency

The financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "Functional Currency"). The consolidated financial statements are presented in Kenya Shillings, which is the Bank's functional and presentation currency. Except as indicated, financial information presented in Kenya Shillings has been rounded to the nearest thousand.

ii) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the respective functional currencies of the operations using the exchange rates prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Foreign currency exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale financial assets, are included in other comprehensive income.

iii) Group companies

The results and financial position of Group entities that have a functional currency different from the presentation currency are re-translated into the presentation currency as follows:

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Kenyan shillings using exchange rates prevailing at the reporting date. Income and expense items of foreign operations are retranslated at average exchange rates for the period.

Foreign currency exchange differences are reported as "exchange differences on translations of foreign operations" and are recognised in other comprehensive income and presented in the foreign currency translation reserve in equity.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

c) Income recognition

i) Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in profit or loss on accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial instrument.

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

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest that was used to discount the future cash flows for purposes of measuring the allowance for impairment.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

ii) Fee and commission income and expenses

In the normal course of business, the Group earns fees and commission income from a diverse range of services to its customers. Fees and commission income and expenses that are integral to the effective interest rate on a financial instrument are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, investment management fees, placement fees, brokerage fees, bancassurance fees, and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period.

Other fees and commission expense relates mainly to transaction and service fees, which are incurred as the services are received.

iii) Net trading income

Net trading income arises from the margins which are achieved through market-making and customer business and from changes in market value caused by movements in interest and exchange rates, equity prices and other market variables. It comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest, dividends and foreign exchange differences.

d) Financial instruments

i) Recognition

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Loans and receivables are initially recognised at fair value plus transaction costs and subsequently carried at amortised cost using the effective interest method.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

d) Financial instruments (Continued)

ii) Classification

1. Financial assets

The Group classifies its financial assets into the following categories:

- At fair value through profit or loss
- Loans and receivables
- Held-to-maturity investments
- Available-for-sale investments

Management determines the appropriate classification of its investments at initial recognition.

a) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial instruments included in this category are recognised initially at fair value, transactions costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss.

The group designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting measurement mismatch or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to key management personnel on a fair value basis.

For the Group, these comprise derivative assets (Note 21), certain government securities as set out in Note 20, quoted shares and unquoted equity investments (Note 25). Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'Net gains on financial instruments designated at fair value through profit or loss' under 'net trading income' (Note 10).

b) Loans and receivables

Loans and advances to customers and trade receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market and which the Group does not intend to sell immediately or in the near term. Loans and advances to customers are recognised when cash is advanced to borrowers.

c) Held-to-maturity investments

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

d) Financial instruments (Continued)

ii) Classification (Continued)

1. Financial assets (Continued)

d) Available-for-sale investments

Available-for-sale financial assets are assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as (a) financial assets at fair value through profit or loss, (b) loans and receivables, or (c) financial assets held to maturity.

Available for sale financial assets are initially recognised at fair value and measured subsequently at fair value with gains and losses being recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of;

- impairment losses,
- interest calculated using the effective interest rate method,
- foreign exchange gains and losses on monetary assets which are recognised in profit or loss.

2. 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 of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities is at amortised cost using effective interest rate method. Financial liabilities include deposits from banks or customers, trade payables in the brokerage and borrowings for which the fair value option is not applied.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

d) Financial instruments (Continued)

ii) Classification (Continued)

Classes of financial instruments

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 in the table as follows:

Category (as defined by IAS 39)		Class (as determined by the Group)		Subclasses
Financial assets and liabilities	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities (Government securities)	
		Financial assets designated at fair value through profit or loss	Derivative assets	
			Quoted shares	
			Unquoted equity investments	
	Loans and receivables	Cash and balances with Central Banks (excluding mandatory reserves)		
		Items in the course of collection		
		Due from banking institutions		
		Loans and advances to customers	Loans to individuals (retail)	Overdrafts
				Credit cards
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
		Other assets		
		Due from group companies		
	Held-to-maturity investments	Investment securities - debt securities	Government securities	
	Available-for-sale financial assets	Investment securities - debt securities	Government securities	
	Financial liabilities at armortised cost	Due to banking institutions		
		Due to group companies		
		Borrowings		
		Other liabilities		
		Deposits from customers	Deposits from individuals (retail)	Retail customers
			Deposits from corporate entities	Large corporate customers
				SMEs
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

d) Financial instruments (Continued)

iii) Derecognition

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or substantially all the risks and rewards of ownership incidental to the financial asset are transferred. A financial liability is derecognised when its contractual obligations are redeemed or otherwise extinguished.

iv) Measurement

Financial instruments are initially recognised at fair value plus transaction costs.

Financial assets at 'fair value through profit or loss' are subsequently carried at fair value. Gains and losses arising from changes in the fair value in those assets are recognised in profit or loss.

Gains and losses arising from changes in the fair value of 'available-for-sale financial assets' are recognised in other comprehensive income in the period in which they arise and accumulated in the investment revaluation reserves.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments previously recognised in the investment revaluation reserves are reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on the most representative price within the bid-ask spread. If the market for a financial asset is not active (and for unquoted securities), the Group establishes fair value by using valuation techniques that include the use of various valuation methodology. The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them.

Loans and receivables and held to maturity investments are carried at amortised cost using the effective interest rate method.

Financial liabilities are subsequently measured at amortised cost.

v) Impairment of financial assets

1. Amounts carried at amortised cost

The Group reviews regularly, on a case-by–case basis, whether any objective evidence exists of impairment, individually for financial assets that are significant and individually or collectively for financial assets that are not individually significant. 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 of the asset that can be estimated reliably.

Loans and receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of loans and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss as 'Credit impairment charges'. When a loan or receivable is uncollectible, it is written off against the related allowance account. Subsequent recoveries of amounts previously written off are credited through profit or loss

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

d) Financial instruments (Continued)

v) Impairment of financial assets (Continued)

1. Amounts carried at amortised cost (Continued)

Objective evidence that loans and receivables are impaired includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue), 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 are considered indicators that the loans or receivable is impaired.

In assessing impairment losses, the Group considers the following factors, in each category:

a. Individually assessed loans

- The aggregate exposure to the Group.
- The viability of the customer's business model and its capacity to trade successfully out of financial difficulties and generate sufficient cash flows to meet its debt obligations.
- The realisable value of the security (or other mitigants) and likelihood of successful repossession net of any costs involved in recovery of amounts.
- The amount and timing of expected receipts and, in cases of liquidation or bankruptcy, dividend available.
- The extent and complexity of other creditors' commitment ranking pari passu with the Group and the likelihood of other creditors continuing to support the customer.

b. Collectively assessed

For loans not subject to individual assessment, to cover losses which have been incurred but have not yet been identified.

For homogeneous groups of loans that are not considered individually significant, where there is objective evidence of impairment.

Homogeneous groups of loans

For homogeneous groups of loans that are not considered individually significant, or in other cases, when the portfolio size is small or when information is insufficient or not reliable enough, the Group adopts a formulaic approach which allocates progressively higher percentage loss rates in line with the period of time for which a customer's loan is overdue. Loss rates are calculated from the discounted expected future cash flows from a portfolio. These rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure they remain appropriate.

Loan write – offs

An uncollectible loan is written off against the relevant provision for impairment, either partially or in full, when there is no realistic prospect of recovery and the proceeds from realising the security have been substantially or fully recovered.

Restructured loans

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

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

d) Financial instruments (Continued)

v) Impairment of financial assets (Continued)

2. Amounts classified as available for sale

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss.

vi) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amount of its tangible and intangible assets to determine whether there is any indication that these assets have suffered an impairment loss.

If objective evidence on impairment losses exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. In cases where the asset is carried at revalued amount, the impairment loss is treated as a revaluation decrease.

In determining the recoverable amount, the Group considers the higher of the fair value of the asset less costs to sell, and value in use. In estimating value in use, the Group is cognisant of the estimated future cash flows discounted to the present value using a pre-tax discount rate that is reflective of the current market assessment of time value of money and the risks specific to the asset itself.

Intangible assets with indefinite useful life are tested for impairment annually, and when there is indication that the asset may be impaired.

Where impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised, unless such asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as revaluation income.

Impairment loss on goodwill is not reversed.

e) Offsetting

Financial instruments are offset and the net amount reported in the statement of financial position when there is a legal right to set off the amounts and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

f) Employee expenses

i) Retirement benefit obligations

The Group operates a defined contribution plan under which the Group pays fixed contributions into a separate entity. The Group has no obligation, legal or constructive, to pay further contributions if the scheme does not have sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The assets of the scheme are held in a separate trustee administered fund, which is funded by contributions from both the Group and the employees. In addition, the Group also contributes to the National Social Security Fund in Kenya, Parastatal Pension Fund in Tanzania and National Social Security Fund in Uganda, which are defined contribution schemes registered under respective Acts of Parliament in the respective countries.

The Group's contributions to the defined contribution schemes are charged to the profit or loss in the year in which they relate.

Contract staff are entitled to gratuity payment at the completion of the contract. Provision is made for gratuity in line with the contracts.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

f) Employee Benefits(Continued)

ii) Short-term benefits

Short-term employee benefit obligations (e.g. medical reimbursements and insurance) are measured on an undiscounted basis and are expensed as the employee renders service.

The monetary benefits for employee accrued leave entitlement at the reporting date are recognised as an expense accrual

g) Leasehold land

Payments to acquire leasehold interest in land are treated as prepaid operating lease rentals and amortised on straight line basis over the period of the lease. When a lease includes land and buildings elements, the bank assesses the classification of each element as either a finance lease or an operating lease. In determining classification of the land element, an important consideration is that land normally has an indefinite economic life. Therefore the finance lease or operating lease classification of the land is considered a critical area of judgment. See note 5 to these financial statements.

h) Income tax expense

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable on the taxable profit for the year using currently enacted tax rates, and any adjustment to tax payable in respect of previous years.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation.

Management establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided using the liability method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income 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. Currently enacted income tax rates are used to determine deferred income tax.

A deferred income 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 utilised. Deferred income 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 realised.

The tax effects of carry-forwards of unused losses or unused tax credits are recognised as an asset when it is probable that future taxable profits will be available against which these losses can be utilised.

Current and deferred income tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current income tax or deferred income tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

i) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares 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 adjusted for the effects of all potentially dilutive ordinary shares.

j) Dividends on ordinary shares

Dividends are charged to equity in the period in which they are declared. Proposed dividends are not accrued until they have been ratified at the Annual General Meeting.

k) Leases

When the Group is the lessor in a lease agreement that transfers substantially all of the risks and rewards incidental to ownership of an asset to the lessee, the arrangement is classified as a finance lease within loans and receivables. All other lessees are classified as operating leases.

Minimum lease payments made under finance leases are apportioned between the finance income and the reduction of the outstanding principal. The finance income is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the asset.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Rentals payable under operating leases are charged to profit or loss over the terms of the relevant lease.

l) Repurchase agreements

When the Group purchases a financial asset and simultaneously enters into an agreement to re-sell the asset (or a substantially similar asset) at a fixed price on a future date ("reverse repo or stock borrowing"), the arrangement is accounted for as a loan or receivable, and the underlying asset is not recognised in the Group's financial statements.

m) Property and equipment

i. Recognition and measurement

Items of motor vehicles, fixtures & fittings and equipment are stated at historical cost less accumulated depreciation. Buildings comprising mainly of the head office are stated in the statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and any other costs directly attributable to bringing the asset to a working condition for its intended use. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items of property and equipment.

The gain or loss arising on the disposal or retirement of an item of property or equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss for the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

m) Property and equipment (Continued)

ii. Subsequent costs

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

In relation to buildings, any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus on property. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus on property; all other decreases are charged to the profit or loss for the year

iii. Depreciation

Depreciation which is recognised in profit or loss is calculated on a straight-line basis to allocate the costs or revalued amounts over their estimated useful lives as follows:

Building	2.5%
Furniture, fittings and equipment	20.0%
Motor vehicles	20.0%
Computers	33.3%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Excess depreciation, representing the additional depreciation based on revalued amounts over depreciation based on historical costs, is transferred annually from revaluation surplus on property to retained earnings, net of deferred tax.

n) Intangible assets

i. Goodwill

Goodwill arises on business combinations through acquisition of subsidiaries when the cost of acquisition exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost to acquire, the excess is recognised immediately in profit or loss.

Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that the cash-generating unit may be impaired, by comparing the present value of the expected future cash flows from a business with the carrying value of its net assets, including attributable goodwill. Goodwill is stated at cost less accumulated impairment losses which are charged to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

n) Intangible assets (Continued)

ii. Computer software

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which is three to five years.

Acquired computer software licences are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

iii. License

Separately acquired licences in business combination are initially recognised at their fair value at the acquisition date. Licences with an indefinite useful life are not amortised and are reviewed at each reporting date to determine whether events and circumstances continue to support an indefinite useful life assessment of the asset. Where the Group re-assesses the useful life of an intangible asset as finite rather than indefinite, the asset may be considered to be impaired. The Group tests the asset for impairment annually and whenever there is an indication that the intangible asset may be impaired by comparing it's recoverable amount, with the carrying amount and recognising any excess of the carrying amount over the recoverable amount as an impairment.

o) Legal and other claims

Provisions for legal claims are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

p) Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition. These includes notes and coins on hand, unrestricted balances held with Central Banks, items in the course of collection from other banks, deposits held at call with banks, net of deposits and balances due to banking institutions and treasury bills with original maturities of less than three months. Such assets are generally subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

3) Summary of significant accounting policies (Continued)

q) Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

r) Regulatory reserves

IAS 39 requires the Group to recognise an impairment loss when there is objective evidence that loans and receivables are impaired. However, prudential guidelines issued by banking regulators require the Group to set aside amounts for impairment losses on loans and receivables based on their guidelines. Extra losses over and above those already recognised under IAS 39 are accumulated under regulatory reserves through appropriations of retained earnings.

s) Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds, which are credit-related instruments, are generally given by the Group to support performance by a customer to third parties. Nominal principal amounts represent amounts at risk should the Group be required to meet these obligations in the event the customer defaults. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

t) Fiduciary activities

The Group provides custody, trustee, corporate administration, investment management and advisory services to third parties, which involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements.

u) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives are intended to acquire, increase, reduce or alter exposure to market risks. The group uses derivatives for its customers and on its own account to manage exposure to market risks. Derivative assets and liabilities on different transactions are only set off if the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis.

v) Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker (Group management). Group management allocates resources to each operating segment of the Group and assesses their performance. The operating segments are based on the Group's management and internal reporting structure.

In accordance with IFRS 8, Operating Segments, the Group has the following business segments; corporate and institutional banking, treasury dealing and brokerage, retail banking, asset finance and investment banking and others (see note 6)

w) Comparatives

Except otherwise required, all amounts are reported or disclosed with comparative information. Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives

Group risk management framework and governance structures

Risk management overview

In the financial services sector, sustainable growth in profitability involves selectively taking and managing risks. The Group's goal is to earn, on behalf of the stakeholders, an optimal, stable and sustainable rate of return for every shilling of risk we take, while continually investing in our business to meet our future growth objectives. The risk management resources and processes are designed to identify, understand, measure and report risks that the Group's businesses are exposed to, and develop governance, controls, and risk management frameworks necessary to mitigate these risks as appropriate. These resources and processes are strengthened by the Group's culture which emphasises transparency, accountability and responsibility for managing the risks we are exposed to.

The Group defines risk as an event or events of uncertainty which can be caused by internal or external factors resulting in the possibility of losses (downside risk). However, the Group appreciates that some risk events may result into opportunities (upside risk) and should therefore be actively sought and exploited.

The Group operates in an environment of numerous risks as shown below that may cause financial and non-financial results to differ significantly from the expected outcomes. The Group has an enterprise-wide approach to the identification, measurement, monitoring and management of risks faced across the region. These risks are classified as follows:

Financial risks:

- Credit and counterparty risk
- Liquidity and funding risk
- Market risk that fall within:
  - Interest rate risk
  - Foreign exchange risk
  - Price risk

a) Credit and counterparty risk

Credit and counterparty risk is the potential for loss due to the Group's customers' or counterparties' failure or unwillingness to meet their contractual credit obligations. It is the single largest financial risk that the Group faces. It arises principally from, but is not limited to, commercial and retail loans and advances, commitments from forward foreign exchange contracts, financial guarantees, letters of credit and acceptances, investments in debt securities and other exposures arising from trading and settlement activities with market counterparties.

The amounts presented in these financial statements are net of impairment allowances based on prudent assessment of the customers' or counterparties' abilities to meet their contractual obligations.

The Group's lending principles are laid out in an elaborate series of corporate strategies, policies, standards, guidelines, directives and procedures, all of which are developed, approved and reviewed regularly by the Board Credit Risk Committee and respective Risk Management Committees. This is to ensure policies are current and consistent with the Group's risk appetite. The structure, limits, collateral requirements, ongoing management, monitoring and reporting of credit exposures are all governed by these principles.

Who manages credit & counterparty risk

The Board of Directors and Senior Management pay special attention to credit risk exposure at all times. The Board retains the responsibility for under-writing and independent review of the credit risk exposures through specifically constituted Board sub-committees: the Board Credit Risk Committee and the Board Risk Management Committee respectively. To facilitate the day to day management of credit risk i.e. under-writing functions, monitoring and control, there is a specialised, independent and centralised credit review/approval team headed by the Head of Credit who reports to the Group Managing Director. The Board of Directors retains the authority to approve credit facilities that are significant in size or complexity.

Effective credit risk management begins with experienced and professional lending officers who have been formally mandated to authorise credit exposures for the Group. These individuals are subjected to a rigorous lender qualification process and operate within a disciplined environment with clear delegation of management discretionary limits at both the individual and joint levels depending on the size and complexities of the credit decisions they make.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (Continued)

Who manages credit & counterparty risk (Continued)

To facilitate quick credit decisions, the Board Credit Risk Committee has granted formal discretionary limits to several Senior Managers (at individual and committee levels), in line with their skills, experience and ability to make sound credit decisions.

To separate the sales and credit under-writing functions from credit operations, a credit administration unit that reports directly to the Head of Technology and Operations, handles post-approval credit administration as well as the daily monitoring of credit exposures against approved limits. This together with the complete segregation of sales activities from the underwriting process, maintains an adequate governance structure that eliminates conflicts of interest that may occur in the course of business.

Credit risk management key performance indicators, including the quality of our credit portfolios, portfolio concentrations, amongst others, are independently reviewed by the Head of Risk Management & Compliance with oversight from the Board Risk Management Committee.

Regular independent audits of the approval process and adherence to credit risk management programs are carried out by the Internal Audit Department. Adverse findings are submitted to Senior Management and the Board Audit Committee for information and corrective actions implementation. Furthermore, audit programs are carried out using a risk based approach to concentrate activities where high probability and/or high impact risk events are envisaged.

How credit and counterparty risk is managed

Credit and counterparty risk measurement & assessment

The estimation of credit exposures at the individual and portfolio levels is complex and requires the use of special models, as the value of products or portfolios varies with changes in market variables, expected cash-flows and the passage of time. The assessment of a portfolio of assets' credit exposures entails further estimation of the likelihood of defaults occurring, of associated losses, and of default correlations between borrowers or counterparties, the facilities granted, and their industries. This is achieved using a credit rating model developed internally for use in the business.

Credit & counterparty risk limit control and mitigation policies

The Board Credit Risk Committee regularly sets, reviews and approves exposure limits for the larger counterparties as well as tolerance limits on a portfolio basis. In turn, the Group manages the limits and controls concentrations of credit risk exposures against internal and regulatory requirements with respect to individual counterparties or related groups of counterparties, industry sectors, amongst others.

Exposures to any one borrower (including bank counterparties) are further restricted by sub-allocating limits covering separate on and off – balance sheet exposures, as well as daily delivery exposures in relation to trading items e.g. forward foreign exchange contracts.

Lending limits are reviewed regularly in line with the changing business/financial risks of the borrowers, in addition to industry and general economic conditions in which they operate. To enable prudent and consistent credit assessments at the individual level, the Group has robust approval processes and models covering different business segments. This process basically captures the borrower's financial viability, industry / economic performance, geopolitical risks and its managements' ability to steer the organisation. These models are suited to counterparties who are homogeneous in nature for ease of their use.

Limits for commercial and corporate clients are reviewed at least once annually. The credit review process ensures that an appropriate facility structure, including covenant monitoring, is in place for each client. The frequency of reviews is increased in accordance with the likelihood and size/complexity of potential credit losses, with deteriorating higher-risk situations referred to independent debt recovery units for closer attention and remediation where appropriate.

The risks in industry sectors are managed through limits and lending criteria / guidelines relevant to each particular industry. Borrower limits are set within the context of established guidelines for individual borrowers and particular industries to ensure the Group does not have excessive concentration in any related group of borrowers or industry. Through this portfolio management process, loans may be syndicated to reduce overall exposure to a single name and/ or industry.

Exposures against tolerance limits in relation to credit risk categories are measured and monitored periodically on an aggregated basis. Actual exposures against limits are monitored daily through the well-established credit management information systems that are in place.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (Continued)

Other specific control and mitigation measures are outlined below

Although the Group only lends to counterparties that primarily demonstrate adequate capacity to repay loans, it also employs a range of policies, guidelines and models to mitigate credit risk as follows:

i. Collateral

This is only considered in those cases where the Group would want to take a credit risk mitigant. The Group has developed specific policies and guidelines for the acceptance of different classes of collateral whose estimated fair values are well understood.

Estimates of the collateral's fair values are based on the value of collateral independently and professionally assessed at the time of borrowing, and re-valued with a frequency commensurate with nature and type of the collateral and credit advanced. Collateral structures and covenants are subjected to regular review to ensure they continue to fulfil the intended purpose to the Group.

Collateral is generally not held in respect of deposits and balances due from banking institutions, items in the course of collection, and Government securities, except when securities are held for reverse purchase and securities borrowing activity.

ii. Credit rating

The Group uses an internal rating system for its borrowing clients. The system sets maximum exposure limits for individuals or groups of clients using the rating attained by the borrowers. The rating system will also inform the basis of determining the value and classes of collateral acceptable for the borrower(s).

iii. Settlement risk

This is the risk of loss due to the failure by counterparty to honour its obligations to deliver cash, securities or other assets as contractually agreed. It arises in situations where a payment in cash is made in anticipation of corresponding receipt of cash securities or other assets. Daily settlement limits are approved by the relevant authority levels and established for each counterparty to cover the aggregate of all settlement risks arising from the counterparty's market transactions on a single day. Acceptance of the counterparty's settlement risk is determined on the basis of financial strengths and other non-financial considerations subject to Board Credit Risk Committee's approvals.

Impairment policies

Across all its loan portfolios, the Group employs a disciplined approach to impairment allowances evaluation, with prompt identification of problem loans being a key risk management objective. The Group maintains both collective and specific impairment allowances for credit losses, the sum of which is sufficient to reduce the book value of credit assets to their estimated realisable value. Specific impairment allowances reduce the aggregate carrying value of credit assets where there is specific evidence of deterioration in credit quality. In line with regulatory guidelines, a collective allowance is maintained to cover potential impairment in the existing portfolio that cannot be associated with specific credit. These allowances are reviewed and updated on a regular basis.

Write-off policy

The Group writes off loans and advances net of any related allowances for impairment losses when it determines that the loans are uncollectable and securities unrealisable. This determination is reached after accessing objective evidence or occurrence of significant changes in the borrower or issuer's financial position such that they are no longer able to repay the obligation, or that proceeds from the sale of collateral will not be sufficient to pay back the entire exposures. This is done after exhausting all other means including litigation. For Retail and Asset Finance loans, charge off decisions are generally based on product specific days past due status and the size of balances owed per borrower.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (continued)

I. Maximum exposure to credit risk before collateral held

GROUP	Note	2015 Shs'000	%	2014 Shs'000	%
Credit exposures					
On – balance sheet items					
Balances with Central Banks	17	7,277,322	4	9,066,532	7
Items in the course of collection	18	848,819	-	519,958	-
Due from banking institutions	19	6,675,640	5	8,753,909	6
Loans and advances to customers	22	114,657,644	67	100,575,330	64
Government securities	20	27,911,907	16	19,223,686	12
Other assets – trade receivables	23	47,121	-	154,122	-
Derivative assets	21	-	-	118,781	-
		157,418,453	**92**	**138,412,318**	**89**
Off-balance sheet items			-		
Letters of credit	38	2,447,972	1	3,490,696	2
Guarantees and performance bonds	38	11,988,684	7	13,793,897	9
		14,436,656	**8**	**17,284,593**	**11**
		171,855,109	**100**	**155,696,911**	**100**

II. Maximum exposure to credit risk before collateral held

BANK	Note	2014 Shs'000	%	2013 Shs'000	%
Credit exposures					
On – balance sheet items					
Balances with Central Bank	17	6,001,492	4	8,079,859	6
Items in the course of collection	18	804,882	1	484,521	-
Due from banking institutions	19	5,464,120	3	7,843,903	5
Loans and advances to customers	22	106,516,052	67	92,957,230	66
Government securities	20	25,012,995	16	16,454,111	11
Derivative assets	21	-	-	118,781	-
		143,799,541	**91**	**125,938,405**	**88**
Off-balance sheet items					
Letters of credit	38	2,405,342	2	3,374,438	2
Guarantees and performance bonds	38	11,763,879	7	13,633,024	10
		14,169,221	**9**	**17,007,462**	**12**
		157,968,762	**100**	**142,945,867**	**100**

The above represents the worst case scenario of credit exposure for both years, without taking into account collateral held or other credit enhancements/mitigants.

The Group Loans and advances to customers and other trade related items (off-balance sheet items) comprise of 75% (2014: 76%) of the total credit exposure.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (Continued)

Collateral

While collateral is an important mitigant to credit risk, the Group's underwriting policy ensures that loans are strictly granted on a going concern basis with upfront adequate demonstration of repayment capacity. Other than exposures amounting to Shs 3,805,614,000 (2014: Shs 3,634,944,000) that are unsecured, all other facilities are secured by collateral in the form of charges over cash, land and buildings, marketable securities, plant and machinery, amongst others. The fair value of collateral held for impaired loans and advances is Shs 10,451,907,000 (2014: Shs 1,351,648,000).

Collateral and other credit enhancements obtained

The fair value of assets held by the Group as at 31 December as collateral was as follows:

Carrying amount

Bank			Group	
2015	2014		2015	2014
Shs `000	Shs `000	Nature of assets	Shs `000	Shs`000
9,776,326	942,381	Charges over cash, land and buildings, marketable securities, plant and machinery	10,451,907	1,351,648

Collateral repossessed

It is the Group's policy to dispose of repossessed properties on the open market, at fair market value. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy or foreclose repossessed properties for its own business use.

The Group is confident that its credit policies and programs provide sufficient safeguards against the credit risk exposure shown in the tables overleaf:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (Continued)

ii. Classification of loans & advances to customers

Group

	Kenya	Tanzania	Uganda	Total
At 31 December 2015	**Shs `000**	**Shs `000**	**Shs `000**	**Shs `000**
Gross loans and advances				
Neither past due nor impaired	92,411,193	3,683,340	3,054,707	99,149,240
Past due but not impaired				
Past due 30 to 90 days	4,479,299	238,093	493,846	5,211,238
Individually impaired	12,165,065	764,446	299,023	13,228,534
Total gross loans advanced	**109,055,557**	**4,685,879**	**3,847,576**	**117,589,012**
Impairment allowances				
Neither past due nor impaired	-	-	-	-
Past due but not impaired				
Past due 30 to 90 days	(150,766)	-	(3,974)	(154,740)
Individually impaired	(2,388,739)	(387,480)	(409)	(2,776,628)
Impairment allowances	**(2,539,505)**	**(387,480)**	**(4,383)**	**(2,931,368)**
Net loans and advances	**106,516,052**	**4,298,399**	**3,843,193**	**114,657,644**
Coverage ratio of the individually impaired	**20%**	**51%**	**0%**	**21%**
At 31 December 2014				
Gross loans and advances				
Neither past due nor impaired	90,433,598	3,724,419	3,047,388	97,205,406
Past due but not impaired				
Past due 30 to 90 days	1,643,408	408,083	31,879	2,083,370
Individually impaired	3,244,092	644,815	143,101	4,032,008
Total gross loans advanced	**95,321,098**	**4,777,317**	**3,222,368**	**103,320,784**
Impairment allowances				
Neither past due nor impaired	-	-	-	-
Past due but not impaired				
Past due 30 to 90 days	(62,157)	-	(2,937)	(65,094)
Individually impaired	(2,301,711)	(372,450)	(6,162)	(2,680,360)
Impairment allowances	**(2,363,868)**	**(372,450)**	**(9,099)**	**(2,745,454)**
Net loans and advances	**92,957,230**	**4,404,867**	**3,213,269**	**100,575,330**
Coverage ratio of the individually impaired	**71%**	**58%**	**43%**	**67%**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (Continued)

Credit quality of loans and advances

All loans and advances are categorised as neither past due nor impaired, past due but not impaired, or impaired. Impaired loans include restructured loans. For the purposes of these disclosures:

- A loan is considered past due when the borrower has failed to make a payment when due under the terms of the existing loan contract;
- The impairment allowance includes allowances both against financial assets that have been individually impaired and those subject to collective impairment;
- Loans neither past due nor impaired consist predominantly of corporate and retail loans that are performing. These loans, although unimpaired, may carry an unidentified impairment allowance; and
- Impaired loans that are collectively assessed for impairment consist predominantly of Retail loans that are 1 day or more past due for which a collective impairment allowance is raised.

Loans and advances that are neither past due nor impaired

The Group classifies loans and advances under this category if they are up to date and in line with their contractual agreements (within 0-30 days). Such loans would have demonstrated the meeting of their financial and non-financial conditions plus obligations and the borrowers would have proven forward looking capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in line with internal guidelines and those issued by regulators where applicable. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory credit risk reserves.

Past due but not impaired

This category includes exposures that are between 31 and 90 days past due, where losses may have been incurred but have not been clearly identified. These exposures are graded as category 2 in line with our internal guidelines and those issued by banking regulators. A collective impairment allowance is made as described above to cover losses which have been incurred but have not yet been identified.

Individually impaired loans and advances

Impaired loans and advances are those which the Group determines that it is highly probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan securities agreement(s). These loans are graded between categories 3 (91 - 180 days), 4 (181 - 360 days) and 5 (over 360 days) using the Group's internal credit rating system. These clients, under guidelines issued by the Central Banks in the regions we operate in, are termed as non-performing loans. The Group establishes a specific allowance for impairment losses for each loan that represents the estimate of losses that will be incurred in its loan portfolio.

Concentrations of risk

The Group monitors concentration of risk exposures in its lending and other asset portfolios by individuals or groups of related borrowers and industry sector concentrations in line with Board of Directors' approved limits. These limits are reviewed regularly using economic risk indicators identified in particular industrial sectors. An analysis of concentrations within the loans and advances to customers and off balance sheet items are shown in the next page.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

a) Credit and counterparty risk (Continued)

Loans and advances to customers

Bank 2015 %	Bank 2014 %		Group 2015 %	Group 2014 %
24	25	Manufacturing	25	26
26	24	Social community and personal services	27	24
13	17	Transport and communication	12	16
16	10	Wholesale and retail	16	10
5	6	Agriculture	5	6
2	2	Electricity	2	2
3	2	Financial	2	2
11	14	Other	11	14
100	**100**		**100**	**100**

Contingent liabilities

Bank 2015 %	Bank 2014 %		Group 2015 %	Group 2014 %
8	9	Agriculture	8	9
12	11	Business services	12	11
10	10	Wholesale and retail	10	10
6	5	Real estate and construction	6	5
19	20	Transport and communication	19	20
32	33	Manufacturing	32	33
13	12	Other	13	12
100	**100**		**100**	**100**

b) Liquidity and funding risk

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations when they fall due or to fund increases in asset without incurring unacceptable costs or losses. Effective liquidity risk management is essential in order to maintain the confidence of depositors and counterparties, and to enable our core business to continue operating even under adverse liquidity circumstances.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

b) Liquidity and funding risk (Continued)

Who manages liquidity and funding risk

The Assets and Liabilities Committee (ALCO), a management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met as and when they fall due, and that the Group will not encounter difficulties in meeting its current and future financial obligations or financial liabilities as they fall due.

ALCO relies substantially on the Group's Treasury Department to coordinate and ensure discipline across the Group and business units, certify sufficient liquidity under both normal and stressed conditions, without incurring unacceptable losses and/or risking damage to the Group's reputation.

The Board Executive Committee has oversight over ALCOs activities through regular review of its minutes and significant reports outlining the Group's current exposures against approved risk limits. These reports are also reviewed by the Board Risk Management Committee on a regular quarterly basis.

Liquidity policies / guidelines and limits are reviewed periodically, or as the need arises.

How liquidity and funding risk is managed

i. Liquidity and funding management

The Group's liquidity and funding policies require that it:

- Enters into lending contracts subject to availability of funds.
- Projects cash flows by major currencies and consider the level of liquid assets necessary in relation thereto.
- Monitors liquidity ratios against internal and regulatory requirements and guidelines.
- Maintains an array of a diverse range of funding sources as contingency back–up facilities.
- Monitors depositor concentration to avoid undue reliance on large individual depositors and ensure a satisfactory funding mix is attained.
- Invests in short term liquid instruments, which can easily be sold in the market when the need arises.
- Ensure investments in large cash outlay projects e.g property and equipment purchases are budgeted for and carried out only when the Group has sufficiently liquid cash flows.
- Maintains liquidity and funding contingency plans. These plans and key risk indicators clearly identify early stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crisis while minimising adverse long-term implications.

ii Sources of funding

The Group's major source of funding is customer deposits. To this end, the Group maintains a diversified and stable funding base comprising of the core retail and corporate customers and wholesale banking clientele. The Group places considerable importance on the stability of these deposits, which is achieved through the Group's corporate, institutional and retail banking activities and by maintaining depositor confidence in the Group's business strategies and financial strength. An analysis of concentrations within the customer deposits is as follows:

Customer deposits

Bank			Group	
2015 %	**2014 %**		**2015 %**	**2014 %**
1	5	Insurance companies	1	5
10	15	Non-profit institutions and individuals	11	16
89	80	Private enterprises	88	79
100	**100**		**100**	**100**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

b) Liquidity and funding risk (Continued)

How liquidity and funding risk is managed (Continued)

ii Sources of funding (Continued)

The Group also borrows from the inter-bank and wholesale markets such as pension funds and insurance companies to meet its short term liquidity and other investment objectives.

The Group does not maintain cash reserves to meet all its obligations as experience over time has shown that a minimum level of reinvestment of maturing customer funds can be predicted with a high level of certainty. Although the contractual repayments of many customer accounts are on demand or short notice, in practice from a behavioral perspective, short-term deposit balances remain stable as inflows and outflows broadly match.

iii Exposure to liquidity risk

The key measures used by the Group for managing liquidity risk are;

- The ratio of net liquid assets to deposits from customers (liquidity ratio). For this purpose, net liquid assets include cash and cash equivalents and investments in securities for which there is an active and liquid market less any deposits from banks, as well as other borrowings and commitments maturing within the next month. The banking regulators also require that the Group maintains a cash reserve ratio computed as percentage of eligible customer deposits.

  The banking regulations require that the Group maintains a minimum liquidity ratio of 20%. The Group complied with the liquidity requirements during the year.

  The average liquidity ratio for the year was 31% (2014: 29%).

- The maturity analysis of assets and liabilities report is presented in the next pages. The Group uses the maturity mismatch ladders to compare cash inflows and outflows each month and over a series of time-bands. The maturity mismatch ladder shows the net cash flows of the Group in various time bands. The Group net funding requirements are determined by analysing present and future cash flows of the entire statement of financial position at selected maturity dates, based on assumptions of the behaviour of assets, liabilities and off-balance sheet items. Calculations will include the cumulative net excess or shortfall over the time frame of the liquidity assessment.

  The Group also monitors its liquidity exposures through an array of internally developed risk indicators such as several types of advances to deposit ratios, proportion of largest depositors to total deposits, liquidity gap analysis ratios, inter-bank borrowings as a proportion of total deposits, amongst others. At the end of 2014, the Group begun to use the Basel Accord preferred Liquidity Coverage ratio and Net Stable Funding ratio to assess its short and long term liquidity stability. This enables the group to arrest any early warning signs and take timely corrective action.

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

  The amount in the tables on page ** to *** as the contractual undiscounted cash flows, whereas the group manages the liquidity risk based on a different basis not resulting in a significantly different analysis.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

b) Liquidity and funding risk (Continued)

How liquidity and funding risk is managed (Continued)

iii Exposure to liquidity risk (Continued)

LIQUIDITY RISK (Undiscounted) – 2015 (Group)

	Upto 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	Over 3 Years Shs'000	Total Shs'000
FINANCIAL LIABILITIES						
Customer deposits	76,215,364	29,777,110	8,865,564	7,258	6,678	114,871,974
Due to banking institutions	9,064,552	-	-	-	-	9,064,552
Borrowings	-	367,004	2,744,259	2,229,310	13,488,421	18,828,994
Total financial liabilities	**85,279,916**	**30,144,114**	**11,609,823**	**2,236,568**	**13,495,099**	**142,765,520**
FINANCIAL ASSETS						
Cash and balances with Central Banks	8,940,056	-	-	-	-	8,940,056
Items in the course of collection	848,819	-	-	-	-	848,819
Due from banking institutions	6,847,221	-	-	-	-	6,847,221
Government securities	164,881	2,330,495	8,001,701	5,248,026	14,317,626	30,062,729
Loans and advances to customers	42,832,145	6,086,589	11,840,034	32,164,024	47,146,926	140,069,718
Total financial assets	**59,633,122**	**8,417,084**	**19,841,735**	**37,412,050**	**61,464,552**	**186,768,543**
Net liquidity gap	**(25,646,794)**	**(21,727,030)**	**8,231,912**	**35,175,482**	**47,969,453**	**44,003,023**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

b) Liquidity and funding risk (Continued)

How liquidity and funding risk is managed (Continued)

iii Exposure to liquidity risk (Continued)

LIQUIDITY RISK (Undiscounted) – 2014 (Group)

	Upto 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	Over 3 Years Shs'000	Total Shs'000
FINANCIAL LIABILITIES						
Customer deposits	51,838,242	39,244,447	12,926,717	-	-	**104,009,406**
Due to banking institutions	5,511,242	-	-	-	-	**5,511,242**
Borrowings	-	-	837,380	1,661,953	12,577,071	**15,076,404**
Total financial liabilities	**57,349,484**	**39,244,447**	**13,764,097**	**1,661,953**	**12,577,071**	**124,597,052**
FINANCIAL ASSETS						
Cash and balances with Central Banks	4,571,838	3,654,664	2,312,994	-	-	**10,539,496**
Items in the course of collection	519,958	-	-	-	-	**519,958**
Due from banking institutions	8,760,044	10,917	-	-	-	**8,770,961**
Government securities	29,802	19,785	8,911,932	7,251,784	4,666,715	**20,880,018**
Derivative assets	118,781	-	-	-	-	**118,781**
Loans and advances to customers	16,448,401	10,816,149	23,069,660	41,131,920	29,607,283	**121,073,413**
	30,448,824	**14,501,515**	**34,294,586**	**48,383,704**	**34,273,998**	**161,902,627**
Net liquidity gap	**(26,900,660)**	**(24,742,932)**	**20,530,489**	**46,721,751**	**21,696,927**	**37,305,575**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

b) Liquidity and funding risk (Continued)

How liquidity and funding risk is managed (Continued)

iii Exposure to liquidity risk (Continued)

LIQUIDITY RISK (Undiscounted) – 2015 (Bank)

	Upto 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	Over 3 Years Shs'000	Total Shs'000
FINANCIAL LIABILITIES						
Customer deposits	72,149,063	28,202,104	7,089,064	7,258	6,678	**107,454,167**
Due to banking institutions	7,437,613	-	-	-	-	**7,437,613**
Borrowings	-	367,004	620,788	1,060,986	13,488,421	**15,537,199**
Total financial liabilities	**79,586,676**	**28,569,108**	**7,709,852**	**1,068,244**	**13,495,099**	**130,428,979**
FINANCIAL ASSETS						
Cash and balances with Central Banks	7,291,629	-	-	-	-	**7,291,629**
Items in the course of collection	804,882	-	-	-	-	**804,882**
Due from banking institutions	5,469,903	-	-	-	-	**5,469,903**
Government securities	-	2,008,213	5,924,199	5,074,412	14,094,408	**27,101,232**
Loans and advances to customers	41,128,447	4,972,440	9,504,913	29,062,323	47,040,095	**131,708,218**
Total financial asset	**54,694,861**	**6,980,653**	**15,429,112**	**34,136,735**	**61,134,503**	**172,375,864**
Net liquidity gap	**(24,891,815)**	**(21,588,455)**	**7,719,260**	**33,068,491**	**47,639,404**	**41,946,885**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

b) Liquidity and funding risk (Continued)

How liquidity and funding risk is managed (Continued)

iii Exposure to liquidity risk (Continued)

LIQUIDITY RISK (Undiscounted) – 2014 (Bank)

	Upto 1 Month	1 to 3 Months	4 to 12 Months	1 to 3 Years	Over 3 Years	Total
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL LIABILITIES						
Customer deposits	47,837,859	38,196,742	10,540,141	-	-	**96,572,742**
Due to banking institutions	4,649,921	-	-	-	-	**4,649,921**
Borrowings	-	-	651,629	1,836,957	12,047,833	**14,536,419**
Total financial liabilities	**52,487,780**	**38,196,742**	**11,191,770**	**1,836,957**	**12,047,833**	**115,761,082**
FINANCIAL ASSETS						
Cash and balances with Central Banks	3,138,842	3,654,664	2,312,994	-	-	**9,106,501**
Items in the course of collection	484,521	-	-	-	-	**484,521**
Due from banking institutions	7,852,203	-	-	-	-	**7,852,203**
Government securities	-	19,785	5,900,337	6,230,560	4,584,054	**16,734,736**
Derivative assets	118,781	-	-	-	-	**118,781**
Loans and advances to customers	15,188,407	10,522,111	22,508,014	27,810,463	41,131,920	**117,160,915**
Total financial assets	**26,782,754**	**14,196,560**	**30,721,345**	**34,041,023**	**45,715,974**	**151,457,657**
Net liquidity gap	**(25,705,026)**	**(24,000,182)**	**19,529,575**	**32,204,066**	**33,668,141**	**35,696,575**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market risk

Market risk is the risk that the values of assets and liabilities or revenues will be adversely affected by changes in market conditions or market movements. Market risks in the Group arise from movements in market prices particularly changes in interest rates, foreign currency exchange rates, fixed rate securities and equity prices which we are exposed to. It is often propagated by other forms of financial risks such as credit and market liquidity risk events. The objective of market risk management programs is to manage and control market risk exposures in order to optimise return on risk taken while maintaining a good market profile as a provider of financial products and services.

Who manages market risk?

The Board Risk Management Committee reviews and approves market risk policies and limits periodically or as the need arises. The Treasury Department in consultation with the Risk Management Department are responsible for the development of detailed market risk management policies, subject to review and support by ALCO and approval by the Board Risk Management Committee.

The Board receives quarterly reports of market risk exposures or activities through relevant ALCO minutes, and Treasury reports outlining current risk exposures against approved risk limits or appetite.

How market risk is managed

The Group's Asset & Liability Committee (ALCO) oversees the application of the framework set by the Board of Directors and monitors the Group's market risk exposures as well as activities that give rise to these exposures. Overall responsibility for the management of market risks rests with ALCO which reviews market risk activity reports monthly. Treasury is responsible for the day to day implementation of those policies or programs and limits.

In view of the fact that our market risk operations are not very complex, we basically use interest rates variance analysis models (against budget and prior month), interest rate gap analysis, proportion of interest sensitive deposits to total deposits, amongst other methodologies and key performance indicators, appropriate for our Group's operations. The management of market risk is supplemented by the monitoring of key market risk and economic performance variables.

The distinct market risk exposures faced by the Group are:

- Interest rate risk.
- Foreign exchange risk.
- Price risk.

I. Interest rate risk

Interest rate risk represents exposures to instruments whose values vary with the level or volatility of interest rates. These instruments include, but are not limited to loans, debt securities, certain traded assets and liabilities, deposits, borrowings and derivative instruments. Generally, hedging instruments used by banks to mitigate such risks include related derivatives such as options and swaps.

The Group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates, as funds are sourced and invested at both fixed and floating rates. The maturities of assets and liabilities, plus the ability to replace interest bearing liabilities at an acceptable cost as they mature, are important factors in assessing the Group's exposure to changes in interest rates.

In addition to maintaining an appropriate mix between fixed and floating rates deposit base, interest rates on advances to customers and other risk assets are mainly pegged to the Kenya Bankers Reference Rate (KBRR) - for floating rate loans. The KBRR is adjusted every 6 months or when necessary (if earlier) to reflect prevailing market costs of Treasury bill rates and the Central Bank Reference rate.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

5) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market risk (Continued)

I. Interest rate risk (Continued)

Interest rates on customer deposits are negotiated between the Group and its customers, with the Group retaining the discretion to re-negotiate the rates at maturity in line with changes in market trends. The interest rates given or charged to clients therefore fluctuate depending on the movements in the market interest rates. The Group also invests in fixed interest rate instruments issued by the Government of Kenya, Tanzania and Uganda through their respective Central Banks. The interest rate risk assessment tables are found under pages ** to **.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Group's interest rate risk. It is unusual for a bank ever to completely be matched due to the nature of business terms and types of products offered.

Interest rate risk – stress tests

The Group monitors the impact of risks associated with the effects of fluctuations in prevailing interest rates. At 31st December 2015, the following table summarises the estimated impact of an immediate hypothetical increase or decrease in interest rates of 125 basis points on consolidated profit before income tax expense, and current interest rate risk profile.

Bank			Group	
2015 Shs'000	2014 Shs'000		2015 Shs'000	2014 Shs'000
499,255	265,635	125 basis points increases in interest rates	375,861	375,861
(594,331)	(424,318)	125 basis points decrease in interest rates	(678,181)	(508,168)

The model does not take into account any corrective action in response to interest rate movements, particularly in adverse situations.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market risk (Continued)

I. Interest rate risk (Continued)

INTEREST RATE RISK – Group (2015)

	Effective Rates	Up to 1 Month	1 to 3 Months	4 to 12 Months	1 to 3 Years	Over 3 Years	Non – interest Bearing	Total
	%	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS								
Cash and balances with Central Banks	-	-	-	-	-	-	8,940,056	**8,940,056**
Items in the course of collection	-	-	-	-	-	-	848,819	**848,819**
Due from banking institutions	3.97	1,211,520	-	-	-	-	5,464,120	**6,675,640**
Government securities	9.30	139,881	2,259,964	7,418,467	3,995,859	14,097,736	-	**27,911,907**
Loans and advances to customers	13.30	105,654,890	1,290,320	3,483,046	2,004,250	2,225,138	-	**114,657,644**
Total financial assets		107,006,291	3,550,284	10,901,513	6,000,109	16,322,874	15,252,995	**159,034,066**
FINANCIAL LIABILITES								
Customer deposits	5.19	33,453,014	28,867,365	10,683,849	-	-	39,360,409	**112,364,637**
Due to banking institutions	2.63	9,064,552	-	-	-	-	-	**9,064,552**
Borrowings	7.42	-	362,759	599,738	1,679,860	12,713,833	-	**15,356,190**
Derivative liabilities	3.34	77,389	-	-	-	-	-	**77,389**
Total financial liabilities		**42,594,955**	**29,230,124**	**11,283,587**	**1,679,860**	**12,713,833**	**39,360,409**	**136,862,768**
Interest rate sensitivity gap		**63,411,336**	**(25,679,840)**	**(382,074)**	**4,320,249**	**3,609,041**	**(24,107,414)**	**22,171,298**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market risk (Continued)

I. Interest rate risk (Continued)

INTEREST RATE RISK – Group (2014)

	Effective Rates	Up to 1 Month	1 to 3 Months	4 to 12 Months	1 to 3 Years	Over 3 Years	Non – interest Bearing	Total
	%	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS								
Cash and balances with Central Banks	-	2,996,570	-	-	-	62,276	7,480,649	**10,539,496**
Items in the course of collection	-	-	-	-	-	-	519,958	**519,958**
Due from banking institutions	3.00	7,353,488	829,330	-	-	-	571,092	**8,753,909**
Government securities	11.21	339,213	372,672	5,892,085	4,753,503	7,841,212	25,000	**19,223,686**
Derivative assets	-	-	-	-	-	-	118,781	**118,781**
Loans and advances to customers	13.11	92,158,730	1,282,316	3,230,987	1,773,803	2,129,494	-	**100,575,330**
Total financial assets		**102,848,001**	**2,484,318**	**9,123,072**	**6,527,306**	**10,032,982**	**8,715,480**	**139,731,160**
FINANCIAL LIABILITES								
Customer deposits	5.04	32,476,458	38,012,294	11,968,522	51,562	-	17,926,118	**100,434,954**
Due to banking institutions	2.87	5,400,481	11,183	-	-	-	-	**5,411,664**
Borrowings	4.72	-	-	837,146	2,127,769	11,393,564	-	**14,358,480**
Total financial liabilities		**37,876,939**	**38,023,477**	**12,805,668**	**2,179,331**	**11,393,564**	**17,926,118**	**120,205,098**
Interest rate sensitivity gap		**64,971,062**	**(35,539,159)**	**(3,682,596)**	**4,347,975**	**(1,360,582)**	**(9,210,638)**	**19,526,062**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market risk (Continued)

I. Interest rate risk (Continued)

INTEREST RATE RISK – Bank (2015)

	Effective Rates %	Up to 1 Month Shs'000	1 to 3 Months Shs'000	4 to 12 Months Shs'000	1 to 3 Years Shs'000	Over 3 Years Shs'000	Non – interest Bearing Shs'000	Total Shs'000
FINANCIAL ASSETS								
Cash and balances with Central Banks	-	-	-	-	-	-	7,291,629	**7,291,629**
Items in the course of collection	-	-	-	-	-	-	804,882	**804,882**
Due from banking institutions	3.39	-	-	-	-	-	5,464,120	**5,464,120**
Government securities	9.20	-	1,937,681	5,340,965	3,822,245	13,912,104	-	**25,012,995**
Loans and advances to customers	13.64	103,951,191	176,171	1,147,925	768,610	472,155	-	**106,516,052**
Total financial assets		**103,951,191**	**2,113,852**	**6,488,890**	**4,590,8545**	**14,384,259**	**13,560,631**	**145,089,678**
FINANCIAL LIABILITES								
Customer deposits	5.60	30,111,198	27,292,359	8,879,809	-	-	38,910,634	**105,194,000**
Due to banking institutions	2.63	7,734,613	-	-	-	-	-	**7,734,613**
Borrowings	7.74	-	362,759	599,737	959,908	12,208,603	-	**14,131,007**
Derivative liabilities	3.34	77,389	-	-	-	-	-	**77,389**
Total financial liabilities		**37,923,200**	**27,655,118**	**9,479,546**	**959,908**	**12,208,603**	**38,910,634**	**127,137,009**
Interest rate sensitivity gap		**66,027,991**	**(25,541,266)**	**(2,990,656)**	**3,630,947**	**2,175,656**	**(25,350,003)**	**17,952,669**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

5) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market risk (Continued)

I. Interest rate risk (Continued)

INTEREST RATE RISK – Bank (2014)

	Effective Rates	Up to 1 Month	1 to 3 Months	4 to 12 Months	1 to 3 Years	Over 3 Year	Non – interest Bearing	Total
	%	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS								
Cash and balances with Central Banks	-	2,996,570	-	-	-	62,276	6,047,654	**9,106,500**
Items in the course of collection	-	-	-	-	-	-	484,521	**484,521**
Due from banking institutions	2.70	7,025,491	818,412				-	**7,843,903**
Government securities	10.81	-	19,090	3,900,709	4,693,100	7,841,212	-	**16,454,111**
Derivative assets held for risk management	-	-	-	-	-	-	118,781	**118,781**
Loans and advances to customers	12.10	90,425,163	-	1,006,980	366,510	1,158,577	-	**92,957,230**
Total financial assets		**100,447,224**	**837,502**	**4,907,689**	**5,059,610**	**9,062,065**	**6,650,956**	**126,965,046**
FINANCIAL LIABILITES								
Customer deposits	5.16	29,025,729	36,964,589	9,581,946	-	-	17,218,814	**92,791,078**
Due to banking institutions	2.97	4,614,223	11,183	-	-	-	-	**4,625,406**
Borrowings	4.71	-	-	788,692	1,661,953	11,393,564	-	**13,844,209**
Total financial liabilities		**33,639,952**	**36,975,772**	**10,370,638**	**1,661,953**	**11,393,564**	**17,218,814**	**111,260,693**
Interest rate sensitivity gap		**66,807,272**	**(36,138,270)**	**(5,462,949)**	**3,397,657**	**(2,331,499)**	**(10,567,858)**	**15,704,353**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market Risk (Continued)

II. Foreign exchange risk

Foreign currency exchange risk refers to the potential changes in current and future earnings or capital arising from movements in foreign exchange market rates. The Group, through stringent intra-day and overnight exposure limits, ensures that the potential risk of loss arising from foreign exchange fluctuations to the Group's earnings and capital is within prudential guidelines and internal policies. Any material overnight position is covered by stop loss orders with our international counter-parties.

The Group is exposed to the risk that the value of foreign currency denominated financial instruments it holds will fluctuate due to changes in market foreign exchange rates. The Board of Directors periodically approves policies and limits on the maximum level of exposures by currency and in total for both overnight and intra-day positions. Foreign currency risk is addressed through the following measures:

- On a daily basis, the overall foreign exchange risk exposure is measured using spot mid-rates and does not exceed 10% of the Group's core capital.
- Any single currency exposure, irrespective of short or long positions does not exceed the limit of 10% of core capital.
- Intra-day and overnight foreign exchange positions are limited within strictly defined exposure and stop loss limits approved periodically by the Board Risk Management Committee.

The table on pages 106 to 109 summarise the Group's and Bank's exposure to foreign currency exchange rate risks.

At 31 December 2015, if the functional currencies in the economic environment in which the Group operates i.e. the Kenya Shilling had weakened or strengthened by 10% against the world's major currencies, with all other variables held constant, consolidated profit before income tax expense would have been higher or lower as depicted in below table:

Bank			Group	
2015	2014		2015	2014
Shs'000	Shs'000		Shs'000	Shs'000
		10% depreciation/appreciation		
4,521	4,189	USD	4,602	8,769
72	72	GBP	76	9,456
155	201	EUR	202	6,278
36	36	Others	36	16,665
4,784	**4,498**	**Total**	**4,916**	**41,168**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market Risk (Continued)

II. Foreign exchange risk (Continued)

FOREIGN EXCHANGE (CURRENCY) RISK – Group (2015)

	USD Shs'000	GBP Shs'000	EURO Shs'000	Others Shs'000	TOTAL Shs'000
FINANCIAL ASSETS					
Cash and balances with Central Banks	1,655,984	110,402	270,913	11,626	**2,048,925**
Due from banking institutions	4,043,390	1,580,622	986,337	673,238	**7,283,587**
Loans and advances to customers	48,411,217	728,667	1,554,423	3,176	**50,697,483**
Other assets	5,336,434	7,102	8,642	3,176	**5,355,354**
Total financial assets	**59,447,025**	**2,426,793**	**2,820,315**	**691,216**	**65,385,349**
FINANCIAL LIABILITES					
Customer deposits	32,797,457	2,444,184	2,526,616	64,611	**37,832,868**
Due to banking institutions	6,892,262	82,820	30,096	213,202	**7,218,380**
Other liabilities	2,828,090	5,465	7,517	9,873	**2,850,945**
Borrowings	9,616,737	-	-	-	**9,616,737**
Total financial liabilities	**52,134,546**	**2,532,469**	**2,564,229**	**287,6856**	**57,518,930**
Net balance sheet position	**7,312,479**	**(105,676)**	**256,086**	**403,530**	**7,866,419**
OFF BALANCE SHEET POSITION	**4,742,649**	**158,387**	**(312,448)**	**747,598**	**5,336,186**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market Risk (Continued)

II. Foreign exchange risk (Continued)

FOREIGN EXCHANGE (CURRENCY) RISK – Group (2014)

	USD Shs'000	GBP Shs'000	EURO Shs'000	Others Shs'000	TOTAL Shs'000
FINANCIAL ASSETS					
Cash and balances with Central Banks	863,812	119,473	78,052	36,694	**1,098,031**
Due from banking institutions	7,568,040	773,018	1,441,418	606,694	**10,389,170**
Loans and advances to customers	41,595,679	718,360	2,009,910	35,671	**44,359,620**
Other assets	199,443	1,368	809	126	**201,746**
Total financial assets	**50,226,974**	**1,612,219**	**3,530,189**	**679,185**	**56,048,567**
FINANCIAL LIABILITES					
Customer deposits	28,948,791	1,547,715	2,087,997	43,351	**32,627,854**
Due to banking institutions	3,125,729	-	15,344	23,414	**3,164,487**
Other liabilities	2,567,086	9,119	49,526	1,652	**2,627,383**
Borrowings	8,622,988	-	-	-	**8,622,988**
Total financial liabilities	**43,264,594**	**1,556,834**	**2,152,867**	**68,417**	**47,042,712**
Net balance sheet position	**6,962,380**	**55,385**	**1,377,322**	**610,768**	**9,005,855**
OFF BALANCE SHEET POSITION	**7,952,094**	**(2,046,675)**	**(469,050)**	**140,402**	**5,576,771**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market Risk (Continued)

II. Foreign exchange risk (Continued)

FOREIGN EXCHANGE (CURRENCY) RISK – Bank (2015)

	USD Shs'000	GBP Shs'000	EURO Shs'000	Others Shs'000	TOTAL Shs'000
FINANCIAL ASSETS					
Cash and balances with Central Bank of Kenya	1,348,947	105,837	144,987	3,653	**1,603,424**
Due from banking institutions	2,575,936	1,569,653	951,985	673,238	**5,770,812**
Loans and advances to customers	43,082,759	728,667	1,554,423	3,176	**45,369,025**
Other assets	2,720,890	3,503	2,377	2,292	**2,729,062**
Total financial assets	**49,728,532**	**2,407,660**	**2,653,772**	**682,359**	**55,472,323**
FINANCIAL LIABILITES					
Customer deposits	27,243,968	2,432,036	2,364,819	64,611	**32,105,434**
Due to banking institutions	4,731,883	82,505	30,052	11,664	**4,856,104**
Other liabilities	21,069	1,622	7,164	8,704	**38,559**
Borrowings	8,391,554	-	-	-	**8,391,554**
Total financial liabilities	**40,388,474**	**2,516,163**	**2,402,035**	**84,979**	**45,391,651**
Net balance sheet position	**9,340,058**	**(108,503)**	**251,737**	**597,380**	**10,080,672**
OFF BALANCE SHEET POSITION	**(5,912,231)**	**158,387**	**(317,983)**	**(314,745)**	**(6,386,572)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market Risk (Continued)

II. Foreign exchange risk (Continued)

FOREIGN EXCHANGE (CURRENCY) RISK – Bank (2014)

	USD	GBP	EURO	Others	TOTAL
	Shs'000	Shs'000	Shs'000	Shs'000	Shs'000
FINANCIAL ASSETS					
Cash and balances with Central Bank of Kenya	687,163	119,461	77,069	33,844	**917,537**
Due from banking institutions	7,201,912	770,228	1,383,865	575,677	**9,931,682**
Loans and advances to customers	39,241,806	718,360	2,009,910	35,671	**42,005,747**
Other assets	195,100	1,368	809	126	**197,403**
Total financial assets	**47,325,981**	**1,609,417**	**3,471,653**	**645,318**	**53,052,369**
FINANCIAL LIABILITES					
Customer deposits	28,207,832	1,544,687	2,087,997	43,351	**31,883,867**
Due to banking institutions	3,125,729	-	15,344	23,414	**3,164,487**
Other liabilities	113,624	9,119	49,526	1,652	**173,921**
Borrowings	8,108,717	-	-	-	**8,108,717**
Total financial liabilities	**39,555,902**	**1,553,806**	**2,152,867**	**68,417**	**43,330,992**
Net balance sheet position	**7,770,079**	**55,611**	**1,318,786**	**576,901**	**9,721,377**
OFF BALANCE SHEET POSITION	**(8,636,082)**	**57,639**	**(1,205,674)**	**(198,383)**	**(9,982,500)**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

c) Market Risk (Continued)

III. Price risk

Shares quoted in the Nairobi Securities Exchange ("NSE") i.e. "listed shares" are stated at their fair value on the last day of business in the year. These values are subject to frequent variations due to changes in their market prices.

At 31 December 2015, if the prices at the NSE had appreciated/depreciated by 5% with all other variables held constant, the impact on the statement of profit or loss, and shareholders' equity would have been Shs 7,067,000 (2014: Shs 6,126,000) higher/lower.

The Group's carries its unquoted equity investment in Tanzania Mortgage Refinance Company at fair value (Note 25). The fair value of the Group's investment in Tanzania Mortgage Refinance Company is equal to the cost of shares purchased in the company. The variability in the range of reasonable fair value estimates for this investment is not significant.

d) Capital management

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by our regulators within the markets that the Group operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Group may incur in adverse market scenarios during the course of its business.
- To manage its capital structure and make adjustments to it according to changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.

The Group's objectives when managing capital are broadly covered as follows:

I Banking

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the central banks.

Central Bank of Kenya (CBK), Bank of Tanzania (BOT) and Bank of Uganda (BOU) largely segregate the total regulatory capital into two tiers;

- Tier 1 Capital (Core Capital), which includes ordinary share capital, share premium and retained earnings. The investment in subsidiaries or other financial institutions is deducted in arriving at tier 1 capital.
- Tier 2 Capital (Supplementary Capital) includes among others, 25% of property revaluation reserves (subject to regulatory approval), unsecured subordinated debt instruments (bonds and long term borrowings) having an original maturity of at least five years and collective impairment allowances.

The risk weighted assets are measured by means of a hierarchy of four risk weights classified according to the nature of, and reflecting an estimate of, the credit risk associated with each asset and counterparty. A similar treatment is adopted for off-balance sheet exposure, with some adjustments to reflect the more contingent nature of the potential losses.

During the year, the banks within the Group had complied in full with all its externally imposed capital requirements (2014: the same).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

d) Capital management (Continued)

I Banking (Continued)

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
21,529,429	18,826,499	Tier 1 capital	23,427,721	20,722,594
8,827,078	8,513,693	Tier 2 capital	8,898,701	8,630,471
30,356,507	**27,340,192**	**Total capital**	**32,326,422**	**29,353,065**
		Risk-weighted assets		
137,513,100	119,900,142	On-balance sheet	145,578,518	127,704,854
10,742,417	11,144,400	Off-balance sheet	11,439,315	11,791,780
148,255,517	**131,044,542**	**Total risk-weighted assets**	**157,017,833**	**139,496,634**

2015	2014	Regulatory ratios	Minimum requirements 2015	Minimum requirements 2014
14.52%	14.37%	Core capital/risk assets	10.50%	10.5%
20.47%	20.47%	Core capital/deposits	8.00%	8.0%
20.48%	20.86%	Total capital/risk assets	14.50%	14.5%

II Investment banking & stock brokerage businesses

The Capital Markets Authority, which regulates the Group's Investment Banking and Stock Brokerage businesses i.e NIC Capital Limited and NIC Securities Limited respectively, prescribes minimum capitalisation requirements and a working capital of not below 20% of the prescribed minimum shareholders' funds or three times the average monthly operating costs whichever is higher. The subsidiaries maintained their capital together with the other requirements well above the minimum requirements as outlined below;

	NIC Capital Shs'000	NIC Securities Shs 000
Minimum capital	**250,000**	**50,000**
Capital held as at;		
31 December 2015	**518,275**	**391,914**
31 December 2014	**518,764**	**349,230**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

e) Fair value of financial assets and liabilities (Continued)

IFRS 7 specifies a hierarchy of valuation techniques based on whether inputs used in the valuation techniques of financial instruments are observable or unobservable. Financial instruments are grouped into 3 levels based on the degree to which fair value data / input is observable.

i. Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active trading markets for identical assets or liabilities. This level includes listed debt and equity instruments traded mainly on the Nairobi Securities Exchange ("NSE").

ii. Level 2 fair value measurements are those derived from inputs other than quoted prices that are observable for the asset or liability, either directly (i.e. as a price) or indirectly (i.e. derived from prices). Input data for this category is sourced mainly from Reuters and the NSE. The external valuation of buildings has been performed using a sales comparison approach.

iii. Level 3 fair value measurements are those derived from valuation techniques that include inputs that are not based on observable market data (unobservable inputs). The fair value of the Group's investment in Tanzania Mortgage Refinance Company is equal to the cost of shares purchased in the company. The variability in the range of reasonable fair value estimates for this investment is not significant.

The table below shows an analysis of financial instruments at fair value by level of the fair value hierarchy.

Bank				Group	
2015	2014			2015	2014
Shs'000	Shs'000		Note	Shs'000	Shs'000
		Level 1			
-	-	Treasury bonds - fair value through profit and loss	20	-	126,762
19,703,042	13,256,988	Treasury bonds – available for sale	20	20,443,709	13,581,129
-	-	Quoted shares at fair value	25	142,348	123,780
19,703,042	**13,256,988**			**20,586,057**	**13,831,671**
		Level 2			
-	118,781	Derivative assets	21	-	118,781
370,000	370,000	Buildings	27	370,000	370,000
370,000	**488,781**			**370,000**	**488,781**
		Level 3			
-	-	Unquoted equity security in Tanzania Mortgage Refinance Company	25	23,650	25,380

There was a transfer from Level 3 to level 1, following the listing of the NSE shares in the stock exchange which were previously unquoted.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

4) Financial risk management objectives (Continued)

Group risk management framework and governance structures (Continued)

e) Fair value of financial assets and liabilities (Continued)

The table below shows an analysis of the fair value of financial instruments that are not carried at fair value by level of the fair value hierarchy;

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
		Level 1			
5,309,953	**3,197,123**	Government securities – held to maturity	**20**	**7,468,197**	**5,515,795**
		Level 2			
		Financial assets			
7,291,629	9,106,501	Cash and balances with central banks	17	8,940,056	10,539,496
804,882	484,521	Items in the course of collection	18	848,819	519,958
5,464,120	7,843,903	Due from banking institutions	19	6,675,640	8,753,909
106,516,052	92,957,230	Loans and advances to customers	22	114,657,644	100,575,330
2,436,739	2,098,420	Due from group companies	24	-	-
1,351,658	1,466,805	Investments	25	1,517,656	1,615,965
123,865,080	**113,957,380**			**132,639,815**	**122,004,658**
		Financial liabilities			
105,194,000	92,791,078	Customer deposits	30	112,364,637	100,434,954
7,734,613	4,625,406	Due to banking institutions	31	9,064,552	5,411,664
14,131,007	13,844,209	Borrowings	32	15,356,190	14,358,480
1,059,017	809,452	Due to group companies	33	-	-
128,118,637	**112,070,145**			**136,785,379**	**120,205,098**

There were no transfers between levels 1, 2 and 3 in the period and for level 3, there was no movement.

Level 1 – We have determined the fair value using quoted prices (unadjusted) from the Nairobi Securities Exchange.

Level 2 – The fair value of these balances is equal to their amortised cost.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

5) Critical accounting estimates and judgments in applying the Group's accounting policies

I Impairment losses on loans and advances

The Group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the income statement, the Group maShs judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a Group, or national or local economic conditions that correlate with defaults on assets in the Group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

II Held -to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not amortised cost.

III Goodwill impairment

The Group's accounting policy for goodwill is described in Note 3 (n) I. Goodwill is allocated to cash-generating units ('CGU') for the purpose of impairment testing. When the process of identifying and evaluating goodwill impairment demonstrates that the expected cash flows of a CGU have declined and/or that its cost of capital has increased, the effect is to reduce the CGU's estimated fair value. If this results in an estimated recoverable amount that is lower than the carrying amount of the CGU, a charge for impairment of goodwill will be recorded, thereby reducing by a corresponding amount the Group's profit for the year. Goodwill is stated at cost less accumulated impairment losses. Significant management judgement is involved in determining the cost of capital assigned to an individual CGU and in estimating its future cash flows.

IV Property and equipment

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

V Fair value of trade receivables and payables

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

VI Taxes

The Group is subjected to numerous taxes and levies by various government and quasi- government regulatory bodies. As a rule of thumb, the Group recognises liabilities for the anticipated tax/levies payable with utmost care and diligence. However, significant judgment is usually required in the interpretation and applicability of those taxes/levies. Should it come to the attention of management, in one way or the other, that the initially recorded liability was erroneous, such differences will impact on the income and liabilities in the period in which such differences are determined.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

5) Critical accounting estimates and judgments in applying the Group's accounting policies (Continued)

VII Valuation of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. The directors believe that the chosen valuation techniques and assumptions used in the valuation of its investments in NSE shares are appropriate in determining the fair value of financial instruments.

VIII Classification of leases of land and buildings as finance or operating leases

At the inception of each lease of land or building, the Group considers the substance rather than the form of the lease contract. Examples of situations that individually or in combination would normally lead to a lease being classified as a finance lease are:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset; and
- The leased assets are of such a specialised nature that only the lessee can use them without major modifications.

The Group also considers indicators of situations that individually or in combination could also lead to a lease being classified as a finance lease. Examples of such indicators include:

- If the lessee can cancel the lease, the lessor's losses associated with the cancellation are borne by the lessee;
- gains or losses from the fluctuation in the fair value of the residual accrue to the lessee (for example, in the form of a rent rebate equalling most of the sales proceeds at the end of the lease); and the lessee has the ability to continue the lease for a secondary period at a rent that is substantially lower than market rent.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

6) Operating segments

a) Geographical segments

The Group operations are within three geographical segments, Kenya, Tanzania and Uganda. The table below contains segmental information provided to the Chief Operating Decision Maker (the Group Executive Committee of management) for the year ended 31 December 2015.

2015	Kenya	Tanzania	Uganda	Total
	Shs `000	Shs `000	Shs `000	Shs `000
Interest income	15,509,237	881,908	622,987	17,014,132
Interest expense	(6,616,694)	(400,012)	(254,893)	(7,271,599)
Net interest income	**8,892,543**	**481,896**	**368,095**	**9,742,533**
Credit impairment charges	(1,539,452)	(106,138)	(6,885)	(1,652,475)
Net interest income after credit impairment charges	**7,353,091**	**375,758**	**361,209**	**8,090,058**
Net fee, commission, trading and other income	3,588,289	282,906	84,438	3,955,634
Operating income	**10,941,380**	**658,664**	**445,648**	**12,045,692**
Depreciation and amortisation	(383,689)	(66,019)	(42,748)	(492,455)
Other operating expenses	(4,307,593)	(488,360)	(360,009)	(5,155,962)
Profit before income tax	**6,250,098**	**104,286**	**42,891**	**6,397,275**
Income tax (expense)/credit	(1,873,683)	(31,286)	(7,181)	(1,912,150)
Profit / (loss) for the year	**4,376,415**	**73,000**	**35,710**	**4,485,125**
Loans and advances to customers	**106,516,052**	**4,298,400**	**3,843,192**	**114,657,644**
Customer deposits	**105,194,000**	**5,322,620**	**1,848,017**	**112,364,637**
Additions to non-current assets	**495,810**	**(107,160)**	**35,417**	**424,067**
Non-current assets	**1,898,335**	**131,231**	**139,281**	**2,168,847**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

6) Operating segments (Continued)

a) Geographical segments (Continued)

2014	Kenya	Tanzania	Uganda	Total
	Shs `000	Shs `000	Shs `000	Shs `000
Interest income	12,376,325	927,740	407,003	13,711,068
Interest expense	(5,074,013)	(489,165)	(149,771)	(5,712,949)
Net interest income	**7,302,312**	**438,575**	**257,232**	**7,998,119**
Credit impairment charges	(295,494)	(26,171)	(7,467)	(329,133)
Net interest income after credit impairment charges	**7,006,818**	**412,404**	**249,765**	**7,668,987**
Net fee, commission, trading and other income	3,231,560	238,784	37,795	3,508,139
Operating income	**10,238,378**	**651,188**	**287,560**	**11,177,126**
Depreciation and amortisation	(393,019)	(81,660)	(29,956)	(504,635)
Other operating expenses	(3,686,149)	(513,701)	(241,991)	(4,441,841)
Profit before income tax	**6,159,210**	**55,827**	**15,612**	**6,230,650**
Income tax (expense)/credit	(2,104,050)	(15,011)	5,068	(2,113,976)
Profit after income tax	**4,055,160**	**40,816**	**20,698**	**4,116,674**
Loans and advances to customers	**92,957,230**	**4,404,867**	**3,213,233**	**100,575,330**
Customer deposits	**92,791,078**	**6,194,331**	**1,449,545**	**100,434,954**
Additions to non-current assets	**(71,458)**	**(50,460)**	**13,205**	**(108,713)**
Non-current assets	**1,402,525**	**238,391**	**103,864**	**1,744,780**

b) Business segments

The Group maintains the following business segments for allocation of resources and assessment of performance.

I. Corporate and Institutional Banking

Targets medium to large corporate clientele and institutions, with a focus on liability mobilization and asset growth.

II. Treasury dealing and brokerage

Treasury dealing targets corporate clientele and institutions, with a focus on those with a foreign exchange component in their business, whereas the stock brokerage focuses on the execution of transactions at the Nairobi Securities Exchange on behalf of high net worth and institutional clients.

III. Retail banking

Targets the mass affluent to high net worth and SME banking clientele, with a focus on becoming the customers' core deposit, transactional banker and financier. This also includes our asset finance product.

IV. Investment banking

Targets large and medium sized companies for research, advisory and capital restructuring requirements.

The segment information provided to the Executive Committee of management for the reported segments is contained on the next page. There were no changes in the reportable segments during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

6) Operating segments (Continued)

b) Business segments (Continued)

2015	Corporate and Institutional Banking Shs '000	Treasury Dealing and Brokerage Shs '000	Retail Banking Shs '000	Investment Banking and Others Shs '000	Total Shs '000
Total operating income	4,806,154	2,566,786	4,204,814	2,120,4143	**13,698,167**
Profit before income tax and credit impairment charges	3,845,718	2,135,179	1,524,165	544,688	**8,049,750**
Customer loans and advances	70,280,784	-	34,506,595	9,870,265	**114,657,644**
Customer deposits	58,027,125	8,715,494	36,655,593	8,966,425	**112,364,637**
2014					
Total operating income	3,666,379	3,119,372	3,465,137	1,255,370	**11,506,258**
Profit before income tax and credit impairment charges	3,297,276	1,531,423	1,492,007	239,077	**6,559,783**
Customer loans and advances	62,747,598	-	31,728,082	6,099,650	**100,575,330**
Customer deposits	62,977,611	-	29,605,395	7,851,948	**100,434,954**

Liabilities and all other assets, other than advances to customers, are not directly attributable and neither can they be allocated to a particular segment. Consequently, these have not been included in segment information.

There were no revenues deriving from transactions with a single external customer that amounted to 10% or more of the Group's revenues.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

7) Interest income

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
		Loan and advances to customers		
3,405,348	2,977,065	- Finance leases	3,670,198	2,982,837
9,502,577	7,402,830	- other	10,287,811	8,386,187
12,907,925	**10,379,895**		**13,958,009**	**11,369,024**
-		**Government securities**		
443,155	380,435	- Held to maturity	700,621	647,777
-	-	- At fair value through profit or loss	-	24,033
1,896,697	1,404,156	- Available for sale	2,021,338	1,407,945
2,339,852	**1,784,591**		**2,721,959**	**2,079,755**
261,460	**211,839**	**Due from banking institutions**	**334,164**	**262,289**
15,509,237	**12,376,325**		**17,014,132**	**13,711,068**

Included within various captions under interest income for the year ended 31 December 2015 is a total of Shs 34,864,000 (2014: Shs 30,879,000) accrued on previously impaired financial assets

8) Interest expense

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
5,406,341	4,567,464	Customer deposits	5,836,295	5,062,509
170,924	366,093	Due to banking institutions	1,196,838	440,751
1,083,900	163,289	Borrowings	238,466	209,689
6,661,165	**5,096,846**		**7,271,599**	**5,712,949**

9) Net fee and commission income

a) Fee and commission income

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
1,116,683	983,368	Credit related fees and commissions	1,202,807	1,060,521
554,093	372,781	Service / transaction fees	641,623	471,772
1,670,776	**1,356,149**		**1,844,430**	**1,532,293**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

9) Net fee and commission income (Continued)

b) Fee and commission expense

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
25,713	23,739	Credit card related expenses	25,713	23,739
38,081	28,544	Transactional expenses	50,814	41,302
63,794	**52,283**		**76,527**	**65,041**

10) Net trading income

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
1,257,433	1,039,583	Foreign exchange income	1,431,231	1,142,181
134,481	305,199	Bond trading income	135,350	305,886
-	-	Fair value loss on investment in quoted shares (note 25 (a))	(3,490)	(11)
1,391,914	**1,344,782**		**1,563,091**	**1,448,056**

11) Other operating income

The following items are included in other operating income;

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
6,171	8,592	Rental income	3,155	5,050
(6)	1,151	(Loss)/gain on disposal of motor vehicle and equipment (note 39 (c))	991	(23,243)
10,077	656	Bad debt recoveries	38,507	8,337
116,178	104,753	Trust and other fiduciary fees	116,178	104,753

12) Credit impairment charges

a) Specific allowance for impairment

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
2,301,711	1,996,236	At start of year	2,680,360	2,592,033
1,450,843	376,358	Charge for the year	1,560,082	402,722
(1,363,815)	(70,883)	Write-offs	(1,463,814)	(314,395)
2,388,739	**2,301,711**	**At end of year**	**2,776,628**	**2,680,360**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

12) Credit impairment charges (Continued)

b) Collective allowance for impairment

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
62,157	143,021	At start of year	65,094	170,102
88,609	(80,864)	Charge for the year	89,646	(105,008)
150,766	**62,157**	**At end of year**	**154,740**	**65,094**

c) Total allowance for impairment

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
2,363,868	2,139,347	At start of year	2,745,454	2,762,135
-	-	Exchange difference on translation	(2,747)	(31,419)
1,539,452	295,494	Charge for the year	1,652,475	329,133
(1,363,815)	(70,973)	Write-offs	(1,463,814)	(314,395)
2,539,505	**2,363,868**	**At end of year**	**2,931,368**	**2,745,454**

13) Employee benefits

The following items are included under employee benefits:

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
2,155,055	1,771,191	Salaries and wages	2,632,868	2,174,346
2,530	5,032	Gratuity provision	2,530	5,032
16,370	14,551	Directors' emoluments – fees	35,008	31,562
151,749	133,908	– other	212,034	188,836
1,542	2,395	Pension costs - statutory contributions	29,033	25,285
138,910	124,862	Pension costs – defined contribution	152,436	135,881
2,466,156	**2,051,939**		**3,063,909**	**2,560,942**

The total number of employees as at 31 December 2015 for the Group was 1,111 (2014: 1,001).

14) (a) Depreciation and amortisation

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
199,332	215,287	Depreciation (note 27)	276,853	297,153
183,067	176,442	Amortisation of computer software (note 28 (a))	215,477	207,357
125	125	Amortisation of operating lease (note 29)	125	125
382,524	**391,854**	**At end of year**	**492,455**	**504,635**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

14) (b) Other operating expenses

The following items are included in other operating expenses:

Bank 2015	Bank 2014		Group 2015	Group 2014
Shs'000	Shs'000		Shs'000	Shs'000
189,908	173,819	Rental charges	311,404	290,441
95,740	93,585	Other premises costs	124,194	108,263
194,973	149,611	IT expenses	215,796	168,347
172,610	135,172	Publicity and advertising	180,874	144,555
130,130	116,067	Deposit protection fund	143,582	129,823
22,445	24,092	Share registration costs	22,445	24,092
10,500	4,500	Auditor's remuneration	22,010	13,108

15) Income tax

(a) Income tax expense

Bank 2015	Bank 2014		Group 2015	Group 2014
Shs'000	Shs'000	**Current income tax**	Shs'000	Shs'000
2,331,269	1,992,665	Current year	2,378,402	2,044,527
-	(19,102)	Prior year under/(over) provision	10,459	(20,071)
2,331,269	**1,973,563**		**2,388,860**	**2,024,456**
		Deferred income tax (note 26)		
(329,657)	94,962	Current year	(334,042)	95,931
(133,279)	(6,411)	Prior year under provision	(142,668)	(6,411)
1,868,333	**2,062,114**		**1,912,150**	**2,113,976**

b) Reconciliation of tax expense to expected tax base based on accounting profit

The tax on the profit before income tax differs from the tax charge that would apply if all profit had been taxed using the statutory income tax rate:

Bank 2015	Bank 2014		Group 2015	Group 2014
Shs'000	Shs'000		Shs'000	Shs'000
6,259,656	**6,081,281**	**Profit before income tax**	**6,397,275**	**6,230,650**
1,877,897	1,824,384	Income tax - at the statutory rate of 30 % (2014: 30%)	1,919,183	1,869,195
76,576	816,245	Tax effect of expenses not deductible for tax	139,934	816,133
47,139	(553,002)	Tax effect of revenues that are not taxable	(14,758)	(544,870)
		Prior year (over)/under provision:		
-	(19,102)	- Current tax	10,459	(20,071)
(133,279)	(6,411)	- Deferred tax	(142,668)	(6,411)
1,868,333	**2,062,114**		**1,912,150**	**2,113,976**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

15) Income tax (Continued)

c) Current income tax liability/(asset) movement

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
(56,570)	**183,455**	**At start of year**	**(172,572)**	**117,862**
-	-	Exchange difference on translation	(33,401)	(30,172)
2,331,269	1,992,665	Tax charge (note 15 (a)) - current year	2,378,402	2,044,527
-	(19,102)	Tax charge (note 15 (a)) - prior year	10,459	(20,071)
(2,136,132)	(2,213,588)	Income tax paid	(2,147,137)	(2,284,718)
138,567	**(56,570)**	**At end of year**	**35,751**	**(172,572)**
		Comprising;		
-	(56,570)	Current income tax asset	(112,729)	(185,185)
138,567	-	Current income tax liability	148,480	12,613
138,567	**(56,570)**	**At end of year**	**35,751**	**(172,572)**

16) Earnings per share

Earnings per share is calculated by dividing the profit attributable to equity holders of the parent company by the weighted average number of ordinary shares outstanding during the year.

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
4,391,323	**4,019,167**	**Profit attributable to equity holders of the Bank**	**4,477,355**	**4,120,855**
		Weighted average number of shares for purposes of basic and diluted earnings per share:		
639,945,603	542,984,148	Issued ordinary shares at start of year	639,945,603	542,984,148
-	3,555,253	Effects of rights issue exercised	-	3,555,253
-	36,198,943	Effects of bonus shares issued	-	36,198,943
639,945,603	**582,738,344**	**At end of year**	**639,945,603**	**582,738,344**
6.86	**6.90**	Earnings per share (Shs)	**7.00**	**7.07**

The calculation of basic and diluted earnings per share is based on continuing operations attributable to the ordinary equity holders of the Bank. There were no discontinued operations during the year

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

17) Cash and balances with Central Banks

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
1,290,137	1,026,642	Cash on hand	1,662,734	1,472,964
		Balances with central banks:		
-	2,996,571	- Reverse purchase agreement	-	2,996,571
557,516	300,367	- Other (available for use by the Group)	1,160,263	499,728
1,847,653	**4,323,580**	**Included in cash and cash equivalents (note 39 (b))**	**2,822,997**	**4,969,263**
5,443,976	4,782,921	Mandatory reserve deposits	6,117,059	5,570,233
7,291,629	**9,106,501**		**8,940,056**	**10,539,496**

The mandatory reserve deposits represent regulatory cash ratio requirements based on the customer deposits with the Group. At 31 December 2015, the cash ratio requirement was 5.25% (2014: 5.25%) in Kenya, 10.0% (2014: 10.0%) in Tanzania and 8.5% (2014: 8.5%) in Uganda of eligible deposits. These funds are not available for the day to day operations of the Group and are non interest earning.

Amounts included in cash and cash equivalents are current. Mandatory reserve deposits are non-current.

Cash and balances with central banks are classified as 'loans and receivables'.

18) Items in the course of collection

Items in the course of collection are current and are classified as 'loans and receivables'.

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
804,882	**484,521**	Clearing account balances	**848,819**	**519,958**

19) Due from banking institutions

Balances dues from banking institutions are current and are classified as 'loans and receivables'.

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
-	889,249	Deposits due from banking institutions	1,211,520	1,799,255
5,464,120	6,954,654	Balances due from banking institutions	5,464,120	6,954,654
5,464,120	**7,843,903**		**6,675,640**	**8,753,909**
3.39%	**2.70%**	Weighted average effective interest rate	**3.97%**	**3.0%**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

20) Government securities

Securities held to maturity are stated at amortised cost while those classified as "Fair value through profit or loss" and "available-for-sale" are stated at fair value.

a) Government securities are categorised as follows:

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
19,703,042	13,256,988	Available for sale	20,443,709	13,581,129
5,309,953	3,197,123	Held to maturity	7,468,197	5,515,795
		Fair value through profit or loss		
-	-	Held for trading	-	126,762
25,012,995	**16,454,111**		**27,911,907**	**19,223,686**

The table below summarises the weighted average effective interest rate for government securities.

Bank 2015 %	Bank 2014 %		Group 2015 %	Group 2014 %
9.49	10,42	Available for sale	9.26	11.76
8.35	11.09	Held to maturity	9.38	10.89
-	-	Fair value through profit or loss	-	9.92

b) The maturity profile of Government securities is a follows:

Group	Available for sale Shs `000	Held to maturity Shs `000	Designated at fair value through profit or loss Shs `000	Total Shs `000
At 31 December 2015				
Included in cash and cash equivalents	**696,158**	**1,612,186**	**-**	**2,308,344**
Less than 1 year	2,580,837	5,553,547	-	**8,134,384**
1-5 years	9,685,290	302,464	-	**9,987,754**
Over 5 years	7,481,413	-	-	**7,481,413**
	20,443,698	**7,468,197**	**-**	**27,911,895**
At 31 December 2014				
Included in cash and cash equivalents	**-**	**696,965**	**-**	**696,965**
Less than 1 year	1,881,810	1,518,813	126,762	**3,527,385**
1-5 years	7,064,823	3,194,357	-	**10,259,180**
Over 5 years	4,634,496	105,660	-	**4,740,156**
	13,581,129	**5,515,795**	**126,762**	**19,223,686**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

20) Government securities (Continued)

b) The maturity profile of Government securities is a follows: (Continued)

Bank	Available for sale Shs `000	Held to maturity Shs `000	Total Shs `000
At 31 December 2015			
Included in cash and cash equivalents	**329,884**	**1,612,186**	**1,942,070**
Less than 1 year	2,424,489	3,395,303	**5,819,792**
1-5 years	9,534,674	302,464	**9,837,138**
Over 5 years	7,413,995	-	**7,413,995**
	19,703,042	**5,309,953**	**25,012,995**
At 31 December 2014			
Included in cash and cash equivalents	**-**	**202,520**	**202,520**
Less than 1 year	1,881,810	2,094,653	**3,976,463**
1-5 years	6,766,282	794,290	**7,560,572**
Over 5 years	4,608,896	105,660	**4,714,556**
	13,256,988	**3,197,123**	**16,454,111**

21) Derivative assets

The amount represents the fair value of forward foreign exchange contracts. These derivative assets and liabilities are measured at fair value through profit or loss. Notional principal amounts are the amounts underlying the contract at the reporting date.

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
(77,389)	**118,781**	Fair value of forward contracts	**(77,389)**	**118,781**
21,346,126	**30,381,438**	Notional value of forward contracts	**21,346,126**	**30,381,438**

Derivative (liabilities) /assets are current.

22) Loans and advances to customers

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
23,089,696	22,463,366	Finance lease receivables	23,631,076	23,071,819
74,798,585	64,021,727	Commercial loans	82,790,660	71,412,960
11,167,276	8,836,005	Bills discounted	11,167,276	8,836,005
109,055,557	**95,321,098**	**Gross loans and advances to customers**	**117,589,012**	**103,320,784**
		Provisions for impairment		
2,388,739	2,301,711	Specific allowance	2,776,627	2,680,360
150,766	62,157	Collective allowance	154,741	65,094
2,539,505	**2,363,868**	**Total impairment**	**2,931,368**	**2,745,454**
106,516,052	**92,957,230**	**Net loans and advances to customers**	**114,657,644**	**100,575,330**
9,776,326	**942,381**	**Net non performing loans and advances to customers**	**10,451,907**	**1,351,648**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

22) Loans and advances to customers (Continued)

Finance lease receivables, may be analysed as follows:

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
3,161,107	3,286,614	Not later than 1 year	3,382,513	3,302,462
19,928,589	19,176,752	Later than 1 year and not later than 5 years	20,248,563	19,769,357
23,089,696	**22,436,366**	**Present value of minimum lease payments receivable**	**23,631,076**	**23,071,819**
912,647	**1,239,449**	Accumulated allowance for uncollectible minimum lease payments receivable	**912,647**	**1,239,449**

The Group and Bank enter into finance leasing arrangements for certain plant, equipment, motor vehicles and aircraft. The average term of finance leases entered into is 3 years. Unguaranteed residual values of assets leased under finance leases are estimated at nil (2014: nil).

There are no contingent rents recognised as income in 2014 and 2015.

The weighted average effective interest rates on loans and advances to customers at year end were as follows:

Bank 2015 %	Bank 2014 %		Group 2015 %	Group 2014 %
14.55	14.08	Finance lease receivables	14.52	14.08
11.22	11.54	Commercial loans	11.55	11.58
9.10	8.69	Bills discounted	9.10	8.69

Loans and advances to customers are classified as current and non current as follows:

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
50,851,355	45,403,980	Current	56,937,469	49,944,378
55,664,697	47,553,250	Non-Current	57,720,175	50,630,952
106,516,052	**92,957,230**		**114,657,644**	**100,575,330**

23) Other assets

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
169,408	165,176	Prepayments	225,119	205,071
860,959	895,156	Other receivables	920,754	927,506
-	-	Trade receivables	47,121	154,122
1,030,367	**1,060,332**		**1,192,994**	**1,286,699**

Other assets are current. Other assets, excluding prepayments, are classified as 'loans and receivables'.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

24) Due from group companies

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
10,246	8,510	NIC Capital	-	-
13,778	9,882	NIC Securities	-	-
343	-	NIC Insurance	-	-
31	-	NIC Leasing	-	-
2,769	-	Mercantile Finance	-	-
357,904	166,239	NIC Bank Tanzania	-	-
2,051,668	1,913,789	NC Bank Uganda	-	-
2,436,739	**2,098,420**		**-**	**-**

The Company has related party transactions with certain of its subsidiaries. These transactions which are primarily short term in nature, include cash accounts, charges for operational support and the borrowing or lending of funds, and are entered into in the ordinary course of business. These are on the same terms as comparable transactions with third parties.

25) Investments

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
4,357,701	3,931,501	Investment in subsidiaries (Note 25 (b))	-	-
-	-	Available for sale investments Unquoted equity security in Tanzania Mortgage	11,410	15,155
-	-	Refinance Company	23,650	25,380
1,351,658	1,466,805	Corporate bonds	1,351,658	1,466,805
-	-	Quoted equity investment in Nairobi Securities Exchange	130,938	108,625
5,709,359	**5,398,306**		**1,517,656**	**1,615,965**

Investment in subsidiaries is non-current. The other investments are current.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

25) Investments (Continued)

a) The movement in investments is as follows:

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
5,398,306	5,440,670	**At start of year**	1,615,965	2,325,637
-	-	Exchange differences on translation	(1,730)	(90)
-	550,000	Acquisition of NIC Properties	-	-
-	-	Available for sale investments	(3,745)	(18,835)
(115,147)	(608,372)	Corporate bonds	(115,147)	(608,372)
-	16,008	Investment in NIC Bank Tanzania	-	-
376,200		Investment in NC Bank Uganda	-	
50,000		Investment in NIC Leasing LLP	-	
-	-	Changes in fair value – Equity investment in NSE	22,313	(82,375)
5,709,359	**5,398,306**	**At end of year**	**1,517,656**	**1,615,965**

Investments, excluding investments in subsidiaries, are classified as 'assets at fair value through profit and loss'. None of the financial assets are impaired.

b) Investment in subsidiaries (at cost)

BANK

Name	Principal activity	Holding %	2015 Shs'000	2014 Shs'000
NC Bank Uganda	Banking	100	1,513,738	1,137,538
NIC Bank Tanzania	Banking	69.84	1,692,462	1,692,462
NIC Capital	Financial advisory	100	500,000	500,000
NIC Insurance Agents	Insurance agency	100	1,000	1,000
National Industrial Credit Trustees	Dormant	100	500	500
Mercantile Finance Company	Dormant	100	50,000	50,000
The African Mercantile Banking Company	Dormant	100	1	1
NIC Properties	Property	100	550,000	550,000
NIC Leasing LLP	Leasing	100	50,000	-
			4,357,701	**3,931,501**

NIC Capital Limited has a subsidiary, NIC Securities Limited whose results have been incorporated in these financial statements. Details of NIC Securities Limited at cost are as follows:

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

25) Investments (Continued)

b) Investment in subsidiaries (at cost) (Continued)

Name	Principal activity	Holding %	2015 Shs `000	2014 Shs `000
NIC Securities Limited	Brokerage services	100%	456,240	456,240

All the subsidiary companies have their financial year end as 31 December and are incorporated as limited liability companies apart from NIC Leasing, which is incorporated as a limited liability partnership. Except for NIC Bank Tanzania Limited and NC Bank Uganda Limited which are incorporated and domiciled in Tanzania and Uganda respectively, all other subsidiaries are incorporated and domiciled in Kenya.

NC Bank Uganda Limited was established in 2012 to offer banking services to customers in Uganda. The audited financial statements for the year ended 31 December 2015 show that the company made a profit equivalent to Shs 35,710,000 (2014: Shs 20,698,000).

NIC Bank Limited acquired 51% of Savings & Finance Commercial Bank Limited now renamed NIC Bank Tanzania Limited with effective control being passed on 1 May 2009. The audited financial statements for the year ended 31 December 2015 show that the company made a profit equivalent to Shs 73,000,000 (2014: Shs 40,816,000).

NIC Capital Limited was established in 2005 to offer investment banking services. The audited financial statements for the year ended 31 December 2015 show that the company made a loss of Shs 489,000 and profit of Shs 8,865,000 in 2014.

NIC Capital Limited (NICCL) acquired NIC Securities Ltd (NICSL) with effective control being passed on 1 January 2008. Subsequently, substantially through rights issues, the shareholding of NICCL in NICSL has increased to 100%. NICSL offers brokerage services and is a registered broker with the Nairobi Securities Exchange. The audited financial statements for the year ended 31 December 2015 show that the company made a profit of Shs 20,371,000 (2014: Shs 55,485,000). The results of NIC Securities Limited are consolidated in these financial statements.

NIC Insurance Agents Limited was a 68% subsidiary of Mercantile Finance Company Limited (MFC). In 2010, NIC Bank Limited acquired the non-controlling interest and now directly owns 100% of the company. The company offers Bancassurance services. The audited financial statements for the year ended 31 December 2015 show that the company made a profit of Shs 21,176,000 (2014: Shs 26,326,000).

National Industrial Credit Trustees Limited functions in a trustee capacity. The audited financial statements show that the company made no profit or loss for the year (2014: Shs nil).

Mercantile Finance Company Limited did not trade during the year ended 31 December 2015. Its activities are limited to the recovery of its non performing debts. The audited financial statements show that the company made no profit or loss for the year (2014: Shs nil).

The African Mercantile Banking Company Limited did not trade during the year ended 31 December 2015. The audited financial statements show that the company made no profit or loss for the year (2014: Shs nil).

In April 2014, the Bank acquired a 100% shareholding in Codicote Limited for a consideration of Shs 550 million. The sole asset of Codicote Limited is Land LR NO. 209/13628 adjacent to the headquarters of the Bank in Upperhill, Nairobi. The company name was subsequently changed to NIC Properties Limited whose sole activity is the ownership of the land. The audited financial statements for the year ended 31 December 2015 show that the company made no profit (2014: Shs nil).

NIC Leasing Limited Liability Partnership was formed during the year ended 31 December 2015 for leasing of motor vehicle and equipment. The audited financial statements show that the company made a loss for the period of Shs 12,471,000

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

26) Deferred income tax

The net deferred tax movement computed at the enacted rate of 30%, is attributable to the following items:

Group

Year ended 31 December 2015	At start of year Shs'000	(Credit)/ Charge to profit or loss Shs'000	Charge/ (Credit) to OCI Shs'000	At end of year Shs'000
Assets:				
Leave pay accrual	(10,990)	1,005	-	(9,985)
Gratuity provision	(2,034)	751	-	(1,283)
Deferred bonus	-	(51,390)	-	(51,390)
Provision for excise duty	-	4,417	-	4,417
Excess depreciation over capital allowances	(306,681)	(76,042)		(382,723)
Available-for-sale financial assets	216,789	-	(557,721)	(340,932)
Collective allowance for impairment	(253,698)	(355,451)	-	(609,149)
Tax losses in NC Bank Uganda	(38,469)	-	-	(38,469)
	(395,083)	(476,710)	(557,721)	(1,429,514)
Liabilities:				
Revaluation surplus	76,238	-	-	76,238
Exchange differences on translation	5,143	-	(4,417)	726
Net deferred income tax asset	(313,702)	(476,710)	(562,138)	(1,352,550)

Year ended 31 December 2014	1 Jan 2014 Shs'000	(Credit)/ Charge to profit or loss Shs'000	Charge/ (Credit) to OCI Shs'000	31 Dec 2014 Shs'000
Assets:				
Leave pay accrual	(10,153)	(837)	-	(10,990)
Gratuity provision Excess depreciation over capital allowances:	-	(2,034)	-	(2,034)
- Current year	(223,432)	(83,249)	-	(306,681)
- Prior year	62,851	(62,851)	-	-
Collective allowance for impairment	(313,148)	59,451	-	(253,698)
Tax losses on NC Bank Uganda	(38,469)	-	-	(38,469)
	(522,352)	**89,520**	**-**	**(611,872)**
Liabilities:				
Available for sale financial assets:				
- Current year	(75,174)	-	291,963	216,789
- Prior year	187,357	-	(187,357)	-
Revaluation surplus	76,238	-	-	76,238
Exchange differences on translation	5,143	-	-	5,143
Net deferred income tax asset	**(328,788)**	**89,520**	**104,606**	**(313,702)**

At 31 December 2015, the Group had accumulated tax losses available for future relief relating to NC Bank Uganda Limited. In Uganda, tax losses can be carried forward for an indefinite period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

26) Deferred income tax (Continued)

Bank

Year ended 31 December 2015	At start of year Shs'000	Charge/ (Credit) to profit or loss Shs'000	(Credit)/ charge to OCI Shs'000	At end of year Shs'000
Assets:				
Leave pay accrual	(9,938)	1,172	-	(8,766)
Gratuity provision	(1,509)	751	-	(758)
Deferred bonus	-	(51,390)	-	(51,390)
Excess depreciation over capital allowances:	(225,480)	(76,007)	-	(301,487)
Available-for-sale financial assets	220,889	-	(595,539)	(374,650)
Collective allowance for impairment	(169,311)	(337,462)	-	(506,773)
	(185,349)	(462,936)	(595,539)	(1,243,824)
Liabilities:				
Revaluation surplus	76,238	-	-	76,238
Net deferred income tax asset	**(109,111)**	**(462,936)**	**(595,539)**	**(1,167,586)**

Year ended 31 December 2014	At start of year Shs'000	Charge/ (Credit) to profit or loss Shs'000	Charge/ (Credit) to OCI Shs'000	At end of year Shs'000
Assets:				
Leave pay accrual	(9,435)	(503)	-	(9,938)
Gratuity provision	-	(1,509)	-	(1,509)
Excess depreciation over capital allowances:				
- Current year	(273,522)	48,042	-	(225,480)
- Prior year	62,851	(62,851)	-	-
Collective allowance for impairment	(274,684)	105,373	-	(169,311)
	(494,790)	**88,552**	**-**	**(406,238)**
Liabilities:				
Available for sale financial assets:				
- Current year	(71,074)	-	104,606	33,530
- Prior year	187,357	-	-	187,357
Revaluation surplus	76,238	-	-	76,238
Net deferred income tax asset	**(302,269)**	**88,552**	**104,606**	**(109,113)**

As at 31 December 2015, the Group had accumulated tax losses available for future relief relating to NC Bank Uganda Limited. In Uganda, tax losses can be carried forward for an indefinite period.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

27) Property and equipment

Group	Buildings Shs `000	Furniture, fittings & equipment Shs `000	Motor Vehicles Shs `000	Work in progress Shs `000	Total Shs `000
COST OR VALUATION					
At 1 January 2014	**370,000**	**1,822,668**	**59,087**	**63,795**	**2,315,550**
Additions	-	211,206	26,299	55,896	**293,402**
Transfers - WIP	-	53,472	-	(53,472)	**-**
Disposals	-	(73,722)	(3,452)	-	**(77,174)**
Translation adjustments	-	(7,136)	849	371	**(5,917)**
At 31 December 2014	**370,000**	**2,006,488**	**82,783**	**66,590**	**2,525,861**
At 1 January 2015	**370,000**	**2,006,488**	**82,783**	**66,590**	**2,525,861**
Additions	-	172,431	601	75,402	**248,434**
Transfers - WIP	-	69,733	-	(69,732)	**-**
Disposals	-	(36,166)	(12,151)	-	**(48,317)**
Prior year adjustment	-	35,069	-	35,559	**70,628**
Translation adjustments	-	(736)	(1,589)	(6,799)	**(9,124)**
At 31 December 2015	**370,000**	**2,246,819**	**69,644**	**101,019**	**2,787,482**
Comprising:					**-**
Cost	144,617	2,246,819	69,644	101,019	**2,562,099**
Valuation – 2013	225,383	-	-	-	**225,383**
	370,000	**2,246,819**	**69,644**	**101,019**	**2,787,482**
DEPRECIATION					
At 1 January 2014	**-**	**1,163,879**	**32,407**	**-**	**1,196,286**
Charge for the year	13,214	271,247	12,692	-	**297,153**
Eliminated on disposals	-	(51,724)	(3,452)	-	**(55,176)**
Translation adjustments	-	6,051	2,437	-	**8,488**
At 31 December 2014	**13,214**	**1,389,453**	**44,084**	**-**	**1,446,751**
At 1 January 2015	**13,214**	**1,389,453**	**44,084**	**-**	**1,446,751**
Charge for the year	13,215	251,134	12,504	-	**276,853**
Eliminated on disposals	-	(20,885)	(3,645)	-	**(24,530)**
Prior year adjustment	-	8,558	-	-	**8,558**
Translation adjustments	-	12,764	3,326	-	**16,090**
At 31 December 2015	**26,429**	**1,641,023**	**56,269**	**-**	**1,723,722**
NET BOOK VALUE					
At 31 December 2015	**343,571**	**605,795**	**13,375**	**101,019**	**1,063,760**
At 31 December 2014	**356,786**	**617,035**	**38,699**	**66,590**	**1,079,110**

Buildings were revalued at Shs 370 million as at 31 December 2013 by registered professional valuers, Knight Frank Valuers Limited, on an open market value basis by reference to market evidence of recent transactions for similar properties. Buildings are revalued every 3-5 years. At 31 December 2015, the net book value of buildings based on original cost was Shs 113,940,000 (2014: Shs 118,323,000). There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2014: Shs nil).

Included in motor vehicles and furniture, fittings and equipment are assets with a cost of Shs 1,348,520,756 (2014: Shs 681,333,000) which were fully depreciated. The notional depreciation charge on these assets would have been Shs 269,704,151 (2014: Shs 148,275,000). Computer equipment is included under furniture, fittings and equipment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

27) Property and equipment (Continued)

Bank	Buildings Shs `000	Furniture, fittings and equipment Shs `000	Motor vehicles Shs `000	Work In progress Shs `000	Total Shs `000
COST OR VALUATION					
At 1 January 2014	**370,000**	**1,506,386**	**28,458**	**3,276**	**1,908,120**
Additions	-	158,919	23,540	50,795	**233,254**
Transfers - WIP	-	43,128	-	(43,128)	**-**
Disposals	-	(27,700)	(3,452)	-	**(31,152)**
At 31 December 2014	**370,000**	**1,680,733**	**48,546**	**10,943**	**2,110,222**
At 1 January 2015	**370,000**	**1,680,733**	**48,546**	**10,943**	**2,110,222**
Additions	-	105,051	-	68,612	**173,663**
Transfers	-	69,733	-	(69,733)	**-**
Disposals	-	-	(12,151)	-	**(12,151)**
At 31 December 2015	**370,000**	**1,855,517**	**36,395**	**9,822**	**2,271,734**
Comprising:					
Cost	144,617	1,855,517	36,395	9,822	**2,046,351**
Valuation – 2013	225,383	-	-	-	225,383
	370,000	**1,855,517**	**36,395**	**9,822**	**2,271,734**
DEPRECIATION					
At 1 January 2014	-	**1,064,497**	**17,713**	**-**	**1,082,210**
Charge for the year	13,214	195,153	6,920	-	**215,287**
Eliminated on disposals	-	(27,598)	(3,452)	-	**(31,050)**
At 31 December 2014	**13,214**	**1,232,052**	**21,181**	**-**	**1,266,447**
At 1 January 2015	**13,214**	**1,232,052**	**21,181**	**-**	**1,266,447**
Charge for the year	13,215	179,240	6,877	-	**199,332**
Eliminated on disposals	**-**	-	(3,645)	-	**(3,645)**
At 31 December 2015	**26,429**	**1,411,292**	**24,413**	**-**	**1,462,134**
NET BOOK VALUE					
At 31 December 2015	**343,571**	**444,225**	**11,982**	**9,822**	**809,600**
At 31 December 2014	**356,786**	**448,681**	**27,365**	**10,943**	**843,775**

Buildings were revalued at Shs 370 million as at 31 December 2013 by registered, professional valuers, Knight Frank Valuers Limited, on an open market value basis by reference to market evidence of recent transactions for similar properties. At 31 December 2015, the net book value of buildings based on original cost was Shs 113,940,000 (2014: Shs 118,323,000).

Included in motor vehicles and furniture, fittings and equipment are assets with a cost of Shs 1,056,421,756 (2014: Shs 676,472,000) which were fully depreciated. The notional depreciation charge on these assets would have been Shs 241,613,780 (2014: Shs 139,857,000). Computers are included under furniture, fittings and equipment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

28) Intangible assets

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
511,896	548,776	Computer software	28(a)	582,087	636,133
-	-	Goodwill	28(b)	409,426	409,426
511,896	**548,776**	**At 31 December**		**991,513**	**1,045,559**

Details of the intangible assets are as follows:

a) Computer software

Bank Capitalised Shs `000	Bank Work-in Progress Shs `000	Bank Total Shs `000		Group Capitalised Shs `000	Group Work-in Progress Shs `000	Group Total Shs`000
			COST			
1,094,661	**12,097**	**1,106,758**	**At 1 January 2014**	**1,242,674**	**12,097**	**1,254,771**
-	-	-	Translation adjustment	20,372	-	**20,372**
31,793	63,865	**95,658**	Additions	41,464	63,865	**105,329**
6,117	(6,117)	-	Transfers	6,117	(6,117)	-
1,132,571	**69,845**	**1,202,416**	**At 31 December 2014**	**1,310,627**	**69,845**	**1,380,472**
1,132,571	**69,845**	**1,202,416**	**At 1 January 2015**	**1,310,627**	**69,845**	**1,380,472**
-	-	-	Translation adjustment	(4,865)	-	**(4,865)**
19,456	126,731	**146,187**	Additions	32,855	127,757	**160,612**
47,192	(47,192)	-	Transfers	52,205	(52,205)	-
1,199,219	**149,384**	**1,348,603**	**At 31 December 2015**	**1,390,822**	**145,397**	**1,536,219**
			AMORTISATION			
477,198	-	**477,198**	**At 1 January 2014**	**535,042**	-	**535,042**
-	-	-	Translation adjustments	1,940	-	**1,940**
176,442	-	**176,442**	Charge for the year	207,357	-	**207,357**
653,640	-	**653,640**	**At 31 December 2014**	**744,339**	-	**744,339**
653,640	-	**653,640**	**At 1 January 2015**	**744,339**	-	**744,339**
-	-	-	Translation adjustments	(5,684)	-	**(5,684)**
183,067	-	**183,067**	Charge for the year	215,477	-	**215,477**
836,707	-	**836,707**	**At 31 December 2015**	**954,132**	-	**954,132**
			Net Book Value			
362,512	**149,384**	**511,896**	**At 31 December 2015**	**436,690**	**145,397**	**582,087**
478,931	**69,845**	**548,776**	**At 31 December 2014**	**566,288**	**69,845**	**636,133**

Assets of the Group with a gross value of Shs 285,293,859 (2014: Shs 236,419,000) are fully amortised but still in use.

The notional amortisation charge on the assets would have been Shs 57,058,772 (2014: Shs 47,299,000).The weighted average remaining useful life of intangible assets 2.3 years (2014: 2.9years).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

28) Intangible assets (Continued)

b) Goodwill

The goodwill consists of equity interest held by the Group in;

	2015		2014	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
NIC Bank Tanzania	69.84	251,996	69.84	251,996
NIC Securities	100	123,430	99.93	123,430
NIC Properties	100	34,000	100.00	34,000
		409,426		**409,426**

Goodwill arising on consolidation represents the growth potential of NIC Bank Tanzania, NIC Securities and NIC Properties.

Impairment tests for goodwill

Management reviews the business performance of the above subsidiaries. The subsidiaries are deemed Cash Generating Units (CGU) by the Group. The recoverable amount of all CGUs has been determined based on value-in-use calculations which are based on key assumptions about budgeted performance. The budget assumptions reflect current trends, anticipated growth driven by the Group's strategy and management experience.

Based on the results of the impairment tests performed, management believes that there is no impairment of the carrying value of the goodwill in any CGU. In addition, no impairment of the Bank's investments in subsidiary undertakings as referred to in note 25 was considered necessary.

29) Operating lease prepayments – Leasehold land

Bank			Group	
2015 Shs'000	2014 Shs'000		2015 Shs'000	2014 Shs'000
		Cost		
10,000	**10,000**	**At start of year**	**526,000**	**10,000**
-	-	Additions	-	516,000
10,000	**10,000**	**At end of year**	**526,000**	**526,000**
		Amortisation		
2,875	**2,750**	**At start of year**	**2,875**	**2,750**
125	125	Charge for the year	125	125
3,000	**2,875**	**At end of year**	**3,000**	**2,875**
7,000	**7,125**	**Net book value**	**523,000**	**523,125**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

30) Customer deposits

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
38,905,864	37,028,373	Current	41,278,018	39,578,288
1,776,475	1,351,419	Savings	2,472,997	2,113,683
64,292,907	53,606,130	Term	68,375,136	57,869,924
218,754	805,156	Other	238,486	873,059
105,194,000	**92,791,078**		**112,364,637**	**100,434,954**
5.60%	**5.16%**	Weighted average effective interest	**5.19%**	**5.04%**

Customer deposits are financial instruments classified as liabilities at amortised cost. Included in term deposits are deposits which are at fixed interest rates whereas all other deposits are at variable rates. Other deposits are those held as collateral for irrevocable commitments mainly under import letters of credit and performance bonds. Their fair value approximates the carrying amount.:

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
105,194,000	92,791,078	Current	112,364,637	100,276,320
-	-	Non-current	-	158,634
105,194,000	**92,791,078**		**112,364,637**	**100,434,954**

31) Due to banking institutions

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
		Maturing within 90 days:		
7,734,613	**4,625,406**	**Due to banking institutions**	**9,064,552**	**5,411,664**
3.20%	**2.97%**	Weighted average effective interest rate as at year end	**2.63%**	**2.87%**

Deposits due to banking institutions are financial instruments classified as liabilities at amortised cost.

They are current.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

32) Borrowings

The Bank has an unsecured revolving medium term lines of credit for onward lending with;

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
1,388,789	1,595,883	Agence Francaise De Development (PROPARCO)	2,613,972	2,110,154
5,630,659	4,991,461	The International Finance Corporation (IFC)	5,630,659	4,991,461
1,372,106	1,521,373	The Dutch Development Finance Institution, FMO	1,372,106	1,521,373
5,739,453	5,735,492	Medium term note	5,739,453	5,735,492
14,131,007	**13,844,209**		**15,356,190**	**14,358,480**
		Maturity Profile:		
962,497	788,692	Payable within one year	962,497	837,146
959,908	1,661,953	Payable after one year and within three years	1,679,860	2,127,769
12,208,602	11,393,564	Payable after three years	12,713,833	11,393,565
14,131,007	**13,844,209**		**15,356,190**	**14,358,480**
7.74%	**4.71%**	Weighted average effective interest	**7.42%**	**4.72%**

Borrowings are financial instruments classified as a liability at amortised cost.

33) Due to group companies

Bank

		2015 Shs `000	2014 Shs `000
Deposits held	- NIC Capital	220,587	178,038
	- Mercantile Finance Company	28,641	5,210
	- NIC Securities	336,191	381,109
	- NIC Insurance Agents	136,167	34,982
Other payables	- Mercantile Finance Company	-	42,020
	- NIC Bank Tanzania	874	681
	- NC Bank Uganda	**336,557**	167,412
		1,059,017	**809,452**

Balances due to group companies are current.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

34) Other liabilities

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
236,707	413,915	Bills payable	238,174	415,942
1,654,848	1,229,374	Other payables and accruals	1,916,218	1,506,348
-	-	Preference shares	30,745	32,994
-	-	Legal and other claims	4,200	11,695
-	-	Trade payables	155,787	125,586
29,220	33,130	Leave pay provision	33,283	36,633
1,920,775	**1,676,419**		**2,378,407**	**2,129,198**

Other liabilities are current. Other liabilities, excluding non-financial assets, are classified as liabilities at amortised cost.

Legal and other claims relate substantially to a provision for charges brought against the Group by customers of the stock brokerage subsidiary, NIC Securities Limited. In the directors' opinion, after taking appropriate legal advice, the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided for at 31 December 2015.

The preference shares relate to East African Development Bank (EADB) which invested TShs 650 million in 8% non-redeemable and non-cumulative preference shares issued by NIC Bank Tanzania Limited in November 2004. The preference shareholders have the discretion to transfer to the existing shareholders or may convert their shares into ordinary shares upon attainment of certain covenants. Dividends on the preference shares are payable when there are sufficient cash resources at the date of declaration, subject to the business and industry requirements of the company, making of prudent reserves and provisions in general and complying with all applicable legislation.

35) Dividends

At the Annual General Meeting scheduled for 17th May 2016, a final dividend in respect of 2015 of Shs 1.00 per share (2014: first and final dividend of Shs 1.00 per share) amounting to a total of Shs 639,946,000 (2014: Shs 639,946,000) is to be proposed by the directors.

During the year, an interim dividend in respect of 2015 of Shs 0.25 per share (2014; Nil), amounting to a total of Shs 159,984,000 (2014: Nil) was paid.

The total estimated dividend for the year to be paid is therefore Shs 1.25 per share (2014: Shs 1 per share) amounting to a total of Shs 799,930,000 (2014: Shs 639,946,000). The final proposed dividend for the year is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

Group and Bank

The movement in unclaimed dividends is as follows:

	2015 Shs`000	2014 Shs`000
At start of the year	82,883	72,233
Final dividend declared	639,946	407,238
Interim dividend declared	159,984	-
Dividends paid	(830,342)	(396,588)
At end of year	**52,471**	**82,883**

Payment of dividends to members with shareholding of up to 12.5% is subject to withholding tax at the rate of 5.0% for residents and 10.0% for non-residents.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

36) Share capital and reserves

a) Share capital and share premium

Group and Bank	Number of shares Shs `000	Share capital Shs `000	Share premium Shs `000
Balance at 1 January 2014	542,984,148	2,714,921	1,208,068
Bonus issue	54,298,415	271,492	(271,492)
Rights issue	42,663,040	213,315	1,887,839
Bonus and Rights issue expenses	-	-	(93,160)
Balance at 31 December 2014	**639,945,603**	**3,199,728**	**2,731,255**
Balance at 1 January 2015	639,945,603	3,199,728	2,731,255
Bonus and Rights issue expenses	-	-	(31,238)
Balance at 1 December 2015	639,945,603	3,199,728	2,700,017

As at 31 December 2015, the authorised share capital of the Bank comprised of 800,000,000 (2014: 800,000,000) ordinary shares with a par value of Shs 5. The issued shares as at 31 December 2015 are 639,945,603 (2014: 639,945,603) and are fully paid. Issued and fully paid ordinary shares, which have a par value of Shs 5, carry one vote per share and carry a right to dividend.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at General Meetings of the Bank.

Premiums from the issue of shares are reported as share premiums. During the year, a portion of this was utilised to cater for related Rights Issue expenses.

b) Revaluation surplus on property

Revaluation reserve is made up of the periodic adjustment arising from the valuation of buildings, net of the related deferred taxation. The reserve is not available for distribution to the shareholders.

Group and Bank

The movement in revaluation surplus on property is as follows:

	2015 Shs`000	2014 Shs`000
At start of the year	184,764	189,545
Revaluation surplus on building net of deferred tax		-
Transfer of excess depreciation	(6,830)	(6,830)
Deferred tax on excess depreciation	2,049	2,049
At end of year	**179,983**	**184,764**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

36) Share capital and reserves (Continued)

c) Investments revaluation reserve

This represents the unrealized increase or decrease in the fair value of available-for-sale investments after deduction of deferred income taxes, excluding impairment losses. The reserve is not available for distribution to the shareholders.

d) Foreign currency translation reserve

The reserves represent exchange differences arising from translation of the net assets of the Group's foreign operations which are NIC Bank Tanzania Limited and NC Bank Uganda Limited from their functional currency (Tanzania Shillings and Uganda Shillings respectively), to the Group's presentation currency (Kenya Shillings). These differences are recognised directly through other comprehensive income and accumulated in the foreign currency translation reserve in equity. The reserve is not available for distribution to the shareholders.

e) Regulatory reserve(s)

Where impairment losses required by prudential guidelines issued by the banking regulators exceed those computed under the International Financial Reporting Standards (IFRS), the excess is recognised as a regulatory reserve and accounted for as an appropriation from retained earnings. The reserve is not available for distribution to the shareholders.

f) Other reserves

The reserve relates to transactions with non-controlling interests that do not result in loss of control. It is the difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary. See the respective disclosures under notes 37 (a) and (b).

g) Retained earnings

This represents undistributed profits from current and previous years.

37) Non-controlling interests

The total non-controlling interest consists of equity interest in subsidiaries;

	2015		2014	
	Ownership %	Amount Shs'000	Ownership %	Amount Shs'000
NIC Bank Tanzania	30.16	485,344	30.16	477,574

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

37) Non-controlling interests (Continued)

a) NIC Bank Tanzania

On 1 May 2009, the Group acquired a 51% stake in one of Tanzania's mid-sized commercial bank, Savings & Finance Commercial Bank Ltd, later renamed NIC Bank Tanzania Limited. NIC Bank Tanzania Limited was founded as a non-bank financial institution in 1994, converted to a fully-fledged commercial bank in 2005 and has branches in Dar es Salaam (2), Mwanza (1), Arusha (1) and Kahama (1). Through direct buy-outs and additional rights issues, NIC Bank Limited increased its shareholding from 51% to 68.97% in 2013. This was further increased in 2014 to 69.84% through the taking up of rights not exercised by minority shareholders.

	2015	2014
	Shs'000	Shs'000
Carrying amount of non-controlling interest acquired	-	13,339
Consideration paid for the interests	-	(16,008)
Excess of consideration paid recognised in parent's equity	**-**	**(2,669)**

Movement in non-controlling interests

	2015	2014
	Shs'000	Shs'000
At start of year	477,574	377,206
Carrying amount of non-controlling interest acquired by the Group	-	(13,339)
Additional shares acquired through rights issue	-	117,888
Share of profit/ (loss) for the year	7,770	(4,181)
At end of year	**485,344**	**477,574**

b) NIC Securities

On 31 December 2007, the Bank acquired 57.7% of NIC Securities Limited (formerly Solid Investment Securities Limited) through its wholly owned subsidiary NIC Capital Limited. Through combinations of direct buy-outs and additional rights issues, the Group increased its shareholding in the subsidiary to 91.34% in 2009. Through direct buy-out, the Group further increased its shareholding in the subsidiary to 100% in 2014.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

37) Non-controlling interests (Continued)

b) NIC Securities (Continued)

The effect of changes in ownership interest of NIC Securities in equity attributable to the owners of the bank is summarised as follows:

	2015 Shs'000	2014 Shs'000
Carrying amount of non-controlling interest acquired	-	306
Consideration paid for the interests	-	(683)
Excess of carrying amount recognised in parent's equity	**-**	**(377)**

Movement in non-controlling interests

	2015 Shs'000	2014 Shs'000
At 1 January	-	306
Carrying amount of non-controlling interest acquired by the Group	-	(306)
At 31 December	**-**	**-**

38) Off balance sheet financial instruments, contingent liabilities and commitments

a) Contingent liabilities

Bank			Group	
2015 Shs'000	2014 Shs'000		2015 Shs'000	2014 Shs'000
2,405,342	3,374,438	Letters of credit	2,447,972	3,490,696
11,763,879	13,633,024	Letters of guarantee & performance bonds	11,988,684	13,793,897
14,169,221	**17,007,462**		**14,436,656**	**17,284,593**

In the ordinary course of business, the Group conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off balance sheet financial instruments including forward contracts for purchase and sale of foreign currencies, the nominal amounts of which are not reflected in the statement of financial position.

Letters of credit are commitments by the Group to make payments to third parties, on production of documents, on behalf of customers and are reimbursed by customers. Letters of guarantee and performance bonds are issued by the Group, on behalf of customers, to guarantee performance by customers to third parties. The Group will only be required to meet these obligations in the event of default by the customers.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

38) Off balance sheet financial instruments, contingent liabilities and commitments (Continued)

b) Operating lease prepayments

i) The group as a lessor

At the end of the reporting period, the Group had contracted with tenants for the following future lease receivables:

Group and Bank

	2015	2014
	Shs'000	Shs'000
Within one year	10,445	2,750
In the second to fifth year inclusive	52,223	10,013
	62,668	**12,763**

Leases are negotiated for an average term of 6 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

ii) The group as a lessee

At the end of the reporting period, the Group had non-cancellable operating leases which fall due as follows:

Bank			Group	
2015	2014		2015	2014
Shs'000	Shs'000		Shs'000	Shs'000
		Premises		
181,576	167,948	Within one year	257,714	244,437
436,551	425,490	2-5 years	1,194,107	686,365
618,127	**593,438**		**1,451,822**	**930,802**
		Office equipment		
3,072	2,615	Within one year	3,072	2,615
256	113	2-5 years	256	113
3,328	**2,728**		**3,328**	**2,728**

Operating lease payments represent rentals payable by the Group for its business premises and office equipment. Premises leases are negotiated for an average term of 6 years, while office equipment is for an average term of 3 years. For these contingent liabilities, no reimbursement is expected.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

38) Off balance sheet financial instruments, contingent liabilities and commitments (Continued)

C) Capital commitments

Bank			Group	
2015	2014		2015	2014
Shs'000	Shs'000		Shs'000	Shs'000
49,000	-	Authorised and contracted for	49,000	-
764,625	680,640	Authorised but not contracted for	868,101	680,640
813,625	**680,640**	**At 31 December**	**917,101**	**680,640**

The capital commitments largely relate to branch expansion activities and software acquisition. The Group's management is confident that future net revenues and funding will be sufficient to cover this commitment.

d) Legal proceedings

Besides of the provision made (see note 34), various claims against the Group are considered without merit, and the Bank is defending them vigorously. It is not possible to estimate the Bank's possible loss in relation to these matters, nor the effect that they might have upon operating results in any particular financial period. No contingent liability associated with legal actions has been disclosed as professional advice indicates that it is unlikely that any significant loss will arise

e) Other credit commitments

Commitments to lend are agreements to lend to customers in future subject to certain conditions. Such commitments are normally made for fixed periods. The Group may withdraw from its contractual obligations to extend credit by giving reasonable notice to the customers

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

39) Notes to the consolidated statement of cashflows

a) Cash used in operations

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
		Reconciliation of profit before income tax to cash used in operations		
6,259,656	6,081,281	Profit before income tax	6,397,275	6,230,650
		Adjustments for:		
199,332	215,287	Depreciation (note 27)	276,853	297,153
125	125	Amortisation of operating lease prepayments	125	125
183,067	176,442	Amortisation of intangible assets (note 28)	215,477	207,357
6	(1,151)	(Loss)/Gain on sale of motor vehicle and equipment (note 39 (c))	(991)	23,243
6,642,186	**6,471,984**	**Profit before working capital changes**	**6,888,739**	**6,758,528**
(661,055)	(473,056)	Increase in balances with central banks – Mandatory reserve deposits	(546,826)	(535,039)
(13,558,822)	(16,961,541)	Increase in loans and advances to customers	(14,082,314)	(18,548,822)
-	-	Outflows on purchase of quoted shares - held for trading	(16,838)	-
(7,778,657)	(2,984,550)	Increase in Government securities maturing after 90 days	(7,894,764)	(4,203,136)
196,170	(77,549)	(Increase)/Decrease in derivatives held for risk management	196,170	(70,649)
29,965	(130,142)	Decrease in other assets	93,705	(423,753)
(88,754)	271,472	Due (from)/ to group companies	-	-
12,402,922	8,554,889	Increase in customer deposits	11,929,683	8,869,949
244,356	(71,871)	Increase/Decrease in other liabilities	(249,209)	786,710
286,798	10,216,040	Increase in borrowings	997,710	10,730,311
(2,284,891)	**4,815,676**	**Cash used in operations**	**(2,683,944)**	**3,364,099**

b) Cash and cash equivalents

Analysis of balances of cash and cash equivalents as shown in the consolidated statement of financial position and notes;

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
1,847,653	4,323,580	Cash and balances with central banks	17	2,822,997	4,969,263
804,882	484,521	Items in course of collection	18	848,819	519,958
5,464,120	7,843,903	Due from banking institutions	19	6,675,640	8,753,909
1,942,070	202,520	Government securities	20	2,308,344	696,965
(7,734,613)	(4,625,406)	Due to banking institutions	31	(9,064,552)	(5,411,664)
2,324,112	**8,229,118**			**3,591,248**	**9,528,431**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

39) Notes to the consolidated statement of cashflows

c) (Loss/gain from sale of motor vehicles and equipment

Bank 2015 Shs'000	Bank 2014 Shs'000		Note	Group 2015 Shs'000	Group 2014 Shs'000
8,500	1,245	Proceeds from sale of motor vehicle and equipment		24,778	1,245
(12,151)	(31,152)	Disposal at cost	27	(48,317)	(77,174)
3,645	31,050	Depreciation eliminated on disposal	27	24,530	55,176
(6)	**1,151**	(Loss)/gain on disposal of motor vehicle and equipment	11	**991**	**(23,243)**

40) Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both.

There are other companies which are related to NIC Bank Limited through common shareholdings or common directorships.

In the normal course of business, a number of banking transactions are entered into with related parties i.e. staff, directors, their associates and companies associated with directors. These include loans, deposits and foreign currency transactions. Loans and advances to customers at 31 December include loans and advances to staff and to companies associated with directors. Contingent liabilities at 31 December include guarantees and letters of credit for companies associated with directors.

a) Loans and advances to customers:

Companies associated with directors

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
1,036,964	703,950	At start of the year	1,079,960	703,950
(672,926)	333,014	Net movement during the year	(676,539)	376,010
364,038	**1,036,964**	**At the end of the year**	**403,421**	**1,079,960**
191,744	**76,431**	**Interest earned**	**191,744**	**78,456**
349,327	**627,989**	**Guarantees and letters of credit to companies associated with directors**	**349,327**	**627,989**

The above outstanding balances arose from the ordinary course of business and are substantially on the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

40) Related party transactions (Continued)

a) Loans and advances to customers (Continued)

Directors

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
68,234	4,263	At start of the year	92,370	14,072
(5,323)	63,971	Net movement during the year	(19,928)	78,298
62,911	**68,234**	**At end of the year**	**72,442**	**92,370**
3,511	**4,567**	**Interest earned**	**3,663**	**6,785**

These loans and advances are performing and are adequately secured.

b) Customer deposits

Companies associated with directors

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
4,207,322	4,864,462	At start of the year	4,216,109	4,957,594
1,775,482	(657,140)	Net movement during the year	1,781,491	(741,485)
5,982,804	**4,207,322**	**At end of the year**	**5,997,600**	**4,216,109**
368,165	**197,567**	**Interest paid**	**368,165**	**198,574**

The above outstanding balances arose from the ordinary course of business and are substantially on the same terms, including interest rates and security, as for comparable transactions with third-party counterparties.

Directors and key management personnel

Bank 2015 Shs'000	Bank 2014 Shs'000		Group 2015 Shs'000	Group 2014 Shs'000
5,008	116,713	At start of the year	27,028	120,442
21,280	(111,705)	Net movement during the year	7,721	(93,414)
26,288	**5,008**	**At end of the year**	**34,749**	**27,028**
1,248	**2,378**	**Interest paid**	**1,248**	**2,478**

Other amounts outstanding at the end of the reporting period are disclosed in notes 24 and 33.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

40) Related party transactions (Continued)

c) Key management compensation

The remuneration of directors and other members of key management during the year was as follows:

Bank			Group	
2015	**2014**		**2015**	**2014**
Shs'000	**Shs'000**		**Shs'000**	**Shs'000**
330,121	**290,351**	Salaries and other benefits	**420,563**	**392,612**
		Directors' remuneration		
16,370	14,551	Fees for services as directors	35,008	31,562
151,749	133,908	Other emoluments (included in key management compensation above)	212,034	188,836
168,119	**148,459**		**247,042**	**220,398**

In line with policy, the above compensation is a consolidated salary package encompassing all employment benefits and pension.

41) Assets pledged as security

As at 31 December 2015, there were no assets pledged by the Group to secure liabilities and there were no secured Group liabilities (2014: nil).

42) Fiduciary activities

The Group holds asset security documents on behalf of customers with a value of Shs 66,889,877,000 (2014: Shs 60,254,564,000). These securities are held by the custody services department and comprise deposits with financial institutions, government securities and quoted and unquoted securities, among others.

NOTICE OF THE ANNUAL GENERAL MEETING

Notice is hereby given that the fifty sixth Annual General Meeting of the shareholders of NIC Bank Limited will be held at the Kenyatta International Convention Centre (KICC), Nairobi on Tuesday 17th May 2016 at 11.00 am for the following purposes:-

1. To read the Notice convening the Meeting.
2. To receive, consider and if thought fit, adopt the Financial Statements for the year ended 31st December 2015 and the Directors' and Auditors' Reports thereon.
3. To confirm the payment of the interim dividend of Shs 0.25 per share paid on 22nd October 2015 and to approve the payment of a final dividend of Shs 1.00 (2014: first and final dividend of Shs 1.00 per share) on the paid up capital of Shs. 3,199,728,000.
4. To approve the payment of fees to the Directors for the year ended 31st December 2015.
5. To elect Directors:

   In accordance with Articles 108, 109 and 110 of the Company's Articles of Association, the following directors retire by rotation and being eligible, offer themselves for re-election:

   i.) J .P. M. Ndegwa

   ii.) P. V. Shah

   iii.) I. Ochola-Wilson
6. To note that PricewaterhouseCoopers will continue in office as the Auditors by virtue of section 159(2) of the Companies Act (Cap.486) subject to Central Bank of Kenya approval in accordance with section 24(1) of the Banking Act (Cap.488) and to authorize the Directors to fix their remuneration.
7. To transact any other business of the Annual General Meeting of which due notice has been received.

BY ORDER OF THE BOARD
Livingstone Murage
Group Company Secretary
Nairobi
18th April 2016

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, her or its behalf. A proxy need not be a Member of the Company. To be valid, a proxy must be duly completed by the Member and lodged with the Group Company Secretary at the Company's registered office situated at NIC Bank Limited, NIC House, Masaba Road, Nairobi, Kenya, before 11 am on Monday 16th May 2016, failing which it will be invalid. In the case of a Member which is a corporate body then the proxy must be given under its common seal.
2. A copy of this notice, proxy form and full copy of the Group financial statements including explanatory notes are available from our website **www.nic-bank.com** or a printed copy may be obtained from the Company's share registrars, Custody & Registrar Services Limited upon request. A printed copy will also be available at the venue on the day of the Annual General Meeting.

TANGAZO LA MKUTANO MKUU WA MWAKA

Tangazo linatolewa kwamba Mkutano Mkuu wa Mwaka wa wenyehisa wa Benki ya NIC utafanyika katika jumba la Mikutano ya Kimataifa la Kenyatta (KICC), Nairobi siku ya Jumatano tarehe 17 Mei mwaka 2016, saa tano asubuhi ambapo ajenda zifuatazo zitaangaziwa:-

1. Kusoma ilani inayotangaza maandalizi ya Mkutano huo.
2. Kupokea, kuzingatia na zikiidhinishwa kuwa sawa, kuzikubali Taarifa za Kifedha za mwaka uliokamilika Desemba 31, 2015 pamoja na Ripoti za Wakurugenzi Wakuu na Wakaguzi wa Mahesabu ya Fedha.
3. Kuidhibitisha malipo ya mgao wa muda wa asilimia 5 (Shilingi 0.25 kwa kila hisa) yaliyotolewa mnamo Octoba 22, 2015 na kudhinisha malipo ya mgao wa mwisho wa Shilingi 1.00 (2014 mgao wa kwanza na wa mwisho wa Shilingi 1.0 kwa kila hisa) kwa mtaji uliolipiwa wa Shilingi 3,199,728,000.
4. Kuidhinisha malipo ya ada kwa Wakurugenzi Wakuu kwa mwaka ulioishia Desemba 31, 2015.
5. Kuchagua Wakurugenzi Wakuu:

   Kulingana na Kifungu cha 108, 109 na 110 cha Sheria ya Ushirikiano wa Kampuni, Wakurugenzi wafuatao watastaafu kwa kufuatana na wanaweza kuchaguliwa ama kujitolea wenyewe kuchaguliwa tena;

   i.) P. M. Ndegwa

   ii.) P. V. Shah

   iii.) I. Ochola-Wilson
6. Kukufahamisheni kwamba kampuni ya PricewaterhouseCoopers itaendelea kushikilia afisi ya Mkaguzi wa Mahesabu kulingana na Sehemu ya 159(2) ya Sheria za Kampuni (Kifungu cha 486) lakini baada ya kuidhinishwa na Benki Kuu ya Kenya (CBK) kwa mujibu wa sehemu ya 24(1) ya Sheria za Benki (Kifungu cha 488), na kuwaamrisha Wakurugenzi Wakuu kujipangia mishahara yao.
7. Kutekeleza shughuli nyingine zozote za Mkutano Mkuu wa Mwaka ambazo zimeelezwa kwenye ilani iliyopokelewa.

KWA AMRI YA BODI

Livingstone Murage

Katibu Mkuu wa Kampuni

Nairobi

Tarehe 18 April 2016

1. "Mwanachama anayestahili kuhudhuria na kupiga kura katika mkutano huo na ambaye hawezi kuhudhuria anakubaliwa kuteua mwakilishi ili ahudhurie na kupiga kura kwa niaba yake. Si lazima mwakilishi huyo awe Mwanachama wa Kampuni. Na ili kufuzu lazima fomu ya uwakilishi ijazwe na Mwanachama anayehusika na kuwasilishwa kwa Katibu wa Kampuni hii kwenye afisi iliyosajiliwa ya Kampuni katika makao yake ya NIC Bank Limited, jumba la NIC House, barabara ya Masaba Road, Nairobi, Kenya kabla ya saa tano asubuhi Jumatatu tarehe 16 Mei mwaka 2016, na iwapo yeyote atakosa kufanya hivyo hataruhusiwa kushiriki. Na iwapo Mwanachama huyo ni shirika, lazima fomu ya uwakilishi iwasilishwe ikiwa na mhuri wake rasmi."
2. Nakala ya ilani hii, fomu ya uwakilishi pamoja na nakala kamili ya taarifa za kifedha za Kampuni hii zikijumuisha maelezo zinapatikana katika wavuti wetu wa www.nic-bank.com au nakala iliyopigwa chapa inaweza kupatikana katika afisi za hisa za Kampuni hii, Custody & Registrar Services Limited, baada ya kutuma maombi na pia zitapatikana kwenye ukumbi wa Mkutano Mkuu wa Mwaka siku ya mkutano huo.

NOTES

PROXY FORM

The Group Company Secretary,
NIC Bank Limited
NIC House
Masaba Road,
P. O. Box 44599,
00100,GPO Nairobi

I/We ____

of ____

being a member / members of NIC Bank Limited and entitled to ____________________________________

votes hereby appoint ____

of ____

or failing him ____

of ____

as my / our Proxy to vote for me / us on my / our behalf at the Annual General meeting of the company to be held on 17 May 2016 and at any adjournment thereof.

As witness my / our hand this ________________________day of _____________ 2016

Signature (s) of ____

Note: In case of a Corporation, the Proxy must be made under its Common Seal.

FOMU YA UWAKILISHI

Katibu wa Kampuni,

NIC Bank Limited

NIC House

Masaba Road,

P. O. Box 44599,

00100,GPO Nairobi

Mimi / Sisi ____

wa anuani hii ____

nikiwa mwanachama / tukiwa wanachama wa NIC Bank Limited na

nikiwa /tukiwa na haki ya kura ____

namchagua / tunamchagua ____

wa sanduku la posta ____

na akiwa hatapata nafasi nimechagua / tumechagua __________________________________

wa sanduku la posta ____

akiwa mwakilishi wangu / wetu kunipigia / kutupigia kura kwa niaba yangu / yetu katika Mkutano wa Mwakawa Kampuni utakaofanyika tarehe 17 Mei 2016 au tarehe yoyote iwapo mkutano utahairishwa. Nashuhudia kwa mkono / mikono yangu / yetu siku hii ya

Tarehe ____________________________mwezi wa __________ 2016

Sahihi ____

Elewa: Mwakala akiwa anawakilisha kampuni yoyote au shirika nilazima atumie muhuri rasmi wa kampuni hiyo (common seal).

NIC BANK GROUP - BRANCH NETWORK

KENYA BRANCHES

NIC House/Head Office & Branch
NIC House, Masaba Rd, Upperhill
P.O.Box 44599-00100
Nairobi, Kenya
Tel: +254 (20) 2888000/4948000
Fax: +254 (20) 2888505
Mobile: (+254) 0711041000/0732141000
SMS: 20488
Swift Code: NINCKENA

RIVERSIDE BRANCH
ICEA Lion Centre Riverside
Tel: +254 (20) 2888920
Mobile: (+254) 0711041920, 0732141920
Fax: +254 (20) 2888505
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

KENYATTA AVENUE BRANCH
680 Hotel Kenyatta Avenue
Tel: + 254 (20) 2888904
Fax: +254 (20) 2888505
Opening Hours: Weekdays 8:30am-6pm; Saturday 9am-4pm

THIKA ROAD MALL BRANCH
Thika Road
Tel: +254 (20) 2888890/4948890
Mobile: (+254) 0711041890, 0732141890
Fax: +254 (20) 2888505
Opening Hours: Weekdays 9am-7pm; Saturday 9am-4pm

ABC PLACE BRANCH
ABC Place New Building Waiyaki Way
Tel: +254 (20) 2888870/4948870
Mobile: (+254) 0711041870, 0732141870
Fax: +254 (20) 2888505
Opening Hours: Weekdays 9am-4pm; Saturday 9am-4pm

TAJ MALL BRANCH
Junction of North Airport Road & Outering Road
Tel: +254 (20) 2888860
Mobile: (+ 254) 0711041860, 0732141860
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

SAMEER BRANCH
Sameer Park Building
Tel: +254 (20) 2888800/4948800
Mobile: (+254) 0711041800, 0732141800
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

VILLAGE MARKET BRANCH
Village Market, Limuru Road
Tel: +254 (20) 2888790/4948790
Mobile: (+ 254) 0711041790, 0732141790
Opening Hours: Weekdays 8:30am-7pm; Saturday 8:30am-4pm

CITY CENTRE BRANCH
Prudential Building, Wabera Street
Tel: +254 (20) 2888605/4948605
Fax: +254 (20) 251180
Mobile: (+ 254) 0711041605, 0732141605
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

HARAMBEE BRANCH
Jeevan Bharat Building, Harambee Avenue
Tel: +254 (20) 2888650/4948650
Mobile: (+ 254) 0711041650, 0732141650
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

WESTLANDS BRANCH
The Mall, Westlands
Tel: +254 (20) 2888700/4948700
Mobile: (+ 254) 0711041700, 0732141700
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

KILIMANI BRANCH
Sifa Towers, at the junction of Lenana Road and Cotton Avenue
Tel: +254 (20) 2888217
Mobile: (+ 254) 0711041700, 0732141700
Opening Hours: Weekdays 8.30am-4pm; Saturday 8.30am-1:00Pm

KAREN BRANCH
Karen Office Park
Tel: + 254 (20) 2888830
Mobile: (+ 254) 0711041830, 0732141830
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

PRESTIGE BRANCH
Prestige Plaza, Ngong Road
Tel: + 254 (20) 2888750/4948750
Mobile: (+ 254) 0711041750, 0732141750
Fax: + 254 (20) 2888505
Opening Hours: Weekdays 8:30am-7pm; Saturday 8:30am-4pm

JUNCTION BRANCH
Dagoretti/Ngong Road
Tel: + 254 (20) 2888720/4948720
Mobile: (+ 254) 0711041720, 0732141720
Fax: + 254 (20) 2888505
Opening Hours: Weekdays 9am-7pm; Saturday 9am-4pm

HARBOUR HOUSE BRANCH
Moi Avenue, Mombasa
P.O. Box 99793 - 80107 Mombasa, Kenya
Tel: +254 (041) 2223215/2223253
Mobile: (+254) 0722209512, 0734965397
Fax: +254 (041) 2223255
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

NKRUMAH BRANCH
NSSF Building, Nkrumah Road
P.O. Box 99793 - 80107 Mombasa, Kenya
Tel: +254 (041) 2228397/1743
Mobile: (+254) 0720017290, 0717968250, 0733966096
Fax: +254 (041) 2223535
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

GALLERIA BRANCH
Galleria Shopping Mall, Langata Road
Tel: +254 (20) 2888775, 4948775
Mobile: (+254) 0711041770
Opening Hours: Weekdays 8:30am-8pm; Saturday 9am-4pm

NIC HOUSE BRANCH
NIC House, Masaba Rd, Upperhill
P.O.Box 44599-00100, Nairobi, Kenya
Tel: +254 (20) 2888000/4948000
Mobile: +254 (711) 041 000, (732) 141 000
Fax: +254 (20) 2888505
Opening Hours: Weekdays 8.30am-4pm; Saturday 9am-1pm

NYALI BRANCH
City Mall, Nyali
P.O. Box 99793 - 80107 Mombasa, Kenya
Tel: +254 (041) 5487683/4
Mobile: (+ 254) 0721100 873, 0735339004
Fax: +254 (041) 5487682
Opening Hours: Weekdays 8:30am-7pm; Saturday 8:30am-4:00pm

CHANGAMWE BRANCH
Refinery Place, along Refinery Road, Mombasa
P.O. Box 99793 - 80107 Mombasa, Kenya
Mobile: (+254) 0734 600172, 0700 879919, 0700 899917
Fax: 2888505
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

NAKURU BRANCH
Vickers House, Kenyatta Avenue
P.O. Box 13614 Nakuru, Kenya
Tel: +254 (051) 2216624/68
Mobile: (+ 254) 0728970726, 0735300000
Fax: +254 (051) 2216761
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

MERU BRANCH
Njuri Ncheke Street
P.O. Box 44599 - 00100 Nairobi, Kenya
Tel : +254 (064) 32055/6/7
Fax : +254 (064) 32058
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

THIKA BRANCH
Thika Arcade
P.O. Box 44599-00100 Nairobi, Kenya
Mobile: (+254) 0732500153 073214200
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

MACHAKOS BRANCH
Mbolu Malu Road
P.O. Box 44599-00100 Nairobi, Kenya
Tel: 4948250/ 0732141250
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

KISUMU BRANCH
Oginga Odinga Street
P.O.Box 3200 – 40100 Kisumu, Kenya
Tel : +254 (057) 2021369/73/74/77
Fax : +254 (057) 2021402
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

ELDORET BRANCH
Zion Mall, Uganda Road
P.O. Box 44599 - 00100 Nairobi, Kenya
Tel : +254 720 364 950
Fax : +254 (053) 2031694
Opening Hours: Weekdays 9am-4pm; Saturday 9am-11:30am

LUNGA LUNGA BRANCH
Lunga Lunga Square Mall, Industrial Area
Tel: +254 (20) 2888717/831 Mobile: (+254) 0711041717, 0732141831 Fax: +254 (20) 2888505 Opening Hours: Weekdays 9:00am-4:30pm; Saturday 9:00am-1:00pm

TANZANIA BRANCHES

NIC Bank (T) Ltd – Head Office and Ohio Branch
Golden Jubilee Towers
PSPF Building, Ohio Street, 1st Floor
P.O.Box 20268,
Dar es Salaam - Tanzania
Tel: +255 (22) 2295000
Mob: +255 768 987 000
Fax: +255 (22) 2116733
Opening Hours: Weekdays 8.30am-4pm; Saturday 8.30am-12pm

SAMORA BRANCH
Harbour View Towers, Samora Avenue, Ground Floor
P.O.Box 20268
Dar es Salaam, Tanzania
Tel: +255 22 2295000
Fax: +255 (22) 2116733
Operating Hours: Weekdays 8.30am-4pm; Saturday 8.30am-12pm

MWANZA BRANCH
Nyerere Road
P.O.Box 11672
Mwanza, Tanzania
Tel: +255 (28) 2503003
Fax: +255 (28) 2500212
Operating Hours: Weekdays 8.30am-4pm; Saturday 8.30am-12pm

ARUSHA BRANCH
Sokoine Road, Central Plaza Building Ground Floor
P.O. Box 15718
Arusha, Tanzania
Mob: +255 768 987 358/767 988 611
Fax: +255 (27) 2548634
Operating Hours: Weekdays 8.30am-4pm; Saturday 8.30am-12pm

KARIAKOO BRANCH
Sikukuu/Aggrey Street
Plot no. 71
P.O.BOX 20268
Dar es Salaam,Tanzania
Mob: +255 768 987 000/768 984 300
Fax: +255 (22) 181521
Operating Hours: Weekdays 8.30am-6pm; Saturday 8.30am-4pm

NIC Leasing LLP
P.O. Box 44599-00`00, Nairobi, Tel: 020 288217/0711041111/0732141111

UGANDA BRANCHES

NC Bank Uganda Head Office
Plot 4/6 Rwenzori Towers
Opening Hours:
Weekdays 8:30am-4:00pm
Saturday 8:30am-1:00pm

Village Mall, Bugolobi
Opening Hours
Weekdays 9:00 am-8:00pm
Saturday 9:00 am-4:00pm

SUBSIDIARIES

NIC Capital Limited
NIC House, Masaba Road

NIC Securities Limited
NIC House, Masaba Road

NIC Insurance Agents Limited
NIC House, Masaba Road

2015

Head Office

NIC House, Masaba Rd. Upperhill. P.O.Box 44599-00100, Nairobi Kenya
Tel: +254 (20) 2888217, Fax: +254 (20) 2888505 Mobile: +254 (711)041 111/ +254 (732)041 111
Email: customercare@nic-bank.com

nicbankkenya