Prime Bank

ANNUAL REPORT & FINANCIAL STATEMENTS 2015

OUR VISION

To be the financial service provider of first choice

OUR MISSION

To provide quality and acceptable personalised financial services to our customers while observing compliance, growth and shareholder value

CORE VALUES

Integrity

Quality

Innovativeness

Social Responsibility

Teamwork

CONTENT

PRIME BANK ANNUAL REPORT 2015

CORPORATE INFORMATION
BOARD OF DIRECTORS


Chairman
Mr. R. C. Kantaria


Director
Mr. V. N. Ponda


Director
Mr. J. N. Mungai


Director
Mr. S. K. Shah


Director
Mr. D. G. M. Hutchison


Director
Mr. T. M. Davidson


Executive Director
Mr. A. R. Kantaria


Managing Director
Mr. Bharat Jani


Director
Mr. J. K. Kibet


Company Secretary
Mr. Arun Shah

BANK INFORMATION
FOR THE YEAR ENDED 31 DECEMBER 2015

PRINCIPAL PLACE OF BUSINESS
L.R. 209/8571
Prime Bank Building
Riverside Drive
P.O. Box 43825 - 00100
Nairobi

REGISTERED OFFICE
L.R. 209/8890
Kenindia House
Loita Street
P.O. Box 43825 - 00100
Nairobi

LAWYERS

KIRUTI & COMPANY ADVOCATES
P.O. Box 13160 - 00100
Nairobi

MACHARIA MWANGI & NJERU ADVOCATES
P.O. Box 10627 - 00100
Nairobi

MANDLA & SEHMI ADVOCATES
P.O. Box 48642 – 00100
Nairobi

MAHIDA & MAINA COMPANY ADVOCATES
P.O. Box 42508 -00100
Nairobi

A. B. PATEL & PATEL ADVOCATES
P.O. Box 80274 - 80100
Mombasa

SECRETARY
A. H. Shah
Company Secretary
P.O. Box 46559 - 00100
Nairobi.

AUDITOR
Ernst & Young LLP
Kenya - Re Towers,
Upperhill Off Ragati Road
P.O. Box 44286 - 00100
Nairobi

PRIME BANK ANNUAL REPORT 2015

CHAIRMAN'S STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

"For the first time in our history, the Bank's profit after tax crossed the Kshs. 2 billion mark reflecting a 17% growth in profitability from Kshs. 1.7 billion in the year 2014."

I am pleased to present Prime Bank's Annual Report and Financial Statements for the year ended 31st December 2015.

The Bank once again performed well in an eventful year that presented unique challenges globally, nationally and also to the banking industry in which we operate.

Our strategy offers a clear roadmap for the future balancing between profitability and building a strong financial institution.

OPERATING ENVIRONMENT

On a background of a challenging economic environment, the Bank recorded strong performance.

The global economy decelerated to 2.4 % in 2015 from 2.6% in 2014 due to reduced commodity prices, weaker capital flows, and lower levels of global trade. The same factors also affected economic activity in Sub Saharan Africa which slowed to 3.4% in 2015 from 4.6% in 2014.

The Kenyan macro economic conditions remained fairly stable during most of the year. However, in the last quarter of 2015 the strengthening of the US economy triggered the depreciation of the Kenya shilling with rising inflation and interest rates.

At the beginning of the year, the Kenyan economy was expected to grow by 6% powered by lower energy costs, investment in infrastructure, agriculture, manufacturing, among other factors. The first quarter saw the world experience a sharp decrease in oil prices.

At end year, the annual inflation rate accelerated to 8.01% as we experienced volatility in both interest rates and exchange rates. In addition, the drought experienced in the first quarter affected the agricultural production as the industry is highly dependent on the March-May long rains. The political scene in the country remained stable throughout the year but insecurity still remained a threat.

BANKING SECTOR AND REGULATORY ENVIRONMENT

Kenyan banks recorded lower earnings growth, driven by the challenging economic environment which reduced credit uptake during the year. Interest rates remained volatile with the interbank rate and 91- day T-bill touching highs of 25.8% and 22.5%, respectively. Most banks also found it hard to mobilize deposits as investors preferred investing in treasury instruments which offered attractive yields during 2015, in a bid by CBK to tame the exchange rate and also inflation. The situation was further exacerbated by the closure of two banks in the year that resulted in loss of confidence in some of the banks. The situation has since normalized after CBK along with some of the banks with surplus liquidity including ourselves availed liquidity to the market. The Monetary Policy Committee also raised

CHAIRMAN'S STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015

the CBR to 11.5%, where it has remained to date. The year also witnessed changes at the Central Bank of Kenya with the appointment of Mr. Jairus Mohammed Nyaoga as the Chairman, Dr. Patrick Njoroge as the Governor and Ms. Sheila M'Mbijjewe as Deputy Governor.

BANK'S PERFORMANCE

For the first time in our history, the Bank's profit after tax crossed the Kshs. 2 billion mark reflecting a 17% growth in profitability from Kshs. 1.7 billion in the year 2014.

The balance sheet grew by a further 18 per cent, to Kshs. 65 billion driven by a 13 per cent increase in customer deposits.

GOVERNANCE AND BOARD CHANGES

Prime Bank continues to uphold high standards of corporate governance in line with regulatory requirements.

Mr. Virendra Narsidas Ponda retired as a member of the Board on 1st January 2016. On behalf of the Board and our partners, I take this opportunity to acknowledge his contribution to the growth of the Bank and express my sincere appreciation and gratitude for his dedication and distinguished service and I wish him well in his future endeavors.

CORPORATE SOCIAL RESPONSIBILITY

Prime Bank is always committed to corporate social responsibility and takes its relationships with its partners and communities with great pride. Our success as a business is premised on the wellbeing of communities and the environment within which we operate.

On health, worthy of mention is our long standing partnership with the Social Service League which saw the launch of a state-of-the-art cardiac centre at the MP Shah Hospital. The Bank donated Kshs. 28 million towards the construction of the centre which will go a long way in treating increased cases of cardiac diseases in the region and the reduction of the cost for heart patients who have had to regularly travel abroad to seek treatment on heart ailments.

In one of our flagship Corporate Social Responsibility (CSR) projects – Freedom for Girls, the Bank donated Kshs. 1 million towards ensuring that girls do not miss school during their monthly cycle. The Bank sponsored over 2000 orphaned and vulnerable girls with a full year's supply of sanitary towels, undergarments and provided them with health education.

Our involvement in golf has always been driven by the desire to elevate the youths' interest in the sport and ensure accessibility to the game for everyone, everywhere. Our partnership with Kenya Golf Union (KGU), helps Junior Golf Foundation (JGF), in nurturing talent amongst youths with passion for golf. In December the Bank donated Kshs. 500,000 to JGF.

In the year 2015, we continued to support initiatives that positively impact the lives of people in communities around us. During the period under review, we continued to focus on health by supporting the Kenya Society of Endoscopic Specialties and the Nairobi Hospice. The Bank also continued with its support to St. Mary's Mission Hospital and the Lions Eye Hospital.

2016 AND BEYOND

Despite the headwinds, the economy continues to show resilience and is still among the fastest growing in the region. US President Barack Obama's visit to Kenya for the GES summit has raised investor confidence in the country and is set to attract private investment in the country in the year.

Sustained infrastructure spending, the expected rebounding of tourism cushioned by the improved security, a stable shilling coupled with monetary policy support will in our view outweigh the down side effects of corruption, large fiscal deficit and the rising political risks to deliver GDP growth of between 5.5% and 6.0% in 2016.

Going forward, the Bank will continue to take advantage of the expected positive growth of the economy by tapping business opportunities in locations where it considers its presence will bring the maximum benefit to its stakeholders.

I am confident that our balance sheet will maintain the upward trend, with capital, liquidity and asset quality remaining strong.

APPRECIATION

On behalf of the Board of Directors, I take this opportunity to thank you, our customers, for your continued support which is a clear demonstration of your confidence in the Bank. We also acknowledge the support from our partners for their positive input to the Bank.

The Bank's good performance in 2015 is testimony to the continued dedication of all our staff. I take this opportunity to thank them for their contribution and commitment to the Bank.

I thank my fellow Directors for their wise counsel and commitment to the Bank at both board and committee levels.

In conclusion, I want to thank our regulators, the Central Bank of Kenya and the Treasury for providing an enabling business environment.

R. C. Kantaria
Chairman

MANAGING DIRECTOR'S STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2015

> "The year brought other significant achievements which include our deposit figures crossing Kshs. 50 billion mark, reflecting a 13% growth while loans and advances posted a 19% growth with assets growing by 18%."

We are pleased to report that 2015 was a good year with significant progress for Prime Bank.

The prevailing macroeconomic environment, volatility in exchange rates as well as high interest rates slowed down the growth in the economy and consequently the banking sector, during the year. Despite this, we managed to steadily grow our business in line with our 5-year Strategic plan, largely achieved through sustained focus on delivering value to our customers by maintaining the highest possible quality products and services.

PERFORMANCE

The year 2015, marked the second year in our 5-year Strategic Plan 2014-2018 and we are glad to report that we again achieved the targets fixed for the year in all key performance indicators.

The combination of dedicated team work, lower loan impairments and cost efficiencies arising from the use of technology based delivery channels enabled us cross the Kshs. 2 billion milestone to post a net profit of Kshs. 2.023 billion.

The year also brought other significant achievements which include our deposit figures crossing Kshs. 50 billion mark, reflecting a 13% growth while loans and advances posted a 19% growth with assets growing by 18%.

Our Capital adequacy stands at 16.5%, well above the 14.5% regulatory requirement, while our efficiency ratio stands at 42%, way below the industry's ratio of 50+%. The Bank's core capital base closed the year 2015 at Kshs. 8.4 billion.

OPERATIONAL HIGHLIGHTS

BRANCH NETWORK

During the year, we opened one more branch at Garden City Mall thus bringing the number of branches to 12 within Nairobi and 18 countrywide. In addition to this, we also relocated our Hurlingham branch to spacious premises at Adlife Plaza for the convenience of our customers.

We also strengthened relations with our customers and with a view to ensuring improvement in our business. We installed additional Automated Teller Machines (ATMs) at Sarit Centre, Adlife Plaza, Capital Centre, Junction Mall, Thika, Garden City Mall thus making a total of 14 ATMs. Plans are afoot to install more ATMs in Kisumu, Mombasa, Nyali and Gigiri for customer convenience.

PRODUCT INNOVATION

During the year we introduced innovative e-products for the benefit of our customers such as PrimeMobi and PrimeNet.

In partnership with Kenya Golf Union (KGU), Junior Golf

MANAGING DIRECTOR'S STATEMENT (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015

Foundation (JGF) and Visa, the Bank also launched Prime Visa Golf Card, a new and innovative product- the first ever in Kenya. The newly launched product enabled the Bank to clinch the Product Innovation Award during the Visa Gala Dinner Awards held on 19th November 2015.

CAPACITY BUILDING
As a part of capacity building initiatives, the Bank has been regularly organizing training programmes either in-house or inviting experts from outside to train our staff thereby giving them opportunity to upgrade and sharpen their skills, and to familiarize themselves with new changes or amendments made in regulatory processes. In achieving this objective, the Bank conducted two workshops in partnership with European Investment Bank (EIB) on Credit and Trade Finance. Our staff actively participated in the workshops and derived maximum benefit out of it.

THE YEAR AHEAD
2016 for Prime Bank is an important year as it is another step closer towards 25 years of our service which will be marked in 2017. As with every other year, we shall continue to review our business areas and identify opportunities to enhance value addition for our customers and stakeholders. We expect to maintain the upward trend in growth of business by leveraging on our operational efficiency, quality customer service and innovation. Besides this, we will be opening two more branches- at UAP Towers & Two Rivers, broadening our ATM network, and launching Prime Visa Platinum Card.

APPRECIATION
The successful performance during the year would not have been possible without the dedication and team work of my staff and I would like to thank them for their dedication and commitment.

As I conclude, on behalf of the management and staff of Prime Bank, I wish to extend our appreciation to our Board under the leadership of Dr. Rasik Kantaria for their continuous support, encouragement and guidance. I also register my gratitude to our customers for all the support and cooperation throughout the year.

On behalf of the staff I would like to assure you-our customers-that we are determined to maintain the growth momentum and that we will continue to execute our strategy of becoming more customer – centric, efficient, and most trusted financial partner in line with our motto, "Putting You First"

Bharat Jani
Managing Director

REPORT OF THE DIRECTORS
FOR THE YEAR ENDED 31 DECEMBER 2015

The directors submit their report and the audited financial statements for the year ended 31 December 2015 which show the state of the bank's affairs.

1. PRINCIPAL ACTIVITY
The bank continues to offer corporate and retail banking services.

2. RESULTS
The results for the year are set out on **page 19**.

3. DIVIDEND
The directors paid an interim dividend of Kshs. 450 million for the year ended 31 December 2015. (2014- nil)

4. RESERVES
The reserves of the bank are set out on page **21** and note **22**.

5. DIRECTORS
The directors who served during the year and to the date of this report were:-

Mr. R.C. Kantaria	- Chairman (Non-Executive)
Mr. A. R. Kantaria	- Executive
Mr. Bharat Jani	- Managing
Mr. J.N. Mungai	
Mr. V.N. Ponda	- Retired 1 January 2016
Mr. S.K. Shah	
Mr. D.G.M. Hutchison*	
Mr. T.M. Davidson*	
Mr. J.K. Kibet	

*British

6. AUDITORS
Ernst & Young LLP have expressed their willingness to continue in office in accordance with Section 159 (2) of the Kenyan Companies Act and subject to Section 24(1) of the Banking Act.

By Order of the Board

Secretary

16 March 2016

STATEMENT OF CORPORATE GOVERNANCE ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

INTRODUCTION

Prime Bank Limited recognises the need to conduct its business with integrity and in line with the generally accepted corporate practice. The bank will strive to maintain the highest standards of corporate governance.

SHAREHOLDERS' RESPONSIBILITIES

The shareholders' role is to appoint the Board of Directors and independent auditors. The role of the shareholders is to ensure that the Board is accountable for effective and efficient governance.

BOARD OF DIRECTORS

The Board of Directors is responsible for the governance of the bank and to ensure that the bank complies with the law and the highest standards of corporate governance and business ethics. The Board is responsible for the long term growth and profitability of the bank.

The Directors guide the management and maintain full and effective control over financial, strategic, operational and compliance issues of the bank. The Board is chaired by a non-executive director and has six other non-executive directors, an executive director and the Managing Director. The Board meets regularly and holds special meetings as and when the situation demands.

ATTENDANCE OF DIRECTORS AT BOARD MEETINGS

Number of Board Meetings held in 2015 8

NAME OF DIRECTOR	NUMBER OF MEETINGS ATTENDED
Mr. R. C. Kantaria (Chairman)	8
Mr. A. R. Kantaria (Executive)	7
Mr. Bharat Jani (Managing)	8
Mr. V. N. Ponda	3
Mr. D. G. M. Hutchison	8
Mr. J. N. Mungai	6
Mr. S. K. Shah	7
Mr. T. M. Davidson	8
Mr. J.K. Kibet	7

BOARD PERFORMANCE EVALUATION

As per the Prudential Guidelines of the Central Bank of Kenya, the Board is responsible for ensuring that an evaluation of its performance as well as that of the individual directors and various committees is done. The results of such an evaluation are to be provided to the Central Bank of Kenya.

The Board conducted its evaluation and that of the members, the Chairman and the Board Committees. The aim was to assess their capacity and effectiveness relative to their mandates, and identify challenges that need to be addressed in the coming year. Each Board member was provided with the questionnaire before the Board meeting convened to discuss the evaluation. At the Board meeting, the ratings given by each member of the Board and its committees were discussed by all members under the direction of the Chairman of the Board. Overall

STATEMENT OF CORPORATE GOVERNANCE ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

ratings were agreed taking into account the individual ratings and comments. Overall, the Board concluded that it was operating in an effective manner.

The Board has appointed five committees – Credit, Debt Management, Audit, Risk and Compliance and IT. These committees have been given terms of reference and they meet regularly. These committees make recommendations to the Board on matters which fall under their mandates. The committees are chaired by non-executive directors and three of them have an additional non-executive director as a member.

CREDIT COMMITTEE

Mr. V.N. Ponda, a non-executive director chairs the Credit Committee. Mr. J.N. Mungai, a non-executive director, Mr. A.R. Kantaria, Executive Director and Mr. B. Jani, Managing Director are the other members of this committee. The Assistant General Manager (Credit) is also present in this Committee. Fresh credit proposals are placed before the Credit Committee for sanction. The Committee also reviews the credit limits sanctioned, as per the credit policy approved by the Board.

DEBT MANAGEMENT COMMITTEE

This Committee is chaired by Mr. V.N. Ponda who is a non - executive director. Mr. A.R. Kantaria, Executive Director, Mr. B. Jani, the Managing Director and Assistant General Manager (Credit) are the other members of this Committee. The Committee monitors the progress made in the recovery of advances which have been classified as non-performing assets.

AUDIT COMMITTEE

The Audit Committee is headed by Mr. S.K. Shah who is a non-executive director. Mr. T.M. Davidson, non - executive director, and Mr. J.K. Kibet non-executive director are the other members of this committee. Head of internal audit department is also present in this committee. The Committee reviews the audit reports presented to it by the internal and external auditors and based on these reports also reviews various operational areas of the bank. The Committee also reviews the observations made by the bank supervision department of the Central Bank of Kenya in its inspection reports.

RISK AND COMPLIANCE COMMITTEE

The Risk and Compliance Committee is headed by Mr. S.K. Shah who is a non-executive director and Mr. T. M. Davidson, non-executive director is the other member of this committee. Head of risk and compliance department is also present in this committee. The Committee reviews the risk and compliance reports presented to it by the respective departments. The Committee also reviews the observations given in the report and recommends remedial measures wherever necessary.

IT COMMITTEE

Mr. T.M. Davidson, a non-executive director chairs this Committee and Mr. D.G.M. Hutchison another non - executive director is a member. Mr. A.R. Kantaria, Executive Director, Mr. B. Jani, the Managing Director and the General Manager, and Head of IT are also present in this committee. The responsibilities of the IT Committee are; approval of IT policy, identification of operational areas where automation is necessary, undertaking new automation projects, procurement of hardware and software and monitoring project implementation, providing directions to the IT and operations department on implementation issues and review of systems audit reports.

ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

This Committee is chaired by Mr. B. Jani, Managing Director. Mr A.R. Kantaria, the Executive Director, the General

STATEMENT OF CORPORATE GOVERNANCE ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015 (Continued)

Manager, Deputy General Manager, Assistant General Manager (Credit), Chief Manager (Treasury), Chief Manager (Accounts), and the head of Risk and Compliance Department are the other members of the Committee. This Committee monitors the liquidity position of the bank and the compliance with regard to statutory liquidity ratio, cash reserve ratio and foreign exchange exposure as per the prudential guidelines of the Central Bank of Kenya. The Committee decides on investments in various securities to maximise the returns. It also analyses the interest rate risk and fixes the interest rates in line with the market trends.

OPERATIONS COMMITTEE

The operations Committee is chaired by the General Manager and comprises of the Deputy General Manager, the Director - Business Development, the Risk Manager, Head of Audit, Chief Manager (Accounts), Chief Manager (IT), Senior Manager Operations and two Branch Managers. The Committee reviews various operational procedures of the bank and decides on changes to be effected to improve operational efficiency, improve service delivery and minimise manual procedures.

HUMAN RESOURCES COMMITTEE

The HR Committee is headed by Mr. B. Jani, the Managing Director and has, Mr. A.R. Kantaria, the Executive Director, Deputy General Manager and Senior Manager (HR) as the members. The Committee decides on recruitment of staff members, their placements, promotions, transfers and benefits to the employees. The Committee also monitors the training imparted to staff members.

EXECUTIVE COMMITTEE

The Executive Committee is chaired by Executive Director and has the Managing Director, General Manager and Deputy General Manager as members. The Committee reviews implementation of various projects and approves policies with regard to the operational areas. The Committee also ensures adherence to the strategic plan approved by the Board.

EMPLOYEES

The bank adheres to the banking code of ethics which requires all employees to conduct business with high integrity. The staff members sign a declaration of fidelity and secrecy.

PUBLICATION OF ACCOUNTS

The bank publishes its results every quarter in the newspapers as per the Prudential Guidelines of Central Bank of Kenya. Financial statements are prepared in accordance with International Financial Reporting Standards

STATEMENT OF DIRECTORS' RESPONSIBILITIES ON THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

(IFRS) and the requirements of all relevant statutes, rules and regulations.

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure the bank keeps proper accounting records, which 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 annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and the requirements of the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the bank and of its operating results. The directors further accept responsibility for the maintenance of accounting records, which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

…………………………………………

Dire

…………………………………………

Director

…………………………………………

Dire

…………………………………………

Date 16 March 2016

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REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF PRIME BANK LIMITED

FOR THE YEAR ENDED 31 DECEMBER 2015

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of Prime Bank Limited, which comprise the statement of financial position as at 31 December 2015, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes, as set out on pages 18 to 81.

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 in the manner required by the Kenyan Companies Act, and for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the financial statements present fairly, in all material respects, the financial position of Prime Bank Limited as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act.

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

FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

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 considered necessary for the purposes of our audit;

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

iii) The bank's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA Avani S Gilani-P/No.787

Ernst & Young

Certified Public Accountants, Nairobi

22 March ……………………………………….2016

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015 Kshs'000	2014 Kshs'000
ASSETS			
Cash and balances with the Central Bank of Kenya	4	4,103,641	2,798,483
Placements and balances with other banks	5	1,591,726	940,209
Treasury bills and term notes	6	6,703,031	7,463,469
Held to maturity investments	7	7,243,023	5,592,817
Investment in bonds-available for sale	8	2,912,557	1,928,885
Investment in ordinary shares available for sale	9	930,275	1,266,268
Loans and advances to customers	10	39,845,100	33,422,476
Other assets	11	436,582	302,734
Investment in associate	12	329,321	329,982
Leasehold land	13	54,248	55,609
Property and equipment	14	514,981	495,104
Intangible assets	15	163,705	184,000
Tax recoverable	20	18,147	-
Deferred tax asset	16	155,315	137,638
TOTAL ASSETS		65,001,652	54,917,674
LIABILITIES AND EQUITY			
LIABILITIES			
Balances due to banks and financial institutions	17	4,873,763	1,680,066
Deposits from customers	18	50,880,558	45,075,045
Other liabilities	19	522,124	388,956
Tax payable	20	-	38,587
TOTAL LIABILITIES		56,276,445	47,182,654
EQUITY			
Share capital	21	5,000,000	3,000,000
Reserves	22	3,725,207	4,735,020
TOTAL EQUITY		8,725,207	7,735,020
TOTAL LIABILITIES AND EQUITY		65,001,652	54,917,674

These financial statements were approved by the Board of Directors on……16 March……..2016
and signed on its behalf by:

……………………………………… Directors ……………………………………… Directors

……………………………………… Directors ……………………………………… Directors

INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Kshs'000	2014 Kshs'000
Interest income	23	6,981,582	5,837,392
Interest expense	24	(3,627,563)	(2,848,182)
Net interest income		3,354,019	2,989,210
Fees and commission income	25	446,816	376,461
Foreign exchange gains		442,441	338,209
Dividend income		49,562	49,378
Other income	26	174,707	139,023
		4,467,545	3,892,281
Allowance for impairment of loans and advances	27	(152,022)	(100,783)
Other operating expenses	28	(1,766,326)	(1,546,905)
Profit before tax and share of profit of associate	29	2,549,197	2,244,593
Share of profit of associate	12	43,558	53,086
Profit before tax		2,592,755	2,297,679
Income tax expense	20	(569,566)	(561,660)
Profit for the year		2,023,189	1,736,019
Earnings per share (basic and diluted) (Kshs)	30	405	354

PRIME BANK ANNUAL REPORT 2015

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Kshs'000	2014 Kshs'000
Profit for the year		2,023,189	1,736,019
Other comprehensive income			
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Available for sale financial assets:			
(Loss) / gain arising during the year		(693,007)	157,795
Reclassification of available for sale reserve to profit or loss on sale of investments		35,364	-
		(657,643)	157,795
Share of other comprehensive income from associate	12	(25,359)	25,359
		(683,002)	183,154
Income tax effect		-	-
Other comprehensive income for the year, net of tax		(683,002)	183,154
Total comprehensive income for the year, net of tax		1,340,187	1,919,173

All of the profit for the year and total comprehensive income are attributable to equity holders of the Bank.

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015

	Share capital Kshs'000	Retained earnings Kshs'000	Available for-sale reserve Kshs'000	Total equity Kshs'000
At 1 January 2014	**3,000,000**	**2,198,061**	**617,786**	**5,815,847**
Total comprehensive income				
– profit for the year	-	1,736,019	-	1,736,019
– other comprehensive income	-	-	183,154	183,154
At 31 December 2014	**3,000,000**	**3,934,080**	**800,940**	**7,735,020**

	Share capital Kshs'000	Retained earnings Kshs'000	Available for-sale reserve Kshs'000	Total equity Kshs'000
At 1 January 2015	3,000,000	3,934,080	800,940	7,735,020
Reserves capitalized (note 21)	1,900,000	(1,900,000)	-	-
Issued and paid up ordinary shares	100,000	-	-	100,000
Dividends paid – 2015 (note 32)	-	(450,000)	-	(450,000)
Total comprehensive income				
– profit for the year	-	2,023,189	-	2,023,189
– other comprehensive income	-	-	(683,002)	(683,002)
At 31 December 2015	**5,000,000**	**3,607,269**	**117,938**	**8,725,207**

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Kshs'000	2014 Kshs'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		2,592,755	2,297,679
Adjustment for:			
Gain on disposal of property and equipment		(6,761)	(2,681)
Dividends received		(49,562)	(49,378)
Effect of foreign exchange gain on translation of foreign currency balances held		(454,484)	(328,063)
Share of profit of associate	12	(43,558)	(53,086)
Amortisation of leasehold land	13	1,361	1,361
Depreciation on property and equipment	14	97,503	86,504
Amortisation of intangible assets	15	64,652	56,387
Loss on sale of available for sale investments		34,916	-
CASH FLOWS FROM OPERATING ACTIVITIES BEFORE CHANGES IN OPERATING ASSETS AND LIABILITIES		2,236,822	2,008,723
Decrease in cash ratio reserve		(43,038)	(167,693)
Decrease/(increase) in securities maturing after 91 days		1,768,038	(5,577,534)
Increase in loans and advances to customers		(6,422,624)	(7,892,040)
(Increase) / decrease in other assets		(133,848)	219,442
Increase in deposits from customers		5,805,513	4,513,016
Increase / (decrease) in other liabilities		133,167	(44,073)
Cash flows from/ (used in) operating activities		3,344,030	(6,940,159)
Income taxes paid	20	(643,977)	(735,078)
NET CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES		2,700,053	(7,675,237)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property and equipment		6,761	2,965
Dividend income		49,562	49,378
Proceeds from redemption of held to maturity investments	7	2,551,770	620,000
Proceeds from redemption of treasury bills and term notes	6	11,321,666	20,358,411
Proceeds from sale of investments in bonds-available for sale	8	1,943,393	1,286,795
Proceeds from sale of ordinary shares- available for sale		26,336	-
Purchase of ordinary shares - available for sale	9	(70,302)	(120,397)
Dividend from associate	12	18,860	18,859
Purchase of held to maturity investments	7	(4,201,976)	(1,517,484)
Purchase of treasury bills and term notes	6	(10,561,228)	(18,581,823)
Purchase of investments in bonds- available for sale	8	(3,168,086)	(792,043)
Purchase of property and equipment	14	(117,380)	(83,972)
Purchase of intangible assets	15	(44,357)	(142,335)
NET CASHFLOWS (USED IN) / GENERATED FROM INVESTING ACTIVITIES		(2,244,981)	1,098,054

STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Kshs'000	2014 Kshs'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid during the year	32	(450,000)	
Issue of shares	21	100,000	
NET CASH FLOWS USED IN FINANCING ACTIVITIES		(350,000)	-
Net increase/(decrease) in cash and cash equivalents		105,071	(6,576,883)
Effect of foreign exchange gain on translation of foreign currency balances held		454,484	328,063
Cash and cash equivalents at 1 January		1,360,011	7,608,831
Cash and cash equivalents at 31 December	33	1,919,566	1,360,011

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

1. GENERAL INFORMATION

Prime Bank Limited is a financial institution licensed under the Kenyan Banking Act, Cap 488 that provides corporate and retail banking services in various parts of the country.

The bank is incorporated and domiciled in Kenya under the Kenyan Companies Act.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

New and amended standards and interpretations

The bank applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2015. The bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments applied for the first time in 2015, they did not have a material impact on the annual financial statements of the bank. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

IAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014. This amendment is not relevant to the bank, since the bank does not have a defined benefit plan.

Annual Improvements 2010-2012 Cycle

With the exception of the improvement relating to IFRS 2 Share-based Payment applied to share-based payment transactions with a grant date on or after 1 July 2014, all other improvements are effective for accounting periods beginning on or after 1 July 2014. The bank has applied these improvements for the first time in these financial statements.

They include:

IFRS 2 Share-based Payment

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions. These amendments did not impact the bank's financial statements or accounting policies since it does not have share based payments.

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of IAS 39. This amendment did not have any impact on the bank's financial statements.

IFRS 8 Operating Segments

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of IFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

The bank is not required to apply IFRS 8 since its equity instruments are not traded in a public market.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The amendment is applied retrospectively and clarifies in IAS 16 and IAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. This amendment did not have any impact on the bank since its assets are carried at cost.

IAS 24 Related Party Disclosures

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the bank as it does not receive any management services from other entities.

Annual Improvements 2011-2013 Cycle

These improvements are effective from 1 July 2014 and the bank has applied these amendments for the first time in these financial statements. They include:

IFRS 3 Business Combinations

The amendment is applied prospectively and clarifies for the scope exceptions within IFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of IFRS 3.
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself.

The bank is not a joint arrangement, and thus this amendment is not relevant for the bank.

IFRS 13 Fair Value Measurement

The amendment is applied prospectively and clarifies that the portfolio exception in IFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of IAS 39. The bank does not apply the portfolio exception in IFRS 13.

IAS 40 Investment Property

The description of ancillary services in IAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that IFRS 3, and not the description of ancillary services in IAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the bank has relied on IFRS 3, not IAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment did not impact the accounting policy of the bank.

Standards issued but not effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the bank's financial statements are disclosed below. The bank intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing comparative information is not compulsory. For hedge accounting, the requirements

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

Standards issued but not effective (continued)

IFRS 9 Financial Instruments (continued)

are generally applied prospectively, with some limited exceptions. The adoption of IFRS 9 will have an effect on the classification and measurement of the bank's financial assets, and the bank is in the process of determining the impact of the change on the classification and measurement of the bank's financial liabilities.

a) Classification and measurement

The bank does not expect a significant impact on its statement of financial position or equity on applying the classification and measurement requirements of IFRS 9. It expects to continue measuring at fair value all financial assets currently held at fair value. Debt securities are expected to be measured at fair value through OCI under IFRS 9 as the bank expects not only to hold the assets to collect contractual cash flows but also to sell a significant amount on a relatively frequent basis. Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. Thus, the bank expects that these will continue to be measured at amortised cost under IFRS 9. However, the bank will analyse the contractual cash flow characteristics of those instruments in more detail before concluding whether all those instruments meet the criteria for amortised cost measurement under IFRS 9.

b) Impairment

IFRS 9 requires the Bank to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The bank expects to apply the simplified approach and record lifetime expected losses on all trade receivables. The bank expects a significant impact on its equity due to unsecured nature of its loans and receivables, but it will need to perform a more detailed analysis which considers all reasonable and supportable information, including forward-looking elements to determine the extent of the impact.

c) Hedge accounting

The bank does not have hedge relationships.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements. IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Since the Bank is an existing IFRS preparer, this standard would not apply.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The bank plans to adopt the new standard on the required effective date using the full retrospective method. During 2015, the bank performed a preliminary assessment of IFRS 15, which is subject to changes arising from a more detailed ongoing analysis. Furthermore, the bank is considering the clarifications issued by the IASB in an exposure draft in July 2015 and will monitor any further developments.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest i

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

Standards issued but not effective (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests (continued)

in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the bank.

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

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the bank given that the bank has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 Accounting for Government Grants and Disclosure of Government Assistance will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the bank as the bank does not have any bearer plants.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments will not have any impact on the bank as the bank does not prepare separate financial statements for its associate.

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

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

Standards issued but not effective (continued)

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

IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture. These amendments must be applied prospectively. In December 2015, the IASB postponed the effective date of these amendments indefinitely pending the outcome of its research project on the equity method of accounting. The amendments are not expected to have any impact on the bank.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 Presentation of Financial Statements clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the bank.

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

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries. These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact on the bank..

Annual Improvements 2012-2014 Cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

IFRS 7 Financial Instruments: Disclosures

In the 2012-2014 annual improvements cycle, the IASB issued five amendments to four standards, summaries of which are provided below. The changes are effective 1 January 2016. Earlier application is permitted and must be disclosed. They include:

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

New and amended standards and interpretations (continued)

Annual Improvements 2012-2014 Cycle (continued)

IFRS 7 Financial Instruments: Disclosures (continued)

a) Classification and measurement

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

b) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively. These amendments are not expected to have any impact on the bank.

IFRS 16 Leases

The IASB issued IFRS 16 Leases on 13 January 2016. The scope of the new standard includes leases of all assets, with certain exceptions. A lease is defined as a contract, or part of a contract that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration.

Key features

- The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions) in a similar way to finance leases under IAS 17.
- Lessees recognise a liability to pay rentals with a corresponding asset, and recognise interest expense and depreciation separately.
- The new standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computer) and short-term leases (i.e., leases with a lease term of 12 months or less).
- Reassessment of certain key considerations (e.g., lease term, variable rents based on an index or rate, discount rate) by the lessee is required upon certain events.
- Lessor accounting is substantially the same as today's lessor accounting, using IAS 17's dual classification approach.

The new standard is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. The new standard permits a lessee to choose either a full retrospective or a modified retrospective transition approach.

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of the bank have been prepared in accordance with International Financial Reporting Standards (IFRS), which comprise standards and interpretations, as issued by the International Accounting Standard Board (IASB). The financial statements are presented in the functional currency, Kenya Shillings, rounded to the nearest thousand (Kshs '000), and have been prepared on a historical basis except for available for sale investments, which have been measured at fair value.

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

(b) Significant accounting judgements, estimates and assumptions

The preparation of the bank's financial statements requires management to make judgments, estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below. The bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the bank. Such changes are reflected in the assumptions when they occur.

(i) Impairment losses on loans and advances

The bank reviews its individually significant loans and advances at each reporting date to assess whether an allowance for impairment should be recorded in the income statement. In particular, management's judgement is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowances against individually significant loans and advances, the bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default, obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The impairment loss on loans and advances is disclosed in note 10 and discussed further in note 40.

(ii) Impairment of available-for-sale investments

The bank reviews its debt securities classified as available–for–sale investments at each reporting date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The bank also records impairment charges on available–for–sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is 'significant' or 'prolonged' requires judgement. In making this judgement, the bank evaluates, among other factors, historical share price movements and duration and extent to

3. SIGNIFICANT ACCOUNTING POLICIES

(b) Significant accounting judgements, estimates and assumptions (continued)

(ii) Impairment of available-for-sale investments (continued)

which the fair value of an investment is less than its cost. No impairment losses were recognized in the current or previous year.

Further disclosures on this class of assets are done in notes 8 and 9.

(iii) Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more detail in note 40.

c) Fair value measurement

The bank measures financial instruments at fair value at each balance sheet date. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value related disclosures for financial instruments that are measured at fair value are done in note 40.

(d) Financial assets and liabilities

(i) Recognition

The Bank initially recognises loans and advances, on the date that they are originated. Financial assets and liabilities are initially recognised on the trade date, i.e. the date at which the Bank becomes a party to the contractual provisions of the instrument.

(ii) Initial measurement

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs, except for financial assets and financial liabilities recorded at fair value through profit or loss.

(iii) Subsequent measurement

Financial assets

The bank classifies its financial assets in the following categories: investments held-to-maturity, loans and receivables and available-for-sale investments. The bank determines the classification of its investments at initial recognition.

1) Held-to-maturity financial investments

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale, or do not meet the definition of loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

(iii) Subsequent measurement (continued)

Financial assets (continued)

1) Held-to-maturity financial investments (continued)

After initial recognition, held-to-maturity investments are carried at amortised cost using the effective interest method less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale.

2) Loans and receivables

These include placements and balances with other banks, loans and advances to customers, cash and balances with Central Bank of Kenya, treasury bills and terms notes. These are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as 'Financial assets held for trading', designated as 'Financial investments - available-for-sale' or 'Financial assets designated as at fair value through profit or loss'. After initial measurement, placements and balances with other banks, loans and advances to customers, treasury bills and terms notes are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. The losses arising from impairment are recognised in the income statement in allowance for impairment of loans and advances.

3) Available-for-sale financial assets

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as (a) loans and receivables, (b) held to maturity or (c) financial assets at fair value through profit and loss. These are those securities that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Unquoted equity securities whose fair value cannot be reliably measured are carried at cost. All other available-for-sale investments are carried at fair value, with unrealised gains/losses recognised as other comprehensive income and credited in the available for sale reserve until the investment is derecognised, at which time, the cumulative gain or loss is recognised in profit or loss, or the investment is determined to be impaired, when the cumulative loss is reclassified from the available-for-sale reserve to profit or loss.

Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

Where the bank holds more than one investment in the same security they are deemed to be disposed of on a first-in-first-out basis. Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate.

Dividends earned whilst holding available-for-sale financial investments are recognised in profit or loss when the right of the payment has been established. The losses arising from impairment of such investments are recognised in profit or loss and removed from available-for-sale reserve.

The bank has not designated any loans or receivables as available for sale.

4) Cash and cash equivalents

The bank considers all highly liquid investments with maturities of 90 days or less at purchase to

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

(iii) Subsequent measurement (continued)

Financial assets (continued)

4) Cash and cash equivalents (continued)

be cash equivalents. The cost of cash equivalents approximates their fair values due to the short-term nature thereof.

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with Central Bank of Kenya, amounts due from banks and government securities or with an original maturity of three months or less, less balances due to banks and financial institutions.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or other financial liabilities, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, plus directly attributable transaction costs.

The bank's financial liabilities include balances due to banks and financial institutions, deposits from customers, and other liabilities.

Subsequent measurement

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IAS 39 are satisfied. The bank has not designated any financial liability as at fair value through profit or loss.

After initial recognition, other financial liabilities are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method (EIR) amortisation process.

(iv) Derecognition of financial assets and financial liabilities

Financial assets

A financial asset (or, where applicable a part of financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired; or
- The bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either,

(a) The bank has transferred substantially all the risks and rewards of the asset, or

(b) The bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the bank's continuing involvement in the asset. In that case, the bank also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the bank has retained.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

(iv) Derecognition of financial assets and financial liabilities (continued)

Financial assets (continued)

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the bank could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Borrowings are recognised initially at fair value. After initial measurement, borrowings are subsequently measured at amortised cost using the effective interest rate method

(v) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if;

- There is a currently enforceable legal right to offset the recognised amounts and
- There is an intention to settle on a net basis, to realize the assets and settle the liabilities simultaneously.

(vi) Determination of fair value

Investments in equity and debt securities

The fair value of available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date.

Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. In respect of the liability component of convertible notes, the market rate of interest is determined by reference to similar liabilities that do not have conversion option.

Non-performance risk of financial liabilities includes, but may not be limited to, the company's own credit risk. Non-performance risk is assumed to be the same before and after the transfer of the liability. The fair value of a liability reflects the effect of non-performance risk on the basis of its unit of account.

(vii) Determination of amortised cost

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in 'interest income' in profit or loss. The losses arising from impairment are recognised in profit or loss in 'allowance for impairment of loans and advances'.

(viii) Impairment of financial assets

The bank assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

the probability that they will enter bankruptcy or other financial reorganisation and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as change in arrears or economic conditions that correlate with defaults.

1) Placements and balances with other banks and loans and advances to customers

For placements and balances with other banks and loans and advances to customers carried at amortised cost, the bank first assesses individually, whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be recognised, are not included in a collective assessment of impairment

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). 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. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset.

Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered the recovery is credited to 'other income'.

The present value of the estimated future cash flows is discounted at the financial asset's original interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of collective evaluation of impairment, financial assets are grouped on the basis of the bank's internal credit grading system that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the years on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial assets and liabilities (continued)

(viii) Impairment of financial assets (continued)

1) Placements and balances with other banks and loans and advances to customers (continued)

Estimates of changes in future cash flows reflect, and are directionally consistent with changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

2) Held-to-maturity investments

For held-to maturity investments, the bank assesses individually whether there is objective evidence of impairment by evaluating factors such as unwarranted default in interest payments and delay in settling the bond liability upon maturity.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognised, any amounts formerly charged are credited to profit or loss.

3) Available-for-sale financial assets

For available-for-sale financial assets, the bank assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, the bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss is removed from available-for-sale reserve and recognised in profit or loss. Impairment losses on equity investments are not reversed through profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income.

(e) Recognition of income and expenses

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Recognition of income and expenses (continued)

(i) Interest income and expense

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial instrument or a shorter period where appropriate, to the net carrying amount of the financial asset or liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses. The carrying amount of the financial asset or financial liability is adjusted if the bank revises its payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense.

Once the recorded value of financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest rate used to discount the future cash flows for the purpose of measuring the impairment loss.

(ii) Fee and commission income

The bank earns fees and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income

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

(f) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on the straight-line basis at annual rates estimated to write off carrying amounts of the property and equipment over their expected useful lives.

The annual depreciation rates in use are: -

Furniture and fittings	**12.50% p.a.**
Office equipment	**12.50% p.a.**
Motor vehicles	**25.00% p.a.**
Computer equipment	**25% - 33.33% p.a.**
Leasehold improvements	**12.50% p.a.**

Buildings are amortised over the shorter of the estimated useful life and the lease term.

Freehold land is not depreciated as it is deemed to have an indefinite life.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other income' or 'other expenses' in profit or loss in the year the asset is derecognised.

The asset's residual value, useful lives and methods of depreciation are reviewed, and adjusted prospectively if appropriate, at each financial year-end. Changes in the expected useful lives are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currency

Transactions during the year are converted into Kenya shillings at rates ruling at the transaction dates. Monetary assets and liabilities at the reporting date which are expressed in foreign currencies are translated into Kenya shillings at rates ruling at that date. The resulting differences from conversion and translations are dealt with in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(h) Employee benefits

(i) Defined contribution plans

The bank contributes to a statutory defined contribution provident scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Kshs. 200 per employee per month. The bank also operates a defined contribution provident fund scheme for all its employees. The assets of the scheme are held in a separate trustee administered fund that is funded by both the bank and employees.

The bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

(ii) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

The liability for employees' accrued annual leave entitlement at the reporting date is recognised as an expense accrual.

(i) Taxation

(i) Current tax

Current income tax is provided for on the basis of the results for the year as shown in the financial statements, adjusted in accordance with tax legislation. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred taxation is provided using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences except:-

- Where the deferred tax arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

- In respect of temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilized except;

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Taxation (continued)

(ii) Deferred tax (continued)

- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at reporting date and reduced to the extent that it is no-longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

(iii) Value added tax

Expenses and assets are recognised net of the amount of sales tax, except:

- When the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable, and

- When receivables and payables are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

(j) Guarantees, acceptances and letters of credit

Guarantees, acceptances and letters of credit are not accounted for in the statement of financial position but are disclosed as contingent liabilities.

(k) Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date and requires an assessment whether fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement.

Leases of leasehold land are classified as operating leases. Operating leases are leases which do not transfer to the bank substantially all the risks and benefits incidental to ownership of the leased items. The costs incurred to acquire the lease are included in the financial statements as long term prepayments and rentals payable are accounted for on a straight-line basis over the lease term and included in other operating expenses in the income statement.

(l) Intangible assets

The bank's intangible assets include the value of computer software (swift software, finacle software and other associated costs) and Visa

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Intangible assets (continued)

license fees. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment loss.

The useful lives of intangible assets are assessed to be finite. Intangible assets are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset are reviewed at least each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period and method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in profit or loss in the expense category consistent with the function of the asset.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over the estimated useful lives as follows:

- Computer software 5 years
- Visa license 5 years

(m) Dividends

Dividends are charged to equity in the year in which they are declared.

(n) Impairment of non - financial assets (continued)

The bank assesses at each reporting date, or more frequently if events or changes in circumstances indicate that an asset may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs of disposal and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

Impairment losses are recognised in the profit or loss in other operating expenses.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed if, and only if, there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised.

The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. Such reversal is recognised in the income statement.

(o) Investment in an associate

An associate is an entity over which the bank has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The bank accounts for investment in its associate using the equity method. Under the equity method,

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) Investment in an associate (continued)

the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the bank's share of net assets of the associate since the acquisition date.

The income statement reflects the share of the results of operations of the associate. Any change in OCI of the associate is presented as part of the bank's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the bank recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity.

The financial statements of the associate are prepared for the same period as the bank. When necessary, appropriate adjustments are made to the associate's financial statements to ensure conformity with the bank's accounting policies.

Upon loss of significant influence over an associate, the bank measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

After application of the equity method, the bank determines whether it is necessary to recognize an impairment loss on the bank's investment in its associate. The bank determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case the difference between the recoverable amount of the associate and its carrying value is recognized in the 'share of losses of an associate' in the bank's income statement

(p) Provisions

Provisions are recognised when the bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in profit or loss net of any reimbursement.

4. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2015 Kshs'000	2014 Kshs'000
Cash in hand	408,186	434,470
Balances with Central Bank of Kenya:		
- Restricted balances (Cash Reserve Ratio)	1,431,192	1,388,154
- Unrestricted balances	1,701,037	506,780
Cheques and items for clearing	563,226	469,079
	4,103,641	2,798,483

The Cash Reserve Ratio is non-interest earning and is based on the value of deposits as adjusted for the Central Bank of Kenya requirements. At 31 December 2015, the Cash Reserve Ratio requirement was 5.25% (2014 – 5.25%) of all qualifying deposits.

These funds are available for use by the Bank in its day-to-day operations in a limited way provided that on any given day this balance does not fall below the 3.00% requirement and provided that the overall average in the month is at least 5.25%.

Cheques and items for clearing represent values of outward clearing instruments, which are awaiting clearance.

5. PLACEMENTS AND BALANCES WITH OTHER BANKS

	2015 Kshs'000	2014 Kshs'000
Lending to other banks and financial institutions	1,185,175	29,334
Balances with banks outside Kenya	406,551	910,875
	1,591,726	940,209

6. TREASURY BILLS AND TERM NOTES

	2015 Kshs'000	2014 Kshs'000
As at 1 January	7,463,469	9,240,057
Purchase of investment securities	10,561,228	18,581,823
Retirement of investment securities	(11,321,666)	(20,358,411)
As at 31 December	6,703,031	7,463,469
Treasury bills and term notes		
Maturing within 91 days of the date of acquisition	2,225,650	499,539
Maturing after 91 days to 182 days of the date of Acquisition	1,500,755	1,939,919
Maturing after 182 days of the date of acquisition	2,083,800	4,373,658
Term notes	892,826	650,353
	6,703,031	7,463,469

Treasury bills and bonds are debt securities issued by the Government of Kenya and are classified as loans and receivables. The weighted average effective interest rate on the treasury bills as at 31 December 2015 was 10.63% (2014: 9.06%).

Term notes are debt instruments issued by private and public entities for varied terms and maturity dates.

7. HELD TO MATURITY INVESTMENTS

	2015 Kshs'000	2014 Kshs'000
As at 1 January	5,592,817	4,695,333
Purchase of investment securities	4,201,976	1,517,484
Retirement of investment securities	(2,551,770)	(620,000)
As at 31 December	7,243,023	5,592,817
Treasury bonds		
Maturing after 182 days of the date of acquisition	7,243,023	5,592,817

Prime Bank
MILESTONES

1992
- Incorporation of Prime Bank Ltd & 1st branch at Kenindia House

1995
- Prime Bank acquires shareholding in First Merchant Bank, Malawi

2000
- Regional branches at Mombasa and Kisumu opened

2003
- Prime Bank headquarters shifted to Riverside Drive

2004
- Acquired associate membership of VISA to issue International credit & debit cards

2005
- Trade finance guarantee from IFC as part of Global Finance Program

2008
- Acquisition of shareholding in Capital Bank Botswana

2012
- Prime Bank celebrates 20 years

2013
- Commencing of SME Lending Program in partnership with European Investment Bank

2014
- Secured USD $15M (Kshs. 1.33B) credit from PROPARCO, a French DFI to support long term lending

PRIME BANK 2015

Opened 18th branch at Garden City and expanded ATM network bringing the total to 14

Launched the VISA Golf Card to support Junior Golfers across Kenya

2015 Awards

- VISA Best Co-Branded Card
- Think Business Awards - Bank with the Lowest Charges

Achieved Kshs. 2 billion net profit target set out for the year

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

8. INVESTMENT IN BONDS-AVAILABLE FOR SALE

	2015 Kshs'000	2014 Kshs'000
As at 1 January	1,928,885	2,404,434
Purchase of investment securities	3,168,086	792,043
Sales of investment securities	(1,943,393)	(1,286,795)
Foreign exchange gain/(loss)	12,043	(10,146)
(Loss)/gain on fair valuation	(253,064)	29,349
As at 31 December	2,912,557	1,928,885
The maturity profile is as follows:		
Within one year	693,991	18,767
After one year but within two years	77,452	402,510
After two years but within five years	182,854	430,385
After five years	1,958,260	1,077,223
	2,912,557	1,928,885

The bonds are debt securities and include treasury bonds issued by the Government of Kenya, offshore bonds and corporate bond issued by Kengen Limited and are classified as available-for-sale. The fair value of the bonds is determined by reference to published price quotations in an active market.

9. INVESTMENT IN ORDINARY SHARES-AVAILABLE-FOR-SALE

a) Investment in listed shares:

	2015 Kshs'000	2014 Kshs'000
Investment as at 1 January	1,064,732	936,286
Purchase of shares	51,886	-
Sale of shares	(25,888)	-
Fair value movement	(404,579)	128,446
As at 31 December	686,151	1,064,732

The fair value of the listed shares is determined by reference to published price quotations in an active market. Available-for-sale investments in ordinary shares have no fixed maturity date or coupon rate. The fair value movement relating to First Merchant Bank, Malawi amounts to a loss of Kshs. 396.6 million (2014: gain of Kshs. 154.3 million).

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

9. INVESTMENT IN ORDINARY SHARES-AVAILABLE-FOR-SALE (continued)

a) Investment in privately held shares:

	2015 Kshs'000	2014 Kshs'000
Capital Bank Limited, Botswana	96,258	81,139
Capital Bank Mozambique	118,596	93,110
Cooperative Bank Plc, United Kingdom	29,270	27,287
As at 31 December	244,124	201,536
The movement in these shares is summarised as below:		
As at 1 January	201,536	81,139
Purchase of shares	18,416	120,397
Foreign exchange gain	24,172	-
As at 31 December	244,124	201,536

Investment in privately held shares comprise investments in shares of Capital Bank Limited, Botswana ,Capital Bank Limited, Mozambique and Cooperative Bank Plc, United Kingdom, which are unquoted companies. These shares are those that are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions. Unquoted shares are carried at cost, since the fair value cannot be reliably measured.

All other available-for-sale investments are carried at fair value, with unrealised gains/losses recognised as other comprehensive income in the available for sale reserve until the investment is derecognised or impaired. Foreign exchange gains or losses on available-for-sale debt security investments are recognised in profit or loss.

	2015 Kshs'000	2014 Kshs'000
Investment in listed shares (note 9a)	686,151	1,064,732
Investment in privately held shares (note 9b)	244,124	201,536
Total investment in ordinary shares available for sale	930,275	1,266,268

10. LOANS AND ADVANCES TO CUSTOMERS

a) Loans and advances to customers

	2015 Kshs'000	2014 Kshs'000
a) Loans and advances to customers (gross)	40,822,365	34,339,331
Less – Allowances on impairment of loans and advances (note 10 (b))	(977,265)	(916,855)
Loans and advances to customers net of allowances	39,845,100	33,422,476

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10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

b) Allowances on impairment of loans and advances

	Specific Allowance Kshs'000	Suspended Interest Kshs'000	Collective Allowance Kshs'000	Total Kshs'000
At 1 January 2015	374,552	204,072	338,231	916,855
Bad debts written off	(55,694)	(2,240)	-	(57,934)
Allowances and suspended interest reversed	(109,300)	(16,727)	-	(126,027)
Suspended interest during the year	-	105,809	-	105,809
Allowance during the year	69,000	-	69,562	138,562
At 31 December 2015	278,558	290,914	407,793	977,265
At 1 January 2014	451,903	204,916	283,205	940,024
Bad debts written off	(13,538)	(5,182)	-	(18,720)
Allowances and suspended interest reversed	(108,913)	(24,204)	-	(133,117)
Suspended interest during the year	-	28,542	-	28,542
Allowance during the year	45,100	-	55,026	100,126
At 31 December 2014	374,552	204,072	338,231	916,855

c) Non-performing loans and advances

Non-performing loans and advances on which interest has been suspended amount to Kshs. 419.1 million (2014: Kshs. 88.3 million), net of specific allowance. Interest on these accounts is not being recognised as these advances are classified as non-performing in accordance with the Central Bank of Kenya guidelines. In the opinion of the directors, securities held in respect of these loans and advances are valued at Kshs. 410.1 million (2014: Kshs. 328.4 million).

(d) Lending concentration

Economic sector risk concentrations within the customer loan portfolio were as follows:

	2015 %	2014 %
Manufacturing	21	22
Wholesale and retail trade	30	29
Transport and communication	5	4
Real estate	18	19
Business services	13	14
Others	13	12
	100	100

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015

10. LOANS AND ADVANCES TO CUSTOMERS (CONTINUED)

(e) Maturity analysis

2015	Within 30 days Kshs'000	31-60 days Kshs'000	61-90 days Kshs'000	More than 90 days Kshs'000	Total Kshs'000
Manufacturing	855,430	348,335	74,835	7,259,557	8,538,157
Trade	2,020,660	926,400	109,065	15,713,089	18,769,214
Transport	7,262	100,603	1,287	1,909,951	2,019,103
Real estate	480,635	220,913	279	6,478,403	7,180,230
Other	376,921	87,561	14,081	3,837,098	4,315,661
Total	3,740,908	1,683,812	199,547	35,198,098	40,822,365
2014					
Manufacturing	1,007,436	635,333	50,255	5,898,401	7,591,425
Trade	1,916,253	521,355	196,343	13,073,795	15,707,746
Transport	43,832	204,643	1,294	1,127,590	1,377,359
Real estate	439,711	188,154	41,939	5,725,838	6,395,642
Other	512,741	96,717	75,416	2,582,285	3,267,159
Total	3,919,973	1,646,202	365,247	28,407,909	34,339,331

11. OTHER ASSETS

	2015 Kshs'000	2014 Kshs'000
Prepayments and deposits	180,543	114,503
Accrued income	31,664	91,642
Others*	224,375	96,589
	436,582	302,734

* Comprises amounts paid in advance for various projects being undertaken by the bank, salary advances, deposits paid for properties to be acquired and withholding tax on interest on fixed deposits paid in advance.

12. INVESTMENT IN ASSOCIATE

The bank owns a 37.55% (2014 – 37.55%) shareholding in Tausi Assurance Company Limited, a company incorporated in Kenya, with its principal place of business being Tausi Road off Muthithi Road Westlands, Nairobi. The principal activity of the company is provision of general insurance services with the exception of aviation. The bank's interest in Tausi Assurance Company Limited is accounted for using the equity method. The bank's investment in Tausi Assurance Company Limited is shown below:

	2015 Kshs'000	2014 Kshs'000
As at 1 January	329,982	270,396
Dividends received	(18,860)	(18,859)
Share of profit	43,558	53,086
Share of other comprehensive income*	(25,359)	25,359
	329,321	329,982

* In 2014, the bank recognised Kshs. 23.359 million as its share of other comprehensive income from its associate. However, this amount related to revaluation gain on property, and since the bank carries its property at cost (note 3(f)), the amount has been adjusted for in 2015 by reducing the value of the investment in the associate and other comprehensive income. The 2014 financial statements have not been restated as the amount is considered immaterial.

The associate assets, liabilities, revenue and profit are as shown below;

	2015 Kshs'000	2014 Kshs'000
Assets	2,292,363	1,983,869
Liabilities	1,195,812	1,103,468
Revenue	877,062	841,632
Profit before tax	177,234	186,322
Profit after tax	116,000	141,374
Other comprehensive income	-	67,534
Cash and cash equivalents	44,771	44,801
Depreciation and amortisation	8,337	8,337
Income tax expense	61,234	44,948

13. LEASEHOLD LAND

	2015 Kshs'000	2014 Kshs'000
COST		
At 1 January and 31 December	71,381	71,381
AMORTISATION		
At 1 January	15,772	14,411
Charge for the year	1,361	1,361
At 31 December	17,133	15,772
NET CARRYING AMOUNT		
At 31 December	54,248	55,609

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

14. PROPERTY AND EQUIPMENT

a) As at 31 December 2015

	Freehold land Kshs'000	Leasehold buildings Kshs'000	Leasehold improvements Kshs'000	Furniture & fittings Kshs'000	Office equipment Kshs'000	Motor vehicles Kshs'000	Computer equipment Kshs'000	Total Kshs'000
COST								
At 1 January 2015	15,645	306,330	222,338	100,947	131,776	79,880	206,047	1,062,963
Additions	-	-	42,973	6,546	13,878	24,864	29,119	117,380
Disposals	-	-	-	(27)	-	(16,178)	-	(16,205)
At 31 December 2015	15,645	306,330	265,311	107,466	145,654	88,566	235,166	1,164,138
DEPRECIATION								
At 1 January 2015	-	58,383	132,912	73,119	76,781	59,062	167,602	567,859
Charge for the year	-	10,317	24,984	6,415	13,198	18,233	24,356	97,503
Disposals	-	-	-	(27)	-	(16,178)	-	(16,205)
At 31 December 2015	-	68,700	157,896	79,507	89,979	61,117	191,958	649,157
NET CARRYING AMOUNT								
At 31 December 2015	15,645	237,630	107,415	27,959	55,675	27,449	43,208	514,981

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

14. PROPERTY AND EQUIPMENT

b) As at 31 December 2014

	Freehold land Kshs'000	Leasehold buildings Kshs'000	Leasehold improvements Kshs'000	Furniture & fittings Kshs'000	Office equipment Kshs'000	Motor vehicles Kshs'000	Computer equipment Kshs'000	Total Kshs'000
COST								
At 1 January 2014	15,645	306,330	193,499	92,365	116,245	80,428	183,679	988,191
Additions	-	-	28,839	8,582	17,513	6,670	22,368	83,972
Disposals	-	-	-	-	(1,982)	(7,218)	-	(9,200)
At 31 December 2014	15,645	306,330	222,338	100,947	131,776	79,880	206,047	1,062,963
DEPRECIATION								
At 1 January 2014	-	48,066	110,796	66,933	66,335	51,510	146,631	490,271
Charge for the year	-	10,317	22,116	6,186	12,428	14,486	20,971	86,504
Disposals	-	-	-	-	(1,982)	(6,934)	-	(8,916)
At 31 December 2014	-	58,383	132,912	73,119	76,781	59,062	167,602	567,859
NET CARRYING AMOUNT								
At 31 December 2014	15,645	247,947	89,426	27,828	54,995	20,818	38,445	495,104

15. INTANGIBLE ASSETS

	2015 Kshs'000	2014 Kshs'000
COST		
At 1 January	348,626	206,291
Additions	44,357	142,335
At 31 December	392,983	348,626
AMORTISATION		
At 1 January	164,626	108,239
Charge for the year	64,652	56,387
At 31 December	229,278	164,626
NET CARRYING AMOUNT		
At 31 December	163,705	184,000

Intangible assets comprise of computer software and VISA license fees.

16. DEFERRED TAX

Movement of the deferred tax asset during the year is as follows:

2015	At 1 January Kshs'000	Recognised in income statement Kshs'000	At 31 December Kshs'000
Arising from:			
Property and equipment	32,755	(3,204)	29,551
Provision for staff leave	3,412	13	3,425
Provision for loans and advances	101,471	20,868	122,339
	137,638	17,677	155,315
2014			
Arising from:			
Property and equipment	36,441	(3,686)	32,755
Provision for staff leave	2,864	548	3,412
Provision for loans and advances	88,627	12,844	101,471
	127,932	9,706	137,638

The deferred asset has been fully recognised in the financial statements and is mainly due to accelerated depreciation expense and general allowances on impairment of loans and advances.

17. BALANCES DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2015 Kshs'000	2014 Kshs'000
Due to other banks	4,873,763	1,680,066

18. DEPOSITS FROM CUSTOMERS

	2015 Kshs'000	2014 Kshs'000
Current deposits	11,292,164	12,204,844
Savings deposits	335,549	349,017
Call deposits	1,777,882	293,978
Fixed deposits	37,474,963	32,227,206
	50,880,558	45,075,045

Included in deposits from customers, were deposits of Kshs. 728.7 million (2014: Kshs. 202.7 million) held as collateral for irrevocable commitments. The weighted average effective interest rate on interest bearing customer deposits as at 31 December 2015 was 7.3 % (2014: 6.5%).

19. OTHER LIABILITIES

	2015 Kshs'000	2014 Kshs'000
Pay orders issued	99,118	98,638
Bills payable	181,247	109,677
Sundry creditors and accruals	241,759	180,641
	522,124	388,956

Pay orders issued, bills payable and sundry creditors and accruals are payable on demand and are non-interest bearing.

20. INCOME TAX

	2015 Kshs'000	2014 Kshs'000
STATEMENT OF FINANCIAL POSITION		
Balance brought forward	38,587	202,299
Charge for the year	587,243	571,366
Paid during the year	(643,977)	(735,078)
Income tax (recoverable)/payable	(18,147)	38,587
INCOME STATEMENT		
Current income tax at 30% on the taxable profit for the year	587,243	571,366
Deferred tax credit (note 16)	(17,677)	(9,706)
Income tax expense	569,566	561,660
Reconciliation of tax expense to tax based on accounting profit:		
Accounting profit before tax	2,592,754	2,297,679
Tax applicable rate of 30%	777,827	689,304
Other expenses not deductible for tax purposes	5,757	614
Other income not subject to tax	(214,018)	(128,258)
Tax charge for the year	569,566	561,660

21. SHARE CAPITAL

	2015 Ordinary shares of Kshs 1,000 each	2015 Ordinary class 'B' shares of Kshs 1,000 each	2014 Ordinary shares of Kshs 1,000 each	2014 Ordinary class 'B' shares of Kshs 1,000 each
Authorised	4,991,000	9,000	2,991,000	9,000
Issued and fully paid:				
At 1 January	2,991,000	9,000	2,991,000	9,000
Reserves capitalized during the year	1,900,000	-	-	-
Issued during the year	100,000	-	-	-
At 31 December	4,991,000	9,000	2,991,000	9,000

	2015 Kshs'000	2014 Kshs'000
Authorised, issued and fully paid:		
4,991,000 Ordinary shares of Kshs. 1,000 each (2014: 2,991,000)	4,991,000	2,991,000
9,000 Ordinary class "B" shares of Kshs. 1,000 each	9,000	9,000
	5,000,000	3,000,000

During the year, the bank increased its paid up share capital by Kshs. 2 billion by capitalising retained earnings of Kshs. 1.9 billion and further issued shares for cash amounting to Kshs. 100 million.

Class 'B' shares have equal rights as other ordinary shares and participate in dividends and voting.

22. RESERVES

	2015 Kshs'000	2014 Kshs'000
Retained earnings	3,607,269	3,934,080
Available-for-sale reserve	117,938	800,940
Balance carried forward	3,725,207	4,735,020

Available-for-sale reserve comprises changes in fair value of available-for-sale investments.

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

23. INTEREST INCOME

	2015 Kshs'000	2014 Kshs'000
Loans and advances to customers	5,091,114	4,100,697
Placements and bank balances	148,177	51,777
Reverse repurchase agreements	5,102	64,030
Treasury bills and term notes	814,675	831,930
Government securities-held-to-maturity	599,697	512,182
Available -for-sale investments	322,817	276,776
	6,981,582	5,837,392

24. INTEREST EXPENSE

Due to customers	3,489,927	2,815,880
Due to banks and other financial institutions	137,636	32,302
	3,627,563	2,848,182

25. FEES AND COMMISSION INCOME

Commission income	238,094	193,908
Fees income	197,577	139,596
Other standing charges	11,145	42,957
	446,816	376,461

26. OTHER INCOME

Miscellaneous income	64,214	87,398
Recoveries of loans and advances previously written off	110,493	51,625
	174,707	139,023

27. ALLOWANCES FOR IMPAIRMENT OF LOANS AND ADVANCES

Specific allowance on loans and advances (note 10 (b))	69,000	45,100
Collective allowance for impairment (note 10 (b))	69,562	55,026
Collective allowance on term notes and bonds	1,438	-
Write-off during the year	12,022	656
	152,022	100,783

28. OTHER OPERATING EXPENSES

Staff costs (note 31)	863,327	793,370
Depreciation on property and equipment	97,503	86,504
Amortisation of intangible assets	64,652	56,387
Amortisation of leasehold land	1,361	1,361
Auditors' remuneration	3,713	3,536
Directors' emoluments	84,847	71,613
Deposit protection fund levy	65,509	58,070
Rent and rates	91,824	75,924
Other general administration expenses	493,590	400,140
	1,766,326	1,546,905

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

29. PROFIT BEFORE TAX

	2015 Kshs'000	2014 Kshs'000
Profit before tax is stated after charging: -		
Depreciation on property and equipment	97,503	86,504
Amortisation of intangible assets	64,652	56,387
Amortisation of leasehold land	1,361	1,361
Directors' fees	57,573	24,252
Directors' emoluments	27,274	47,361
Auditors' remuneration	3,713	3,536
And after crediting: -		
Foreign exchange gains	442,441	338,209
Dividend income	49,562	49,378
Gain on sale of property and equipment	6,761	2,681

30. EARNINGS PER SHARE

a) Basic earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during year.

b) Diluted earnings per share is calculated on the profit for the year and on the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on conversion of all the dilutive potential shares into shares. There are no such dilutive shares.

The following reflects the profit for the year and share data used in calculating the basic and diluted earnings per share:

	2015 Kshs'000	2014 Kshs'000
Profit for the year attributable to shareholders	2,023,189	1,736,019
Weighted average number of shares ('000)	5,000	4,900
Basic and diluted earnings per share (Kshs.)	405	354

During the year, the bank capitalised retained earnings of Kshs. 1.9 billion by issuing 1,900,000 ordinary shares of Kshs. 1,000 each. Earnings per share calculations for the year ended 31 December 2014 have been adjusted to reflect the change. In addition, the bank issued an additional 100,000 shares of Kshs. 1,000 each for cash.

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31. STAFF COSTS

	2015 Kshs'000	2014 Kshs'000
Salaries and wages	745,047	692,325
Contributions to pension scheme	41,719	33,487
Other staff costs	76,561	67,558
	863,327	793,370

32. DIVIDENDS PAID

	2015 Kshs'000	2014 Kshs'000
Declared and paid		
Dividend on ordinary shares	450,000	-
Total dividend paid	450,000	-
Dividend per ordinary share	90	-

Dividend per share is calculated based on the amount of the dividends and on the number of shares issue at the respective reporting dates.

33. CASH AND CASH EQUIVALENTS

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

	2015 Kshs'000	2014 Kshs'000
Cash in hand (note 4)	408,186	434,470
Balances with Central Bank of Kenya-unrestricted (note 4)	1,701,037	1,894,934
Cheques and items for clearing (note 4)	563,226	469,078
Placements and balances with other banks (note 5)	1,591,726	940,209
Government securities and term notes maturing within 91 days	2,529,154	689,540
Due to banks and financial institutions (note 17)	(4,873,763)	(1,680,066)
As previous stated	1,919,566	2,748,165
Restricted amount reclassified to operating activities	-	(1,388,154)
	1,919,566	1,360,011

Included in cash and cash equivalents in 2014 was Kshs. 1,388,154,000 relating to restricted balances with the Central Bank of Kenya. This has been reclassified to operating activities in the statement of cash flows thus reducing the cash and cash equivalents for the year ended 31 December 2014 in line with the Central Bank of Kenya guidelines.

NOTES TO THE FINANCIAL STATEMENTS (continued)
FOR THE YEAR ENDED 31 DECEMBER 2015

34. CONTINGENT LIABILITIES

	2015 Kshs'000	2014 Kshs'000
Letters of credit	1,680,891	1,152,662
Local guarantees	3,586,038	2,446,105
Bills for collection	2,709,253	2,054,655
Foreign currency bills for collection	72,471	145,919
Custodial treasury bonds	2,173,044	2,066,263
Spot sales/purchase	336,604	754,744
Swap sales/purchases	10,306,664	13,154,193
Forward contracts	308,075	1,084,975
	21,173,040	22,859,516

The contingent liabilities represent transactions entered into in the normal course of business and are represented by counter indemnities or cash securities from customers for the same amount. Letters of credit, guarantee and acceptance commit the bank to make payments on behalf of the customers in the event of a specific act, generally relating to the import and export of goods.

35. CAPITAL COMMITMENTS

	2015 Kshs'000	2014 Kshs'000
Capital commitments contracted for	150,000	100,000

Capital commitments relate to expected capital expenditure to be incurred in leasehold improvements, furniture and fittings and other assets.

36. OPERATING LEASE COMMITMENTS

As a lessee, the bank leases a number of branch and office premises under operating leases. The leases typically run for a year up to ten years, with an option to renew the lease after that date. Lease payments are increased accordingly to reflect market lease rentals.

The total future minimum lease payments due to third parties under non-cancellable operating leases are as follows:

	2015 Kshs'000	2014 Kshs'000
Within 1 year	62,207	48,453
After 1 year but not more than 5 years	161,157	138,361
More than 5 years	2,498	3,695
	225,862	190,509

38. RELATED PARTY TRANSACTIONS

The bank enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

	2015 Kshs'000	2014 Kshs'000
a) Due from		
i) Loans and advances to employees	209,288	189,758
ii) Loans and advances to directors and their associates	1,830,067	1,440,072
	2,039,355	1,629,830
Allowance during the year:		
At 1 January	17,798	14,009
Allowance during the year	2,494	3,789
At 31 December	20,292	17,798

The loans to related parties are given in the ordinary course of business. The average term of the loans to related parties is 4 years. The loans are secured by titles to property and directors' guarantees.

	2015	2014
b) Due to		
i) Deposits from employees	262,897	202,609
ii) Deposits from directors and their associates	699,963	131,350
	962,860	333,959
c) Key management personnel compensation		
i) Salaries	270,997	322,961
ii) Post employment benefits	19,267	15,809
	290,264	338,770
d) Directors' emoluments		
i) As management	57,573	24,252
ii) As executives	27,274	47,361
	84,847	71,613

e) Transactions with related parties
Included in interest income is Kshs. 210,899,788 (2014: Kshs. 168,319,221) being interest on loans and advances to related parties.

Included in interest expense is Kshs. 83,671,704 (2014: Kshs 45,442,597) being interest on deposits from related parties.

39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

As at 31 December 2015

	Within 12 months Kshs'000	After 12 months Kshs'000	Total Kshs'000
ASSETS			
Cash and balances with the Central Bank of Kenya	4,103,641	-	4,103,641
Placements and balances with other banks	1,591,726	-	1,591,726
Treasury bills and term notes	6,337,498	365,533	6,703,031
Held to maturity investments	1,154,110	6,088,913	7,243,023
Investment in bonds-available for sale	684,206	2,228,351	2,912,557
Investment in ordinary shares available for sale	-	930,275	930,275
Loans and advances to customers	16,974,010	22,871,090	39,845,100
Other assets	120,007	316,575	436,582
Investment in associate	-	329,321	329,321
Intangible assets	-	163,705	163,705
Tax recoverable	18,147	-	18,147
Leasehold land	-	54,248	54,248
Property and equipment	-	514,981	514,981
Deferred tax asset	-	155,315	155,315
TOTAL ASSETS	30,983,345	34,018,307	65,001,652
LIABILITIES			
Balances due to banks and financial institutions	4,873,763	-	4,873,763
Deposits from customers	50,880,558	-	50,880,558
Other liabilities	522,124	-	522,124
TOTAL LIABILITIES	56,276,445	-	56,276,445
NET ASSETS	(25,293,100)	34,018,307	8,725,207

NOTES TO THE FINANCIAL STATEMENTS (continued)

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39. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

As at 31 December 2014

	Within 12 months Kshs'000	After 12 months Kshs'000	Total Kshs'000
ASSETS			
Cash and balances with the Central Bank of Kenya	2,798,483	-	2,798,483
Placements and balances with other banks	940,209	-	940,209
Treasury bills and term notes	7,239,505	223,964	7,463,469
Held to maturity investments	2,463,266	3,129,551	5,592,817
Investment in bonds-available for sale	18,767	1,910,118	1,928,885
Investment in ordinary shares available for sale	-	1,266,268	1,266,268
Loans and advances to customers	14,523,906	18,898,570	33,422,476
Other assets	158,245	144,489	302,734
Investment in associate	-	329,982	329,982
Intangible assets	-	184,000	184,000
Leasehold land	-	55,609	55,609
Property and equipment	-	495,104	495,104
Deferred tax asset	-	137,638	137,638
TOTAL ASSETS	28,142,381	26,775,293	54,917,674
LIABILITIES			
Balances due to banks and financial institutions	1,680,066	-	1,680,066
Deposits from customers	45,075,045	-	45,075,045
Tax payable	38,587	-	38,587
Other liabilities	388,956	-	388,956
TOTAL LIABILITIES	47,182,654	-	47,182,654
NET ASSETS	(19,040,273)	26,775,293	7,735,020

NOTES TO THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

40. FAIR VALUE OF FINANCIAL INSTRUMENTS

a) Comparison of the carrying amounts and fair values of the financial instruments

Set out below is a comparison by class of the carrying amounts and fair values of the bank's financial instruments that are carried in the financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2015 Carrying amount Kshs '000	Fair value Kshs '000	2014 Carrying amount Kshs '000	Fair value Kshs '000	Un-recognised gain/(loss) Kshs '000
Cash and Balances with Central Bank of Kenya	4,103,641	4,103,641	2,798,483	2,798,483	-
Placements and balances with other banks	1,591,726	1,591,726	940,209	940,209	-
Held-to-maturity:					
Treasury bonds	7,243,023	6,905,155	5,592,816	6,953,326	-
Treasury bills	5,810,205	5,810,205	6,813,116	6,813,116	-
Term notes	892,826	892,826	650,353	650,353	-
Bonds-available-for-sale	2,912,557	2,912,557	1,928,885	1,928,978	-
Ordinary shares-available-for-sale	686,151	686,151	1,064,732	1,064,732	-
Loans and advances to customers	39,845,100	39,845,100	33,422,476	33,422,476	-
Due to banks and other financial institutions	4,873,763	4,873,763	1,680,066	1,680,066	-
Deposits from customers	50,880,558	50,880,558	45,075,045	45,075,045	-
Total unrecognised change in unrealised fair value	-	-	-	-	-

b) Determination of fair value and fair value hierarchy

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

Level 1:

Included in level 1 category are financial assets that are measured in whole or in par,t by reference to unadjusted quoted prices in an active market for identical assets and liabilities. Quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis. The assets are traded in an active market and quoted prices are available

40. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

b) Determination of fair value and fair value hierarchy (continued)

Level 2:

Included in level 2 category are financial assets measured using inputs other than quoted prices included within level 1 that are observable for the asset, either directly (i.e. as prices) or indirectly (i.e. derived from prices). For example, instruments measured using a valuation technique such as discounted cash flows, based on assumptions that are supported by prices from observable current market transactions are categorized as level 2. The bank did not have any financial assets designated as level 2 within the fair value hierarchy.

Level 3:

Financial assets measured using inputs that are not based on observable market data are categorised as level 3. Non market observable inputs means that fair values are determined in whole or in part using a valuation technique (model) based on assumptions that are neither supported by prices from observable current market transactions in the same instrument nor are they based on available market data. Valuation techniques are used to the extent that observable inputs are not available, thereby allowing for situations for which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective remains the same, that is, an exit price from the perspective of the bank. Therefore, unobservable inputs reflect the bank's own assumptions about the assumptions that market participants would use in pricing the asset (including assumptions about risk). These inputs are developed based on the best information available, which might include the bank's own data. However, significant portion of the unquoted shares have been valued at cost and variation in inputs would not have significant fair value change.

2015	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Financial investments available - for - sale:					
Investment in bonds available - for - sale	8	2,912,557	-	-	2,912,557
Investments in ordinary shares	9	686,151	-	-	686,151
Held to maturity investments		6,905,155	-	-	6,905,155
		10,503,863	-	-	10,503,863

2014	Note	Level 1 Kshs'000	Level 2 Kshs'000	Level 3 Kshs'000	Total Kshs'000
Financial investments available - for - sale:					
Investment in bonds available - for - sale	7	1,928,885	-	-	1,928,885
Investments in ordinary shares	8	1,064,732	-	-	1,064,732
Held to maturity investments		6,953,326	-	-	6,953,326
		9,946,943	-	-	9,946,943

There were no transfers between levels 1, 2 and 3 in the year.

41. CAPITAL MANAGEMENT

Regulatory capital

The Central Bank of Kenya sets and monitors capital requirements for the banking industry as a whole. It has set among other measures, the rules and ratios to monitor adequacy of a bank's capital.

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

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

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

Various limits are applied to elements of the capital base; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There are also restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital.

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

The bank has complied with capital requirements.

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

	2015 Actual Kshs'000	Required Kshs'000	2014 Actual Kshs'000	Required Kshs'000
Tier 1 Capital	8,607,269	1,000,000	6,934,080	1,000,000
Tier 2 Capital	117,938	-	800,940	-
Total regulatory capital	8,725,207	1,000,000	7,735,020	1,000,000
Risk weighted assets	48,318,393	-	40,099,746	-
Capital Ratios				
Total regulatory capital expressed as a percentage of total risk-weighted assets	18.05%	14.5%	19.29%	14.5%
Total tier 1 capital expressed as a percentage of risk weighted assets	17.80%	14.5%	17.29%	14.5%

41. FINANCIAL RISK MANAGEMENT

Risk management framework

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

The Board of Directors (The Board) has overall responsibility for the establishment and oversight of the bank's risk management framework. The Board has established various committees, which are responsible for developing and monitoring the bank's risk management policies in their specified areas. All committees report regularly to The Board on their activities.

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

a) Credit risk

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

Management of credit risk

The Board has delegated the responsibility for the management of credit risk to the Credit Committee chaired by a Non-Executive Director. The Credit Department, headed by the Assistant General Manager, oversees the operation under the guidance of top management responsible for overseeing of the bank's credit risk including:

1. Formulating credit policies, covering collateral requirements, credit assessment, risk grading, documentary and legal procedures, and compliance with regulatory and statutory requirements.
2. Establishing the authorisation structure for the approval and renewal of credit facilities. Authorisation limits are allocated to various officers at different levels. Larger facilities require approval by Credit Committee or the Board as appropriate.
3. Reviewing and assessing credit risk. Credit Department assesses all credit exposures prior to facilities being committed to customers concerned. Renewals and reviews of facilities are subject to the same review process.
4. Limiting concentrations of exposure. The Board approved delegated authority restricts exposure for any sector.
5. Reviewing compliance of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to Credit Committee/Board in respect of large borrowers.
6. Providing advice, guidance and specialist skills to business units to promote best practice in the management of credit risk.

Regular audits of Credit Department processes are undertaken by Internal Audit Department.

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

a) Credit risk (continued)

Exposure to credit risk

Maximum exposure to credit risk before collateral held

	2015 Kshs'000	2014 Kshs'000
Cash and balances with the Central Bank of Kenya	4,103,641	2,798,483
Placements and balances with other banks	1,591,726	940,209
Treasury bills and term notes	6,703,031	7,463,469
Held to maturity investments	7,243,023	5,592,817
Investment in bonds-available for sale	2,912,557	1,928,885
Loans and advances to customers	39,845,100	33,422,476
	62,399,078	52,146,339

LOANS AND ADVANCES TO CUSTOMERS

The aging analysis of the loans and advances is as follows:

	Collectively impaired	Individually impaired				
	Neither past due nor impaired	Past due and impaired				
	Normal	Watch > 30 days	Substandard 91-180 days	Doubtful 181-360 days	Loss > 360 days	Total
31-Dec-2015	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000	Kshs'000
Gross	39,608,893	224,879	659,424	247,801	81,368	40,822,365
Impairment	(401,047)	(6,746)	(377,895)	143,055)	(48,522)	(977,265)
Net carrying amount	39,207,846	218,133	281,529	104,746	32,846	39,845,100
31-Dec-2014						
Gross	33,511,351	162,308	198,910	358,979	107,783	34,339,331
Impairment	(335,113)	(3,118)	(130,218)	(344,418)	(103,988)	(916,855)
Net carrying amount	33,176,238	159,190	68,692	14,561	3,795	33,422,476

Past due but not impaired loans

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

Impaired loans and securities

Impaired loans and securities are loans and securities for which The Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s).

Loans with renegotiated terms

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

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

a) Credit risk (continued)

Exposure to credit risk (continued)

Loans and advances to customer (continued)

	2015 Kshs'000	2014 Kshs'000
Individually impaired		
Grade 3: Impaired (Substandard)	659,424	198,910
Grade 4: Impaired (Doubtful)	247,801	358,979
Grade 5: Impaired (Loss)	81,368	107,783
Gross amount	988,593	665,672
Allowance for impairment	569,472	578,624
Carrying amount	419,121	87,048
Collectively impaired		
Grade 1: Normal	39,608,893	33,511,351
Grade 2: Watch list	224,879	162,308
Gross amount	39,833,772	33,673,659
Allowance for impairment	407,793	338,231
Carrying amount	39,425,979	33,335,428
Total carrying amount	39,845,100	33,422,476

Loans and advances graded 3, 4 and 5 in the bank's internal credit risk grading system are impaired. These are advances for which the bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreements. Specific impairment losses are recognised on these grades.

Loans and advances graded 1 and 2 are not impaired. According to the Central Bank of Kenya guidelines, a minimum collective impairment provision of 1% and 3% on gross advances on grade 1 and grade 2, respectively, should be held to cater for any unidentified credit risk.

The internal rating scale assists management in determining whether objective evidence of impairment exists under IAS 39, based on the following criteria set out by the bank:

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

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

42. FINANCIAL RISK MANAGEMENT (continued)
Risk management framework (continued)
a) Credit risk (continued)
Exposure to credit risk (continued)
Loans and advances to customer (continued)

Write-off policy

The bank has set up a Debt Management Committee which is headed by a Non-executive Director. The Committee has been mandated to review all the non- performing assets and give direction /guidance to the Credit Department. The bank writes off loans as and when Debt Management Committee determines that the loans are irrecoverable.

This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Collateral on loans and advances

The bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

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

Loans and advances to customers (gross)

	2015 Kshs'000	2014 Kshs'000
CONCENTRATION BY SECTOR:		
Agriculture	340,517	387,844
Mining and quarry	5,384	6,781
Manufacturing	8,538,157	7,591,425
Electricity and water	62,795	10,582
Building and construction	1,006,441	740,113
Wholesale and retail	12,164,297	9,807,768
Transport and communication	2,019,103	1,377,359
Finance and insurance	52,765	283
Real estate	7,180,231	6,395,643
Business services	5,324,039	4,731,723
Foreign trade	1,802,237	1,157,673
Other enterprises	2,326,399	2,132,137
	40,822,365	34,339,331

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

b) Liquidity Risk

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

Exposure to liquidity risk

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

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

	2015	2014
At 31 December	37%	38%
Average for the year	38%	41%
Maximum for the year	43%	45%
Minimum for the year	32%	37%
Central Bank of Kenya required minimum	20%	20%

Management of liquidity risk

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

Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the institution as a whole. All liquidity policies and procedures are subject to review and approval by an Assets and Liabilities Committee.

The bank manages the liquidity structure of assets, liabilities and commitments so that cash flows are appropriately matched to ensure that all funding obligations are met when due. Banking operations are such that mismatch of assets and liabilities according to their maturity profiles cannot be avoided. However, management ensures that the mismatch is controlled in line with allowable risk levels. The table below analyses maturity profiles of assets and liabilities of the bank based on the remaining period using 31 December 2014 as a base period to the contractual maturity date. Deposits from customers shown as maturing within 90 days relate to current, savings, call and fixed account balances. Although classified in this band, previous experience has shown these to be stable and of a long term nature.

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

b) Liquidity risk (continued)

Management of liquidity risk (continued)

As at 31 December 2015	Up to 1 Month Kshs '000	1 to 3 Months Kshs '000	3 Months to 1 year Kshs '000	1 to 5 years Kshs '000	Over 5 years Kshs '000	Total Kshs '000
Cash and balances with						
Central Bank of Kenya	4,103,641	-	-	-	-	4,103,641
Placements and balances						
with other banks	1,591,726	-	-	-	-	1,591,726
Treasury bills and term notes	1,405,764	2,526,148	2,405,586	365,533	-	6,703,031
Held-to-maturity investments	154,077	-	1,027,178	2,545,841	3,686,285	7,413,381
Bonds- available-for-sale	-	-	799,607	490,307	2,097,133	3,387,0477
Other assets	14,810	23,977	81,220	254,807	-	374,814
Total assets	7,270,018	2,550,125	4,313,591	3,656,488	5,783,418	23,573,640
FINANCIAL LIABILITIES						
Due to banks and						
financial institutions	552,456	4,321,307	-	-	-	4,873,763
Deposits from customers	25,314,568	12,889,558	12,676,432	-	-	50,880,558
Other liabilities	17,299	219,228	157,728	-	-	394,255
Total liabilities	25,884,323	17,430,093	12,834,160	-	-	56,148,576

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

b) Liquidity Risk (continued)

Management of liquidity risk (continued)

As at 31 December 2014	Up to 1 Month Kshs '000	1 to 3 Months Kshs '000	3 Months to 1 year Kshs '000	1 to 5 years Kshs '000	Over 5 years Kshs '000	Total Kshs '000
Cash and Balances						
with Central Bank						
of Kenya	2,798,483	-	-	-	-	2,798,483
Placements and balances						
with other banks	940,209	-	-	-	-	940,209
Treasury bills and term notes	682,067	1,459,511	5,097,927	223,964	-	7,463,469
Held-to-maturity investments	-	2,084,108	384,358	2,107,411	1,028,746	5,604,623
Bonds- available-for-sale	-	-	195,010	876,712	1,109,052	2,180,774
Other assets	2,061	153,990	2,194	93,896	-	252,141
Total assets	4,422,820	3,697,609	5,679,489	3,301,983	2,137,798	19,239,699
FINANCIAL LIABILITIES						
Due to banks and						
financial institutions	1,680,066	-	-	-	-	1,680,066
Deposits from customers	21,035,531	11,109,277	12,930,237	-	-	45,075,045
Other liabilities	132,358	89,901	42,722	-	-	264,981
Total liabilities	22,847,955	11,199,178	12,972,959	-	-	47,020,092

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

c) Comparison by class of the carrying amount of the financial instruments.

The table below sets out the Bank's classification of each class of financial assets and liabilities, and comparison of the carrying amount:

As at 31 December 2015	Held to maturity Kshs '000	Loans and receivables Kshs '000	Available for sale financial assets Kshs '000	Other liabilities at amortized cost Kshs '000	Carrying amount Kshs '000
ASSETS					
Cash and Balances with					
Central Bank of Kenya	-	4,103,641	-	-	4,103,641
Placements and balances					
with other banks	-	1,591,726	-	-	1,591,726
Treasury bills & Term notes	-	6,703,031	-	-	6,703,031
Held to maturity investments	7,243,023	-	-	-	7,243,023
Investment in bonds-					
available for sale	-	-	2,912,557	-	2,912,557
Investment in ordinary					
shares available for sale	-	-	930,275	-	930,275
Loans and advances					
to customers	-	39,845,100	-	-	39,845,100
Other assets	-	374,814	-	-	374,814
Total Assets	7,243,023	52,618,312	3,842,832	-	63,704,167
LIABILITIES					
Balances due to banks					
and financial institutions	-	-	-	4,873,763	4,873,763
Deposits from customers	-	-	-	50,880,558	50,880,558
Other liabilities	-	-	-	394,255	394,255
Total liabilities	-	-	-	56,148,576	56,148,576

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

c) Comparison by class of the carrying amount of the financial instruments (continued)

The table below sets out the bank's classification of each class of financial assets and liabilities and comparison of the carrying amount:

As at 31 December 2014	Held to maturity Kshs '000	Loans and receivables Kshs '000	Available for sale financial assets Kshs '000	Other liabilities at amortized cost Kshs '000	Carrying amount Kshs '000
Cash and Balances with Central Bank of Kenya	-	2,798,483	-	-	2,798,483
Placements and balances with other banks	-	940,209	-	-	940,209
Treasury bills & Term notes	-	7,463,469	-	-	7,463,469
Held to maturity investments	5,592,817	-	-	-	5,592,817
Investment in bonds- available for sale	-	-	1,928,885	-	1,928,885
Investment in ordinary shares available for sale	-	-	1,266,268	-	1,266,268
Loans and advances to customers	-	33,422,476	-	-	33,422,476
Other assets	-	252,141	-	-	252,141
Total assets	5,592,817	44,876,778	3,195,153	-	53,664,748
Liabilities					
Balances due to banks and financial institutions	-	-	-	1,680,066	1,680,066
Deposits from customers	-	-	-	45,075,045	45,075,045
Other liabilities	-	-	-	264,981	264,981
Total liabilities	-	-	-	47,020,092	47,020,092

d) Market risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The objective of market risk management is to manage and control market risk exposure within acceptable levels, while optimising on return on the risk.

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

d) Market risk (continued)

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the value of equity indices and individual stocks. A 10% increase in the value of the bank's available-for-sale equities as at 31 December 2015 would have increased equity by Kshs. 65 million (2014: Kshs. 88 million). An equivalent decrease would have resulted in an equivalent but opposite impact and would cause a potential impairment, which would reduce profit before tax.

Interest risk exposure

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of changes in the prevailing levels of market rates but may also decrease or create losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest repricing that may be undertaken. Consequently, the interest sensitivity effect on profit or loss would not be significant given the repricing frequency.

The table on next page summarises the exposure to interest rates risks. Included in the table are the bank's assets and liabilities at carrying amounts categorised by the earlier of contractual repricing or maturity dates:

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

c) Market Risk (continued)

Interest risk exposure (continued)

ASSETS	Up to 1 Month Kshs '000	1 to 3 Months Kshs '000	3 Months to 1 year Kshs '000	1 to 5 years Kshs '000	Over 5 years Kshs '000	Non-interest bearing Kshs '000	Total Kshs '000
Cash and balance							
with Central Bank of Kenya	1,000,000	-	-	-	-	3,103,641	4,103,641
Placements and balances							
with other banks	1,146,800	-	-	-	-	444,926	1,591,726
Treasury bills and term notes	1,405,764	2,526,148	2,405,586	365,533	-	-	6,703,031
Held-to-maturity investments	150,536	-	1,003,574	2,487,338	3,601,575	-	7,243,023
Bonds- available for sale	-	-	687,590	421,620	1,803,347	-	2,912,557
Ordinary shares-Available-for-sale	-	-	-	-	-	930,275	930,275
Loans and advances to customers	3,697,805	2,758,098	10,518,107	12,926,773	9,944,317	-	39,845,100
Other assets	-	-	-	-	-	436,582	436,582
Total assets	7,400,905	5,284,246	14,614,857	16,201,264	15,349,239	4,915,424	63,765,935
LIABILITIES							
Due to banks & financial institutions	552,456	1,018,261	1,242,277	402,011	1,658,758	-	4,873,763
Deposits from customers	13,565,205	12,889,558	12,559,146	117,286	-	11,749,363	50,880,558
Other liabilities	-	-	-	-	-	522,124	522,124
Total liabilities	14,117,661	13,907,819	13,801,423	519,297	1,658,758	12,271,487	56,276,445
Total interest sensitivity gap	(6,716,756)	(8,623,573)	813,434	15,681,967	13,690,481	(7,356,063)	7,489,490

ASSETS	Up to 1 Month Kshs '000	1 to 3 Months Kshs '000	3 Months to 1 year Kshs '000	1 to 5 years Kshs '000	Over 5 years Kshs '000	Non-interest bearing Kshs '000	Total Kshs '000
As at 31 December 2014							
Total assets	4,762,768	4,953,144	14,999,495	13,523,292	10,168,948	5,307,694	53,715,341
Total liabilities	14,984,484	11,109,277	12,968,824	-	-	8,120,069	47,182,654
Total interest sensitivity gap	(10,221,716)	(6,156,133)	2,030,671	13,523,292	10,168,948	(2,812,375)	6,532,687

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

c) Market risk (continued)

Interest risk exposure (continued)

The sensitivity computations assume that loan and advances and deposits maintain a constant rate of return from one year to the next. The effect on profit due to reasonable possible changes in interest rates, with all other variables held constant, is as follows:

	2015 Kshs'000	2014 Kshs'000
Effect on profit before tax of a +1% change in interest rates	(20,118)	(16,666)
Effect on profit before tax of a -1% change in interest rates	20,118	16,666
Effect on equity	14,082	11,666

Foreign Currency Exchange Risk

The bank records transactions in foreign currencies at the rates in effect at the date of the transaction. The bank retranslates monetary assets and liabilities denominated in foreign currencies at the rates of exchange in effect at the reporting date. The bank holds foreign currency denominated balances for cash and bank balances and placements, loans and advances and customer deposits. All the gains or losses arising from the changes in the currency exchange rates are accounted for in profit or loss.

The bank's functional currency, the Kenyan Shilling, has generally, over the recent past shown a weakening tendency against the US dollar and strengthening against the Euro, the two major currencies in which the bank has significant foreign transactions.

The US dollar

At 31 December 2015, if the US dollar had strengthened by 9% against the Kenyan Shilling, with all other variables held constant, the sensitised effect on profit or loss would have been a decrease in profit before tax of Kshs. 3 million (2014: Kshs. 2 million decrease), mainly as a result of the US Dollar denominated net monetary liabilities. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

The Euro

At 31 December 2015, if the Euro had strengthened against the Shilling by 3%, with all other variables held constant, the sensitised effect on profit or loss would have been an increase in profit before tax of Kshs. 230,416 (2014: Kshs. 378,742) mainly as a result of the Euro denominated net monetary assets. The reverse would also occur if the Kenya Shilling weakened with all other variables held constant.

In computing the percentage change in exchange rates, management has taken into consideration the direction of the published rates movement in the functional currency against the major foreign transactional currencies over the last two years.

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

42. FINANCIAL RISK MANAGEMENT (continued)

Risk management framework (continued)

c) Market risk (continued)

Foreign Currency Exchange Risk (continued)

The table below summarises foreign currency exposure to the bank

	2015 Kshs'000	2014 Kshs'000
FOREIGN CURRENCY ASSETS:		
Cash and balances with banks abroad	406,550	1,467,523
Investment in ordinary shares available for sale	839,414	1,193,391
Offshore bonds	209,992	239,032
Loan and advances	10,272,364	10,498,902
Total foreign currency assets	11,728,320	13,398,848
FOREIGN CURRENCY LIABILITIES:		
Balances due to banks abroad	4,725,718	1,867,006
Deposits	6,495,347	5,769,678
Total foreign currency liabilities	11,221,065	7,636,684
Net exposure at 31 December	507,255	5,762,164

NOTES ON THE FINANCIAL STATEMENTS (continued)

FOR THE YEAR ENDED 31 DECEMBER 2015

43. OPERATIONAL RISK

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

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

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

- Requirements for appropriate segregation of duties, including the independent authorisation of transactions
- Requirement for the reconciliation and monitoring of transactions
- Compliance with regulatory and other legal requirements
- Documentation of controls and procedures
- Requirements for the yearly assessment of operational risk faced, and the requirements of controls and procedures to address the risk identified
- Requirements for the reporting of operational losses and proposed remedial action
- Development of contingency plans
- Training and professional development
- Ethical and business standards
- Risk mitigation, (including insurance where this is effective)

44. EVENTS AFTER THE REPORTING PERIOD

The Board of Directors approved the financial statements on 16 March 2016 and authorised that the financial statements be issued. On this date, The Directors were not aware of any matter or circumstances arising since the end of the financial year, not otherwise dealt with in the financial statements, which would significantly affect the financial position of the bank and results of its operation as laid out in these financial statements.

45. CURRENCY

These financial statements are presented in Kenya Shillings (Kshs) and rounded to the nearest thousand (Kshs.'000).

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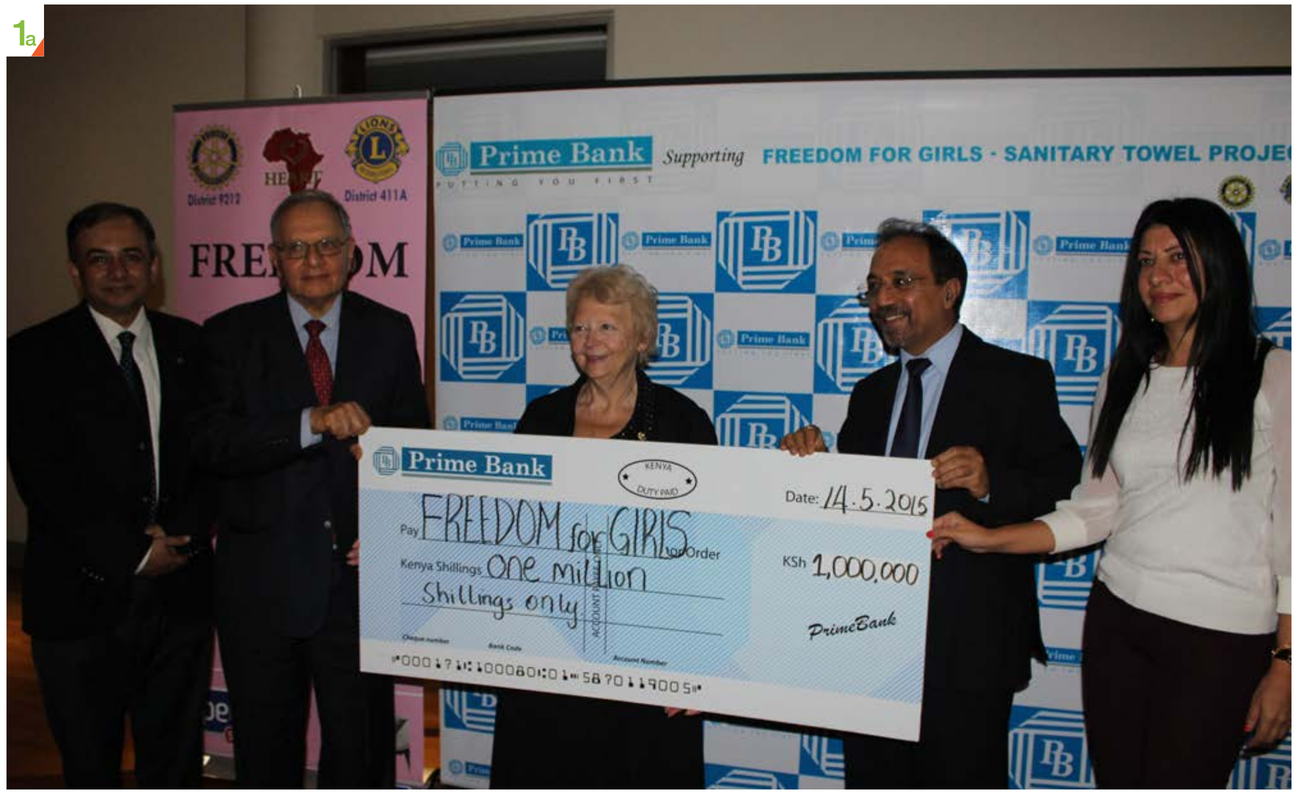

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1. FREEDOM FOR GIRLS 2014

Prime Bank in May sponsored over 2000 orphaned girls with a full year's supply of sanitary towels, undergarments and providing health education.

In its flagship Corporate Social Responsibility (CSR) project – Freedom For Girls, the bank donated Kshs. 1 million towards ensuring girls do not miss school while on their monthly cycle.

Freedom For Girls (FFG) is a sanitary towel project that was initiated and formed in the year 2006 by Rotary District 9212, Lions Multiple District 411A and Health Education Africa Resource Team (HEART) as the implementing partner. The objective of the project is to ensure adolescent girls are provided with a year's supply of sanitary towels (12 packets), 4 pairs of undergarments, hygiene and HIV prevention education.

2


2. HEALTH SCIENCES BUILDING PROJECT AT ADVENTIST UNIVERSITY

As part of the Bank's effort to improve education in the country, Prime Bank in February donated Kshs. 500,000 to Adventist University of Africa towards the construction of the Health Sciences Building.

3. OSHWAL GAMES 2015

The 24th edition of the Oshwal Games were held in Thika over the Easter weekend with a total of over 500 participants taking part in 11 sporting disciplines. The Games were hosted and organised by Visa Oshwal Community, Thika and Prime Bank was the Gold Sponsor of the event.

3


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4. PRIME BANK DONATES TO JUNIOR GOLF FOUNDATION

Prime Bank partnered with KGU, JGF and VISA to bring you the first ever golf card in Kenya – ***The Prime VISA Golf Card***.

This unique concept of a core-banded VISA golf card is geared towards developing talent and making golf courses accessible to the youth. This golf credit card has a twin effect in that it is specifically designed to enable golfers enjoy a wide range of benefits on and off the course at the same time making funds available for JGF.

For each golfer who signs up for the card, Prime Bank is donates Kshs. 2,000 to JGF.

In December Prime Bank handed over Kshs. 500,000 to JGF through the initiative.

5. PRIME BANK ANNUAL DIWALI GOLF TOURNAMENT

The 11th edition of Prime Bank Diwali Golf Tournament was held on Saturday 30th October at the Sigona Golf Club. During the event, the Bank's General Manager Mr. Jagannathan stressed the value of long term friendship and continued partnership the Bank has with Sigona Golf Club and its members.

6

6. NAIROBI HOSPICE GOLF DAY

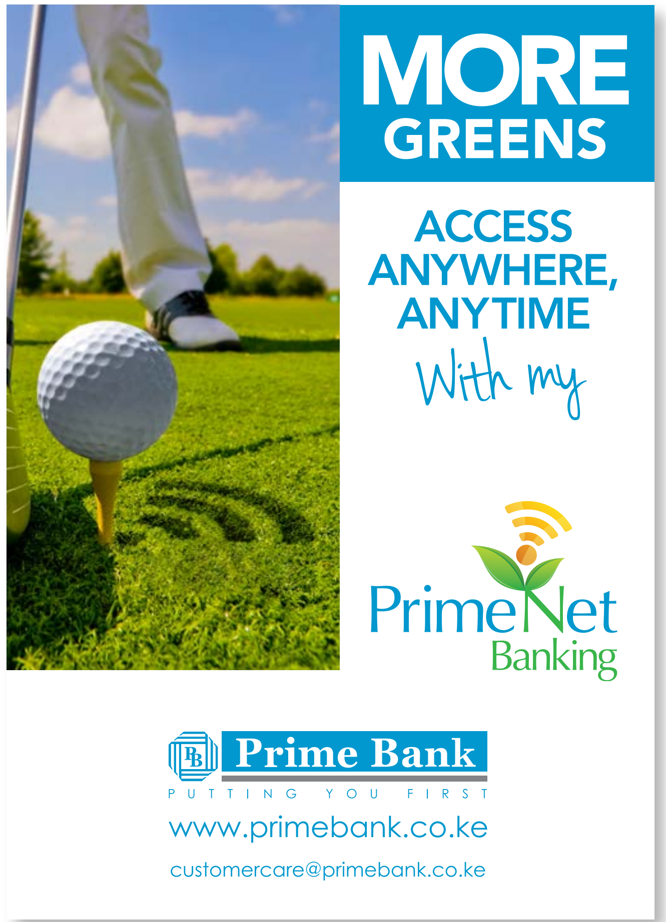
The Nairobi Hospice held their Golf Tournament at the Karen Country Club in May 2015 to raise funds to offer palliative care to its patients. In support of their work to care for patients and their families, Prime Bank sponsored the event.

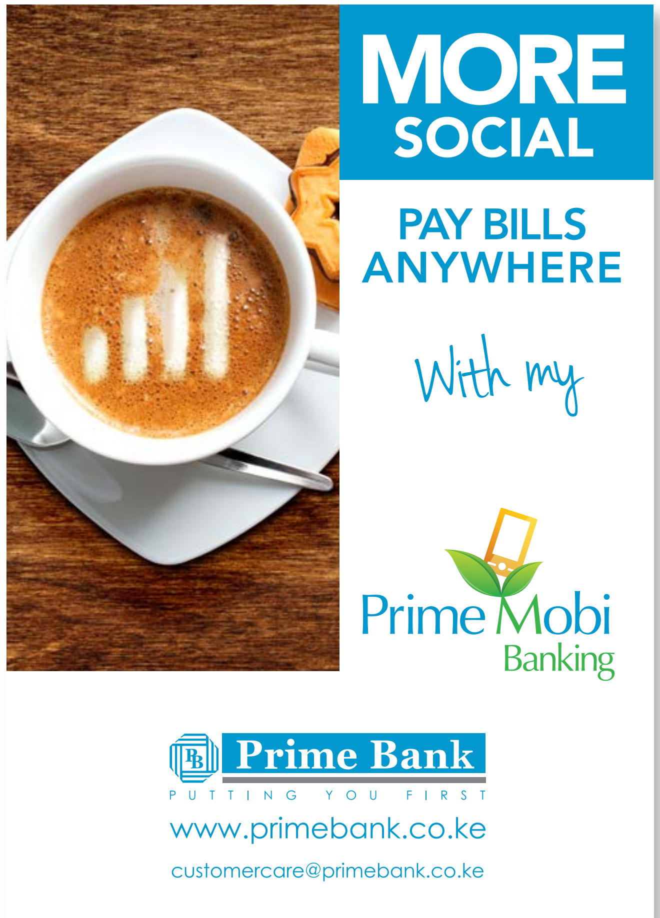
7. BETTERING THE FIELD OF MEDICINE

The Kenya Society of Endoscopic Specialties (KESES) hosted the 3rd African Conference of International Society for Gynecological Endoscopy on 23th – 26th August. The conference was attended by leading Hysteroscopists and Laparoscopists from across the world. The conference provided an excellent avenue for medical practitioners and students, nurses, theatre staff and consultants an opportunity to share skills and knowledge with world leading practitioners. Prime Bank, through the Chairman Dr. Rasik Kantaria donated Kshs. 200,000 to ensure the success of the conference. The First Lady of the Republic of Kenya Margaret Kenyatta, presided over the official opening of the conference.

7

MARKETING CAMPAIGN 2015





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