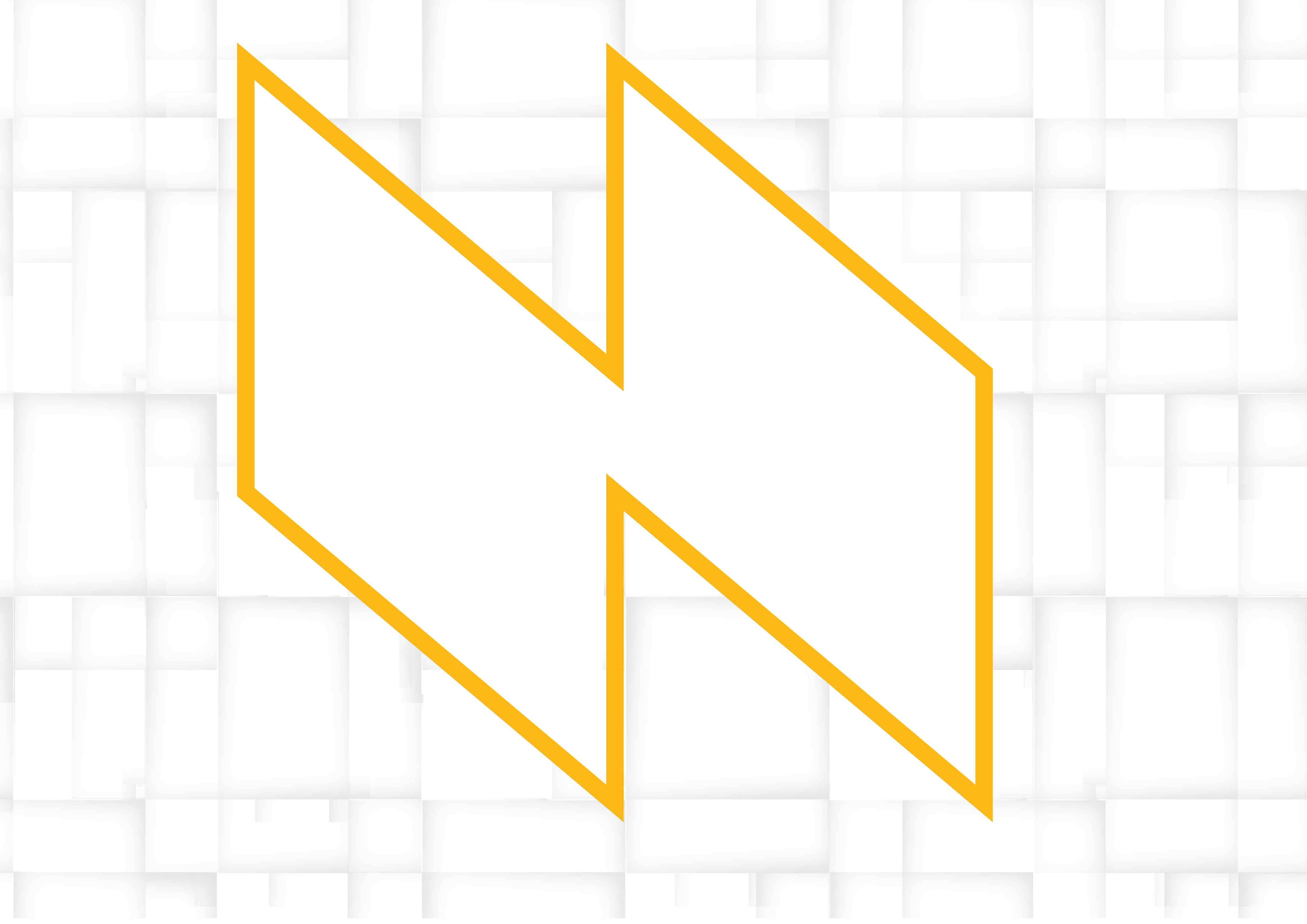
National Bank

Bank on better

2015 Annual Report and Financial Statements




We ARE NATIONAL


WE ARE NATIONAL


National

Introduction

Our History

National Bank was incorporated on 19th June 1968. At the time it was fully owned by the Government. The objective for which it was formed was to help Kenyans get access to credit. The Bank is listed on the Nairobi Securities Exchange.

Products and Services

National Bank participates in Corporate Banking, Business Banking, Retail Banking and Islamic Banking with an extensive portfolio of products and financial solutions tailored for the requirements of a broad spectrum of the customer segments it serves. We offer solutions to Corporates, Institutions, Businesses and Retail Customers. We are able to customize products and services to meet the needs of specific clients through various channels.

A wide spectrum of products offered by the bank include: Financing, Trade Services, Mortgages, Account Services, Custody Services, Islamic Banking, Cards Services, among others.

The Bank has a growing network of 75 branches outlets across the country, 140 ATMs and electronic channels of Mobile and Internet Banking.

Our Transformation

On 24th May 2013, the bank rebranded and changed its logo and colours from the predominantly green to yellow, and a new brand promise themed ''Bank on Better''. The Bank is also set to increase coverage through branch network from current 75 to 120 and to boost the Agency Banking network by recruiting 2,000 agents by 2017, so as to become a top tier bank by 2017.

Who We are

Our Vision

To be the preferred Bank in the provision of comprehensive financial solutions in the region.

Our Mission

At National Bank, we are dedicated to excellence in providing competitive financial solutions, meeting the changing needs of our customers, being a responsible Corporate Citizen, providing attractive opportunities to our employees and improving shareholders value.

Our Values

Courage, Collaboration and Honesty

We Are National

Contents

Corporate Information

BOARD OF DIRECTORS

Non-Executive

1. Mr. M. A. Hassan - Chairman
2. Cabinet Secretary, National Treasury - (CS - National Treasury)
3. Managing Trustee - National Social Security Fund - (MT- NSSF)
4. Eng. E K Mwongera
5. Mr. F L Atwoli
6. Ms. L Mirehane
7. Mr. J K Kering'

Executive

8. Mr. Wilfred Musau - Ag. Managing Director & CEO

BOARD COMMITTEES

Board Nomination & Remuneration Committee

1. Mr. Francis Atwoli*
2. Mr. Joseph Kering'
3. Managing Trustee NSSF
4. C.S. National Treasury
5. Mr. Wilfred Musau

Board Credit & Remedial Committee

1. Mr. Joseph Kering'*
2. Eng. Erastus Mwongera
3. Managing Trustee NSSF
4. C.S. National Treasury
5. Ms. Linnet Mirehane
6. Mr. Wilfred Musau

Board Risk Committee

1. Eng. Erastus Mwongera*
2. Ms. Linnet Mirehane
3. Managing Trustee NSSF
4. C.S. National Treasury
5. Mr. Wilfred Musau

Board Audit Committee

1. Ms. Linnet Mirehane*
2. Eng. Erastus Mwongera
3. Mr. Joseph Kering'
4. Mr. Francis Atwoli

COMPANY SECRETARY

H A Waswani (CPS No B/1650)
Certified Public Secretary (Kenya)
Harambee Avenue
P O Box 72866 City Square 00200 Nairobi

REGISTERED OFFICE

National Bank Building
18 Harambee Avenue
P O Box 72866 City Square 00200 Nairobi
Tel: 020-2828000
Fax: 020-311444/222304
E-Mail: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

AUDITORS

Deloitte & Touche
Certified Public Accountants (Kenya)
Deloitte Place, Waiyaki Way, Muthangari
P O Box 40092 GPO 00100 Nairobi

SHARE REGISTRAR

Image Registrars Limited
5th Floor, Barclays Plaza, Loita Street
P.O. Box 9287 GPO, 00100 Nairobi
Tel: 020 - 2230330, 2212065, 2246449
Mobile: 0724699667, 0735565666, 0770052116
Email: info@image.co.ke
Website: www.image.co.ke

* - Chairperson of the Board Committee

Board of Directors

Mr. Mohamed Abdirahman Hassan - Chairman, Non-Executive Director

Mr. Hassan joined National Bank Board in June 2011. He holds a Master of Science degree in Finance, (MSc.) from the University of Strathclyde, Glasgow. He also holds a Bachelor of Commerce (BCom. Hons.) finance major, from the University of Nairobi. He holds the Chartered Financial Analyst® (CFA®) designation and is a graduate of the Advanced Management Programme (AMP) from Strathmore Business School and IESE Business School, Universidad de Navarra, Barcelona. Mr. Hassan has over 16 years experience in a variety of roles including; Team Leader and Project Manager of investment banking transactions in different sectors of the regional capital and money markets. He worked as a research analyst at Dyer and Blair Investment Bank Limited in 1996 then became a Senior Bond Dealer between 1997 and 1999 before receiving a promotion to the position of General Manager at the Investment Bank. In 2003, he became the Executive Director. He is a former Chairman of Kenya National Trading Corporation. Mr. Hassan is a member of the Investment Committee of Kenya Community Development Foundation, Board of Trustee, Northern Kenya Education Trust, and NEPAD Kenya National Steering Committee.

Mr. Wilfred Musau - Ag. Managing Director & CEO

The Ag. Managing Director & CEO, Mr. Wilfred Musau, joined the Bank on September 8th 2015. He joined the Bank as the Director in charge of Retail & Premium banking division. Wilfred is a B.Com holder from Kenyatta University - Major in Banking and Finance, Holds a Masters Class certification in Strategy - USB University of Stellenbosch Business School – SA, UK Euro Money training in - advanced corporate banking, Master class in SME Banking and Master Class in Retail banking. Prior to joining National Bank, Mr. Musau held several senior management positions at NIC Bank, Barclays Bank of Kenya, Standard Chartered and KCB group including Deputy MD & Head of Corporate banking - KCB Rwanda, Head of branch business- NIC Bank Kenya, Head of Business banking- NIC Bank Kenya, Head of SME Banking- KCB Kenya, among others. He has over 18 years of consumer and commercial banking experience coupled with local and international experience and exposure.

Mr. Henry K. Rotich - Cabinet Secretary, The National Treasury, Non-Executive Director

Mr. Rotich is the Cabinet Secretary - The National Treasury. He holds a Masters Degree in Economics and a Bachelors Degree in Economics (First Class Honours), both from The University of Nairobi. He also holds a Masters Degree in Public Administration (MPA) from the Kennedy School of Government, Harvard University. Prior to his appointment as Cabinet Secretary, he had been the Head of Macroeconomics at the Treasury, Ministry of Finance since March 2006. Under this capacity, he was involved in the formulation of macroeconomic policies that ensured an affordable and sustainable path of public spending aimed at achieving the Government's development priorities. In addition, he was also involved in the preparation of key budget documents including the Budget Statements, as well as providing strategic coordination of structural reforms in the fiscal and financial sector. Prior to joining the Ministry of Finance, Mr. Rotich worked at the Research Department of the Central Bank of Kenya from 1994. Between 2001 and 2004, he was attached to the International Monetary Fund (IMF) local office in Nairobi to work as an economist. Mr. Rotich has also been a Director on several Boards of State Corporations, including; Insurance Regulatory Board, Industrial Development Bank, Communication Commission of Kenya and Kenya National Bureau of Statistics.

Board of Directors

Dr. Anthony Omerikwa - Ag. Managing Trustee, National Social Security Fund, Non-Executive Director

Dr. Omerikwa is the Acting Managing Trustee/CEO of the National Social Security Fund. Prior to his current position, he served as the Acting General Manager Operations in the same institution overseeing Information Technology, Human Resource, Administration and Procurement.

He holds a Doctoral degree from the University of Georgia, a specialist advanced degree in workforce development from Pittsburg State University, Masters of Science degree in human resource development, a bachelors of Arts degree in Economics and a diploma in IT from the Institute for the Management of Information Systems (UK).

Dr. Omerikwa is a member of the Institute of human Resource Management, Institute of Directors and the Kenya Institute of Management.

Mr. Francis Atwoli - Non-Executive Director

Mr. Atwoli was appointed to the National Bank Board in April 2003. He is a long serving career trade unionist and a member of the Board of Trustees of National Social Security Fund (NSSF). He is a member of ILO Governing Body, General Secretary, Kenya Plantation and Agricultural Workers Union (KPAWU) Secretary General, Central Organisation of Trade Union – Kenya (COTU K) Chairman/Spokesperson East African Trade Union Confederation (EATUC) – Arusha, President -Trade Union Federation of Eastern Africa (TUFEA) – Khartoum, President Organisation of African Trade Union Unity (OATUU) – Ghana, President International Trade Confederation Brussels, Vice President, International Labour Conference "ILC" (ILO 2012) – Geneva and Chairman Flat International American Trained Labour Leader (George Mean College of Labour Studies USA).

Eng. Erastus K. Mwongera - Non-Executive Director

Eng. Mwongera joined the National Bank Board in June 2011. Eng. Mwongera is currently a consultant at E.M. Baseline Consultants. He holds a Bsc. in Civil Engineering (Hons) from the University of Wales, United Kingdom. He also holds an Ordinary Diploma in Water Engineering and a High Diploma in Construction both from Kenya Polytechnic. He has worked for the Water Development Department (1974-1983), has been Principal at the Kenya Water Institute (1983-1989) and has also been a Director at the Ministry of Water Development (1989-1995). Eng. Mwongera has worked as a Permanent Secretary in various Government Ministries including; Ministry of Land Reclamation, Regional and Water Development, Ministry of Water Resources, Ministry of Roads and Public Works, Ministry of Roads, Public Works and Housing, Ministry of Lands and Housing and the Office of the Vice President and Home Affairs. He was formerly the Chairman of the Kenya Engineer Registration Board (2003-2006), the Chairman of the Kenya Airports Authority (2006-2009). Eng. Mwongera currently holds directorships in several institutions including; Chairman of Kenya National Highways Authority (KENHA), Chairman of Sameer Africa Limited, Director/Trustee NSSF, Chairman of Linksoft Group Limited, Director at Hillside Green Growers and Exporters Company Limited and Member, Evaluation Task Force on behalf of the Government.

Board of Directors

Ms. Linnet Mirehane – Non-Executive Director

Ms. Mirehane was appointed to the National Bank Board in March 2015. She has over 7 years' experience in the Political and Civil Society having worked with institutions like Constitution Reform Education Consortium (CRECO) and the Bureau for Development Services.

Ms. Mirehane has extensively participated in the development, design, management and implementation of various programmes in areas of good governance, human rights, democracy, gender and HIV/AIDs related issues. She holds a Bachelor of Education degree from Kenyatta University and has attended various professional management and corporate governance capacity building courses.

Mr. Joseph Kimutai Kering' – Non-Executive Director

Mr. Kering' joined National Bank Board in March 2015. He holds an MBA from Strathmore University and a Bachelor of Science (Hons.) Chemistry, from Kenyatta University. He also holds a Certificate in Global Business Strategy from IESE Business School, Universidad de Navarra, Barcelona.

Mr. Kering' is an energy consultant with a wealth of experience in the energy sector gained over the past 20 years in the oil industry in both the public and private sector. He is highly specialized in negotiations, stakeholder management, project management, business evaluation and turnaround. In addition to his role at National Bank, Mr. Kering' is a Director (East Africa) at Clifton Energy International and a Board Member at Lites Kenya, a division of CPF Group.

Mr. Habil A. Waswani - Company Secretary

Mr. Waswani joined National Bank in August 2013. He holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in Law from the Kenya School of Law and is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from United States International University in collaboration with the Columbia Business School, Columbia University, New York. He has also attended various professional management and corporate governance capacity building courses. Mr. Waswani is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a member of the Law Society of Kenya (LSK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Institute of Directors (IOD). Mr. Waswani was previously the Company Secretary and Head of Legal at Kenya Reinsurance Corporation Limited, a publicly listed reinsurance company, for a period of 4 years, prior to which, he held a similar position at Diamond Trust Bank Kenya Limited (DTB), also a publicly listed banking institution. Habil has over 13 years' experience in commercial and corporate law practice.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Board of Directors

Mr. Henry K. Rotich
Cabinet Secretary
The National Treasury, Non-Executive Director

Ms. Linnet Mirehane
Non-Executive Director

Mr. Mohamed Hassan
Chairman, Non-Executive Director

Mr. Wilfred Musau
Ag. Managing Director & CEO

Dr. Anthony Omerikwa
Ag. Managing Trustee/CEO of NSSF
Non- Executive Director

Board of Directors

Mr. Habil A. Waswani
Company Secretary

Mr. Joseph Kering'
Non-Executive Director

Ms. Beatrice Gathirwa
Representative of CS Treasury,
Non-Executive Director

Eng. Erastus K. Mwongera
Non-Executive Director

Mr. Francis Atwoli
Non-Executive Director

Senior Management

Mr. Wilfred Musau - Ag. Managing Director & CEO

The Ag. Managing Director & CEO, Mr. Wilfred Musau, joined the Bank on September 8th 2015. He joined the Bank as the Director in charge of Retail & Premium banking division. Wilfred is a B.Com holder from Kenyatta University - Major in Banking and Finance, Holds a Masters Class certification in Strategy - USB University of Stellenbosch Business School – SA, UK Euro Money training in - advanced corporate banking, Master class in SME Banking and Master Class in Retail banking. Prior to joining National Bank, Mr. Musau held several senior management positions at NIC Bank, Barclays Bank of Kenya, Standard Chartered and KCB group including Deputy MD & Head of Corporate banking - KCB Rwanda, Head of branch business- NIC Bank Kenya, Head of Business banking- NIC Bank Kenya, Head of SME Banking- KCB Kenya, among others. He has over 18 years of consumer and commercial banking experience coupled with local and international experience and exposure.

Mr. Reuben K. Koech - Ag. Director, Corporate, Institutional & Business Banking

Mr. Koech joined National Bank in August 2013. He holds a Bachelor of Arts (Economics Majors) and MBA, Strategic Management Option both from the University of Nairobi. He also has certification in credit assessment and analysis by Omega of UK and Culhanne of South Africa. Reuben is a career banker with more than 16 years of experience leading growth in the Corporate Banking space and developing high performance teams at leading international as well as regional banks. He has significant experience in Corporate relationship management for public and private sectors, retail banking, credit analysis & assessment and management, complex loan syndications including PPP financing projects, renewable energy finance etc. Prior to joining the Bank, Reuben worked for The Co-operative Bank of Kenya as a Senior Manager in charge of Energy and Manufacturing Sector within Corporate Banking & Trade Finance Unit. He has also worked for Fina Bank (Now GTBank), CfC Stanbic Bank and Standard Chartered Bank in various leadership roles.

Mr. Henry Maosa - Ag. Chief Finance Officer

Mr. Maosa joined the Bank in April 2014 as the Head of Reporting. He rose to the position of Head of Strategy and Projects in March 2015. Prior to joining the Bank, Henry worked for Standard Chartered Bank where he served in various management capacities. He also worked for the KCB Group. He has over 14 years' experience in the finance sector. He holds a Bachelors of Arts degree in Economics and an MBA in Strategic Management both from the University of Nairobi. He is a Certified Public Accountant of Kenya, CPA(K) and a holder of a higher diploma in computer science from IMIS-UK. He has attended various professional management courses. He is also a member of the Institute of Certified Public Accountants of Kenya (ICPAK).

Senior Management

Mr. Cromwell K. Kedemi - Ag. Director, Retail and Premium Banking

Mr. Kedemi joined National Bank in June 2013. He holds a Bachelor's degree in Economics and Sociology from the University of Nairobi and an MSC in Entrepreneurship from Jomo Kenyatta University of Agriculture and Technology (JKUAT) and is currently pursuing an MBA at Strathmore University, Nairobi. Cromwell is a banker with more than 21 years of experience leading growth and developing high performing teams and systems at leading international and in regional banks. He has significant experience across a broad range of banking operations including, managing delivery channels and sales team and a deep expertise in business strategy. Prior to joining the Bank, Cromwell worked for Barclays Bank of Kenya as the acting Head of Small and Medium Enterprises Banking. He also previously worked with KCB, where he was among the team that pioneered the Retail Banking sales.

Mr. Thomas Gachie - Director Operations

Mr. Gachie Joined National Bank in November 2012 . He holds a Bsc (Mathematics and Computer Science), Postgraduate Diploma in Computer Science and an MBA (Management Science) all from the University of Nairobi. He is also a holder of Graduate Diploma in Banking from the University of London, a Certified Information Systems Auditor (CISA), Certified Information Security Manager (CISM) and Certified Basel II professional. He has been involved in many Institutional Transformation Programmes for over 17 years starting with IberAfrica Systems as a SAP consultant, Co-operative Bank, Madison Insurance and Standard Charted Bank at regional roles. Meanwhile he is a trained, certified and practicing Lean Six Sigma Black Belt professional a leading operations management best practices credential. He is currently pursuing a Doctorate in Business Administration from the Edinburgh School of Business.

Mr. Musa A. Adan - Director Islamic Banking

Mr. Adan joined the Bank in March 2013 as Head of Business development in the Islamic Banking Division. He rose to the current position of Director Islamic Banking in 2014. He is a career banker with a track record of over 21 years having worked in different management capacities in different Banks in Kenya. He has over 8 years in senior management of Islamic Banking. He formerly worked at Gulf African Bank ltd as the Regional Manager in charge of Business growth and Market acquisition. He is a pioneer in Shari'ah banking in different capacities. He holds B.com (Hons) and MBA from the University of Nairobi and ACIB-UK.

Senior Management

Mr. Habil A. Waswani - Director, Legal Services and Company Secretary

Mr. Waswani joined National Bank in August 2013. He holds a Bachelor of Laws (LL.B) Degree from The University of Nairobi, a Diploma in Law from the Kenya School of Law and is a graduate of the Global Executive Master of Business Administration (GEMBA) Degree programme from United States International University in collaboration with the Columbia Business School, Columbia University, New York. He has also attended various professional management and corporate governance capacity building courses. Mr. Waswani is an Advocate of the High Court of Kenya and a registered Certified Public Secretary. He is a member of the Law Society of Kenya (LSK), the Institute of Certified Public Secretaries of Kenya (ICPSK) and the Institute of Directors (IOD). Mr. Waswani was previously the Company Secretary and Head of Legal at Kenya Reinsurance Corporation Limited, a publicly listed reinsurance company, for a period of 4 years, prior to which, he held a similar position at Diamond Trust Bank Kenya Limited (DTB), also a publicly listed banking institution. Habil has over 13 years' experience in commercial and corporate law practice.

Ms. Bernadette Ngara - Director, Marketing and Corporate Communications

Ms. Ngara serves as the Director, Marketing and Corporate Communication at National Bank. She joined the Bank in 2014. She has, in the past, handled the Marketing and Corporate Communications and CSR functions of other banks in the industry. She is a dynamic, passionate and customer centric marketing-communications specialist. Having worked in diverse industries, ranging from Manufacturing, banking (both local and international), she has brought life to brands that are startups as well as existing ones. She has particular expertise in Strategic Marketing Management, Customer Analytics and Digital Marketing. Bernadette has attended several executive leadership courses through Raiser Resource Group for Crestcom International. She holds an MA in International Marketing from University of Central England and is a Chartered Marketer (CIM).

Mr. Dismas O. Omondi - Director, Human Resources

Mr. Omondi joined the Bank in June 2013 as HR Business Partner. Later he rose to the current position of Ag. Director Human Resources in October 2014. He is a career banker with a track record of over 22 years in human capital management in various organizations. He has over 10 years management experience in various leadership positions.

Prior to his current appointment, he worked for Nairobi Women's Hospital as the General Manager Human Resources & Administration. He has also worked with World Vision, Kenya Airways, Rwandair amongst others in various capacities. He holds a Bachelors of Technology in Production Engineering and Executive MBA, both from Moi University. He is also a certified Executive Coach from Academy of Executive Coaching and is a member of the Institute of Human Resources Management.

Senior Management

Mr. Kaumbuthu Maingi - Director, Internal Audit

Mr. Maingi joined National Bank in August 1999. He holds a Bachelor of Commerce degree (Accounting) and Master of Business Administration (Banking and Finance). He has accounting and auditing working experience in the Government, Non Government organizations, manufacturing and FMG, financial and banking sectors. He is a Certified Public Accountant CPA (K) and Certified Information Systems Auditor (CISA).

Mr. Shadrack M. Kiamuko – Ag. Director, Information and Communications Technology

Mr. Shadrack joined the Bank mid-2013 as Head of Infrastructure and Data Centre. He holds a BSc (Physics & Electronics) and is an accomplished Information Technology professional with 19 years of experience. Prior to joining the Bank, Mr. Shadrack was a Senior Manager at Co-operative Bank in charge of Business Systems and Regional Technical Support Manager at Standard Chartered Bank in charge of technical support East, Central and Southern Africa. While in Standard Chartered, undertook regional assignments in Dubai, Ghana, Nigeria, Botswana, South Africa, Zambia and Uganda.

Ms. Ann Njoroge - Ag. Chief Credit Officer

Ms. Anne Njoroge serves as the Ag. Chief Credit Officer at National Bank. She joined the Bank in 2013 and has handled various roles within the Credit Risk function including, most recently, Ag. Head of Credit Risk. She has a good grasp of credit management and banking and demonstrated leadership and business acumen and brings on board breadth of experience spanning over 10 years as well as expertise in Commercial Lending.

Anne has holds a Master of Business Administration, Diploma in Banking, Diploma in Customer Relationship Management and certification in Commercial Lending.
She is self motivated, organized, customer focused with a track record of customer relationship management.

Mr. Francis Ogwao - Ag. Director, Integrated Distribution Channels

Mr. Francis Ogwao serves as the Ag. Director, Integrated Distribution Channels at National Bank. He joined the Bank in 1986. He has, in the past, handled branch management functions in various branches and until recently was Head of Branch Operations in National Bank. He is self driven, results oriented and customer centric in his approach to solution delivery.

Having worked in the Bank for 30 years in various capacities both at branch and Head Office, he posses expertise in banking operations and Asset & Liability management. Francis has attended several executive leadership and Euro Money Retail banking courses including business leadership and change, He holds a Bachelors of Commerce degree in Accounting from University of Nairobi.

Senior Management

Mr. Cromwell K. Kedemi
Ag. Director, Retail and Premium Banking

Mr. Kaumbuthu Maingi
Director, Internal Audit

Ms. Ann Njoroge
Ag. Chief Credit Officer

Mr. Shadrack Kiamuko
Ag. Director, Information and Communications Technology

Mr. Henry Maosa
Ag. Chief Finance Officer

Mr. Francis Ogwao
Ag. Director, Integrated Distribution Channels

Mr. Habil A. Waswani
Director, Legal Services and Company Secretary

Senior Management

Mr. Wilfred Musau
Ag. Managing Director & CEO

Mr. Thomas Gachie
Director Operations

Mr. Dismas Omondi
Director, Human Resources

Ms. Bernadette Ngara
Director, Marketing and Corporate Communications

Mr. Reuben K. Koech
Ag. Director, Corporate, Institutional & Business Banking

Mr. Musa Adan
Director, Islamic Banking

AGM Notice

NOTICE IS HEREBY GIVEN that the Forty Seventh Annual General Meeting of the Shareholders of National Bank of Kenya Limited (the ''Company'') will be held at the Amphitheatre of the Kenyatta International Conference Centre, Harambee Avenue, Nairobi on Friday, 3 June 2016 at 10.00 a.m. to transact the following business:-

1. To read the Notice convening the Meeting.
2. To receive, consider and adopt the Company's audited financial statements for the year ended 31 December 2015 together with the Directors' and Auditors' reports thereon.
3. To note that the Directors do not recommend payment of dividend to shareholders for the year ended 31 December 2015.
4. To elect Directors:-
   a) In accordance with Article 90 of the Company's Articles of Association, The Managing Trustee, National Social Security Fund retires by rotation as a Director and being eligible offers himself for re-election.
   b) In accordance with Article 90 of the Company's Articles of Association, Mr. Francis L. Atwoli retires by rotation as Director and being eligible offers himself for re-election.
   c) Ms. Bertha Joseph Dena having been appointed by the Board as an additional Director in accordance with Article 97 of the Company's Articles of Association subject to receipt of regulatory approvals, retires and being eligible offers herself for re-election as a Director of the Company.
5. To note and authorise payment of Directors' fees.
6. To appoint the Company's Auditors, M/s. Deloitte & Touche, in accordance with Section 159(2) of the Companies Act (Cap.486) and Section 24(1) of the Banking Act (Cap.488). M/s. Deloitte & Touche have indicated their willingness to continue in office.
7. To note the Auditors' remuneration for the year 2015 and authorise the Directors to fix the Auditors' remuneration for the year 2016.
8. To transact any other business of the Annual General Meeting in respect of which notice has been given.

SPECIAL BUSINESS: - To pass the following resolution as a special resolution:

9. That the Directors be and are hereby authorized to exercise powers and options of the Company towards raising additional capital and obtain all the required consents and authorizations from regulators in that regard subject to the provisions of the Articles of Association of the Company and all relevant laws.

By Order of the Board,

Habil A. Waswani
Company Secretary
31 March 2016

Notes:
1. A member entitled to attend and vote at the above meeting may appoint a proxy to attend and vote instead of him/her. A proxy need not be a member of the Company.
2. In the case of a member being a limited liability company or corporate body, the form must be completed under its Common Seal or under the hand of an officer or attorney duly authorised in writing.
3. The Proxy Form shall be available at the Bank's website www.nationalbank.co.ke, or, the offices of the Company's Share Registrars – Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287-00100, Nairobi.
4. Shareholders who will not be able to attend the Annual General Meeting are requested to complete the proxy form and return:-
   a) by hand or email to Image Registrars Limited, 5th Floor, Barclays Plaza, Loita Street, P.O. Box 9287-00100, Nairobi, email: info@image.co.ke, or
   b) by hand to the Registered Office of the Company.
5. Proxies must be received not less than 48 hours before the meeting i.e. not later than 5.00 p.m. on Tuesday 31 May 2016.
6. In accordance with Article 125 of the Company's Articles of Association a copy of the Audited Financial Statements may be viewed on and obtained from the Company's website www.nationalbank.co.ke or from the Registered Office of the Company. An abridged set of the audited Balance Sheet, Income Statement, Statement of Changes in Equity and Cashflow Statements for year ended 31st December 2015 have been published in two daily newspapers with nationwide circulation.
7. Registration of Members and proxies attending the Annual General Meeting will commence at 7:00 a.m. and will close at 10:00 a.m. Production of a National Identification Card, Passport or other acceptable means of identification and the Member's share certificate or current Central Depository Statement of account for their shares in the Company will be required.

NOTISI YA MKUTANO WA PAMOJA WA MWAKA (AGM NOTICE)

NOTISI INATIOLEWA HAPA KWAMBA, kwamba Mkutano wa 47 wa pamoja wa mwaka wa wanahisa wa National Bank Of Kenya Limited (kampuni) utafanyika katika ukumbi wa Amphitheatre jumba la Kimataifa la Jomo Kenyatta lililoko barabara ya Harambee Avenue Nairobi Ijumaa Juni 3, 2016 kuanzia saa nne asubuhi ili kaungazia maswala yafuatayo kibiashara:-

1. Kusoma Notisi ya kuitishwa kwa Mkutano
2. Kupokea, kuzingatia na kupitisha taarifa za matumizi ya pesa za kampuni kwa kipindi cha mwaka uliokamilika Desemba 31, 2015 pamoja na ripoti za wakaguzi wa pesa na wakurugenzi.
3. Kufahamu kwamba wakurugenzi hawapendekezi malipo yoyote ya mgawo wa faida kwa wanahisa kwa kipindi cha mwaka uliomalizika Desemba 31, 2015.
4. Kuwachagua wakurugenzi:
   a)Kwa mujibu wa kifungu nambari 90 cha sheria za makampuni, meneja mdhamini , National Social Security Fund anastaafu kwa zamu kama Mkurugenzi na kwa kuwa anastahili amejitokeza ili kuchaguliwa tena.
   b) Kwa mujibu wa kifungu nambari 90 cha sheria za makampuni, Bw. Francis L. Atwoli anastaafu kwa zamu kama mkurugenzi na kwa kuwa anastahili, anajitokeza ili kuchaguliwa tena
   c) Bi. Bertha Joseph Dena ambaye baada ya kuteuliwa na Halmashauri kama mkurugenzi wa ziada na kwa mujibu wa kifungu nambari 97 cha sheria za makampuni na baada ya kupokea idhini ya masharti, anastaafu na kwa kuwa anastahili amejitokeza ili kuchaguliwa tena
5. Kutambua na kupitisha malipo ya wakurugenzi
6. Kuwateua wakaguzi wa pesa za kampuni M/s Deloitte & Touche kwa mujibu wa sehemu ya 159 (2) ya sheria za makampuni (Cap 486) na sehemu ya 24 (1) ya sheria za benki (cap 488). M/s Deloitte & Touche wameonyesha nia yao ya kuendelea na jukumu hili.
7. Kutambua marupurupu ya wakurugenzi kwa kipindi cha mwaka 2015 na kuwaamuru wakurugenzi kuamua malipo yao kwa kipindi cha mwaka 2016.
8. Kutelekeza majukumu mengine yoyote ya kibiashara ya Mkutano Mkuu wa Pamoja wa Mwaka ambayo notisi yake itakuwa imetolewa.

MAALUMU:

9. Kwamba Wakurugenzi wamepewa uhuru na wanaamrishwa kutumia mamlaka na mbinu zozote kutoka kwa Kampuni ili kupata mtaji wa ziada na kutafuta vibali vyote vinavyohitajika na idhini kutoka kwa wasimamizi kwa hali hii na kwa mujibu wa vifungu vya sheria za kampuni na sheria nyingine zozote zinazohusika.

Kwa Amri ya Halmashauri

H A. Waswani
Katibu wa Kampuni
Machi 31, 2016

Muhimu:

1. Mwanachama aliye na ruhusa kuhudhuria mkutano na kupiga kura anaweza kumteua wakala kufika na kupiga kura kwa niaba yake. Si lazima kwa wakala kuwa mwanachama wa Kampuni
2. Katika hali ambapo mwanachama ni kampuni maalumu au shirika, ni lazima fomu ya wakala iwe imepigwa muhuri wa kawaida au chini ya afisa au wakili aliyeidhinishwa kwa kuandika.
3. Fomu ya uwakilishi inapatikana kupitia wavuti wa benki www.nationalbank.co.ke au ofisi ya msajili wa hisa za kampuni, image registrars Limited orofa ya tano , jumba la Barclays Plaza, barabara ya Loita Slp 9287-00100 Nairobi.
4. Wanahisa ambao hawataweza kuhudhuria mkutano wa pamoja wa mwaka wanaombwa kujaza fomu ya wakala na kuirudisha kwa:-
   a) Kwa njia ya kuandika au kwa njia ya barua pepe kwa; image registrars Limited orofa ya tano , jumba la Barclays Plaza, barabara ya Loita Slp 9287-00100 Nairobi, barua pepe: info@image.co.ke au
   b) njia ya mkono kupitia ofisi ya Benki iliyosajiliwa
5. Wakala wawe wamepokelewa na kampuni saa 48 kabla ya kuanza kwa mkutano yaani kabla ya saa kumi na moja Jumanne Mei 31,2016.
6. Kwa mujibu wa kifungu nambari 125 cha sheria za kampuni , nakala nzima ya ripoti ya mwaka na kaguzi za pesa zinaweza kupatikana kupitia wavuti wa kampuni www.nationalbank.co.ke au ofisi ya kampuni iliyosajiliwa. Muhtasari wa mizania , taarifa kuhusu mapato, taarifa kuhusu mabadiliko ya umiliki wa hisa na mtiririko wa pesa kwa kipindi cha mwaka uliomalizika Desemba 31, 2015 zimechapishwa kupitia magazeti mawili ya kila siku yanayosambazwa kote nchini.
7. Usajili wa wanachama na wakala watakaohudhuria mkutano utaanza saa moja asubuhi na utafungwa saa tano asubuhi. Utoaji wa kitambulisho cha kitaifa, hati ya kusafiria au stakabadhi nyingine za kujitambulisha zinazokubalika na cheti cha hisa cha uanachama au taarifa ya hivi punde ya akaunti ya CDS kuhusu hisa zao katika kampuni zitahitajika.

A Word From the **Chairman**

Dear Shareholder,

Once again, it is my pleasure to present to you the Annual Report and financial statements of the bank for the year ended 31 December 2015. We have seen another year of improved revenue growth in 2015 and have made significant progress towards our aim of delivering a step-change in both the level and sustainability of growth of the Bank. We remained on course to deliver the revenue targets we had set for 2015, although an increase in funding costs and the non-performing loan portfolio towards the end of 2015 resulted in negative profitability for the year.

Kenya Overview

Before embarking into the banks performance, here's a brief economic overview of how we faired as a country in 2015. According to the Central Bank's economic monthly review of November 2015, growth was mainly supported by expansion in construction, manufacturing, finance and insurance, information, communications and technology and wholesale and retail trade. The economy slowed in the third quarter of 2015, partly due to a sharp drop in tourism following terrorist attacks in the country. Overall the country's GDP growth amounted to 6.5% in 2015.

The short to medium-term positive growth projections are based on assumptions of increased rainfall for enhanced agricultural production, a stable macroeconomic environment, continued low international oil prices, stability of the Kenya shilling, improvement in the security situation for a positive influence on the tourism sector; and reforms in the areas of governance and justice.

Business performance

During the period under review, the bank registered a 3.3% growth in net loans & advances to KShs 67.8b. Customers' deposits grew by KShs 5.9b to KShs 110.6b in the same period.

Total operating income declined by 5.9% to Kshs 9.6b as at 31 December 2015 mainly on account of high costs of funding. The business grew total interest income to KShs 12.2b in 2015 compared to KShs 10.7b over the same period in 2014, representing a 14.5% increase.

Net interest income declined by KShs 0.4b to KShs 6.4b, mainly on account of an increase in interest expenses to KShs 5.9b due to tight liquidity in 2015. Operating expenses increased marginally by 7.1% to KShs 7.5b on account of stringent cost cutting measures put in place by the management. The loan impairment charge increased by KShs 3.2b over the period due to an increase in the non-performing loan portfolio towards the end of 2015.

The Bank registered a loss after tax of KShs 1.2b, mainly attributed to increased bad debt provisions and higher funding costs. The year 2015 had considerable challenges and the increase in non-performing loans portfolio led to increased provisions, a prudent practice in accounting.

Banking Sector

Kenya's listed banks posted modest earnings per share (EPS) in 2015 but there are hopes of a better performance in 2016, fuelled by a rebound in economic activities and increased demand for credit from households and businesses. However, a recent survey by the Central Bank of Kenya showed that a number of lenders are wary of the Government's cash constraints, instability in the forex market and high interest rates, arguing that these factors could trigger mass defaults in the sector.

A Word From the Chairman (Cont...)

The uncertainty about speedy economic recovery also saw many banks reduce their expansion drive; however National Bank has achieved a relatively positive growth in the last one year.

Transformation Agenda

Through its transformation strategy, the Board seeks to regain the Banks glory and propel it back to the Top Tier Banks by growing its balance sheet, expanding our market footprint, managing risks and streamlining costs.

The Bank continued with the rebranding exercise which is revamping our retail outlets look and feel which will lend itself to more efficient service delivery.

Fully cognizant that more work is still required to get the bank to the level of its peers, the bank has been acknowledged by various credible institutions for having achieved major milestones.

The bank has now the required talent with the necessary experience and background to drive our agenda. I have no doubt that this will impact positively on the banks performance and therefore enhance wealth creation for our shareholders.

Future outlook

We remain optimistic that with the transformation agenda that we have continuously implemented over the years, the bank will be in a position to take advantage of opportunities that present themselves in the market for a better performance.

That notwithstanding, National Bank seeks to open 20 new branches by 2017 subject to the availability of regulatory capital and boost its agency banking network to 2000 agents.

Conclusion

It has been a year of further progress – strategically, operationally and financially. There is, however, no complacency, and in such rapidly changing markets we continue to focus our energies on shorter decision timelines, rapid deployment and strong customer focus.

We can only do this successfully with excellent people and, on behalf of the Board, management and staff of the bank, I would like to thank all our esteemed customers for choosing to partner with National Bank. I look forward with confidence to greater success in the year ahead.

Mr. Mohammed Abdirahman Hassan
Non-Executive Chairman

TAARIFA KUTOKA KWA MWENYEKITI

Kwa wanahisa,

Kwa mara nyingine ni furaha yangu kuwaletea ninyi ripoti ya mwaka na taarifa za matumizi ya pesa ya benki kwa kipindi cha mwaka uliomalizika Desemba 31, 2015. Tumeshuhudia kipindi kingine cha uimarikaji wa ukuaji wa mapato cha mwaka 2015 na tumetekeleza hatua muhimu didi ya lengo letu la kuleta mabadiliko katika viwango vyote kwa uthabiti na ukuaji wa benki. Tulisalia kwenye mkondo wa kutimiza malengo ya mapato yetu mwaka 2015 ingawa kulikuwa na ongezeko la gharama za ufadhili wa mikopo isiyolipika kufikia mwisho wa mwaka 2015 hali iliyopelekea kutokuwepo kwa faida za kuridhisha kipindi cha mwaka huu.

Mtazamo wa Kenya

Kabla ya kurejelea matokeo ya benki, hapa kuna muhtasari wa mtazamo wa kiuchumi kuhusu jinsi taifa lilivyotekeleza shughuli mwaka 2015.

Kwa mujibu wa tathmini ya uchanganuzi wa kila mwezi unayofanywa na Benki Kuu ya mwezi Novemba mwaka 2015 , ukuaji ulipata usaidizi kutokana na shughuli za upanuzi wa ujenzi, uzalishaji viwandani, fedha na bima, habari, mawasiliano na teknolojia na; biashara za jumla na reja reja. Uchumi ulipungua kipindi cha miezi mitatu ya mwisho ya mwaka 2015.

Makadirio mema ya ukuaji wa muda mfupi na wa kadri unategemea dhana ya kuongezeka kwa mvua kwa uimarishaji wa uzalishaji wa kilimo, mazingira thabiti ya chumi ndogo, kuendelea kuwepo kwa bei za chini za mafuta ulimwenguni, uthabiti wa shilingi ya Kenya, kuimarika kwa hali ya usalama ili kuwavutia watalii na kuwepo kwa mabadiliko ya utawala na haki.

Matokeo ya biashara:

Wakati wa kipindi cha mwaka unaoangaziwa, benki ilisajili ukuaji wa asilimia 3.3 (3.3%) wa mikopo kwa jumla na malipo ya awali hadi Kshs. 67.8 bilioni . Akiba ya wateja iliimarika kwa Kshs. 5.9 bilioni na kufikia Kshs. 110.6 bilioni wakati wa kipindi hiki.

Mapato ya jumla ya utekelezaji shughuli yalipungua kwa asilimia 5.9 (5.9%) hadi Kshs.9.6 bilioni kufikia Desemba 31, 2015 hasa kutokana na gharama za juu za ufadhili. Mapato ya biashara kutokana na riba kwa jumla yaliimarika hadi Kshs.12.2 bilioni mwaka 2015 ikilinganishwa na Kshs. 10.7 bilioni kipindi sawa na hiki mwaka 2014 na kuwakilisha ongezeko la asilimia 14.5 (14.5%). Mapato ya jumla kutokana na riba yalipungua kwa Kshs 0.4 bilioni hadi Kshs. 6.4bilioni kutokana na kuongezeka kwa gharama za riba hadi Kshs.5.9 bilioni kutokana na shinikizo kali la upataji pesa mwaka 2015. Gharama za utekelezaji shughuli ziliongezeka kwa kiasi kwa asilimia 7.1 (7.1%) hadi Kshs. 7.5 bilioni kutokana na hatua kali za upunguzaji gharama za matumizi zilizowekwa na usimamizi. Ada za mikopo ziliongezeka kwa Kshs. 3.2 bilioni wakati wa kipindi hiki kutokana na ongezeko la mikopo isiyolipika mwishoni mwa mwaka 2015.

Benki ilisajili hasara baada ya kutozwa ushuru wa Kshs.1.2 bilioni hasa kutokana na kuongezeka kwa viwango vya mikopo isiyolipika na gharama za juu za ufadhili. Mwaka 2015 ulikuwa na changamoto si haba na kuongezeka kwa mikopo isiyolipika kulipelekea kuongezeka kwa kwa matumizi ya akiba za faida hali ambayo ni ya kawaida kwa ukaguzi wa fedha.

Sekta ya benki

Benki zilizosajiliwa nchinI Kenya ziliandikisha mapato ya wastani kwa kila hisa (EPS) mwaka 2015 lakini kuna matumaini kuwepo kwa matokeo mema mwaka 2016. Matokeo haya yatachochewa na kufufuka tena kwa shughuli za kiuchumi na kuongezeka kwa mahitaji ya mikopo manyumbani na biashara. Hata hivyo, utafiti wa hivi majuzi uliofanywa na benki kuu unaonyesha kwamba, idadi kadhaa ya wakopaji ina taharuki kuhusiana na shinikizo la pesa kutoka kwa serikali , kukosekana kwa uthabiti katika masoko ya kubadilisha pesa za kigeni na viwango vya juu vya riba na kudai kwamba maswala haya huenda yakachangia sekta hii kushindwa kutekeleza wajibu wake. Kukosekana kwa uwazi kuhusu kufufuka kasi kwa uchumi pia kulipelekea benki nyingi kusitisha mipango yake ya upanuzi. Hata hivyo, benki ya National imeshuhudia ukuaji mdogo kipindi cha mwaka mmoja uliopita.

Agenda ya mabadiliko

Kupitia mkakati wake wa mabadiliko, halmashauri inakamia kurudisha sifa za benki na kuirejesha kileleni kwa kuimarisha mizania yake, kupanua masoko yetu, kuthibiti hatari na kulainisha gharama.

Benki iliendelea na zoezi la kubadilisha muundo wake ambao imeinua sura na hisia za vituo vyake vya reja reja ili kuimarisha utoaji wa haraka wa huduma. Kwa kuzingatia kwamba kuna mambo mengi yanayohitaji kufanywa ili kuirejesha benki kwenye viwango washindani wake, benki imetambuliwa na taasisi mbali mbali zinazotambulika kwa kuafikia mafanikio makubwa.

Kwa sasa, benki ina utaalamu na ujuzi unaohitajika na sifa za kuendesha ajenda yetu. Sina shaka kwamba hali hizi zitachangia pakubwa matokeo ya benki na hivyo kuchochea uzalishaji wa mali kwa wanahisa wetu.

Mtazamo wa siku za usoni

Tuna imani kwamba ajenda ya kuleta mabadliko ambayo tumeanzisha miaka iliyopita itaiwezesha benki kutwaa nafasi zitakazojitokeza kwenye soko ili kupata matokeo mema. Hata hivyo, benki ya National inatarajia kufungua matawi 20 mapya mwaka 2017 kwa kutegemea kupatikana kwa mtaji wa masharti na kuinua mtandao wa mawakala wake na kufikia maajenti 2000.

Hitimisho

Umekuwa mwaka wa ufanisi zaidi, kimkakati, utenda kazi na kifedha. Hata hivyo, hakuna jambo la kufurahisha , na, katika masoko yanayobadilika haraka, tunaendelea kuelekeza juhudi zetu kwa maamuzi ya muda mfupi , upanuzi wa haraka na uwajibikiaji mkubwa wa wateja. Tunaweza kutimiza hili kikamilifu tukiwa na watu wanaofaa. Kwa niaba ya halmashauri , usimamizi na wafanyakazi wa benki, ningependa kuwashukuru wateja wetu kwa kuchagua kushirikiana na benki ya National. Natazamia kwa imani kuona mafanikio makubwa mwaka ulioko mbele.

Bw. Mohammed Abdirahman Hassan
Mwenyekiti Asiye na Mamlaka

Dear Shareholder,

The year 2015 was generally successful for National Bank despite an increasingly difficult business environment, evolving regulations and intensifying competition. We have recorded many achievements including, the expansion in our branch network, our functioning new business model and structure and last but not least our re-packaged and newly-developed range of banking products.

Performance review

2015 was indeed a very challenging year for National Bank in financial performance despite the successes recorded in other areas. Our financial results are a reflection of a volatile macro-economic environment as well as the increase in non-performing loans portfolio that led to increased provisions, a prudent practice in accounting.

During the period under review, the bank registered a 3.3% growth in net loans & advances to KShs 67.8b. Customers' deposits grew by KShs 5.9b to KShs 110.6b in the same period representing a 5.6% growth.

Total operating income declined by 5.9% to Kshs 9.6b as at 31 December 2015 mainly on account of high costs of funding. The business grew total interest income to KShs 12.2b in 2015 compared to KShs 10.7b over the same period in 2014, representing a 14.5% increase.

Net interest income declined by KShs 0.4b to KShs 6.4b, mainly on account of an increase in interest expenses to KShs 5.9b due to tight liquidity in 2015. Operating expenses increased marginally by 7.1% to KShs 7.5b. This was in line with the target budget of KShs 7.9b. The loan impairment charge increased by KShs 3.2b over the period due to an increase in the non-performing loan portfolio towards the end of 2015.

The bank registered a loss after tax of KShs 1.2b, mainly attributed to increased bad debt provisions and higher funding costs.

Strategic Milestones & Business Development

National Bank has a focused strategy and diversified business model, styled to create long-term value for our shareholders. In 2015, the Bank was acknowledged by various credible institutions for various achievements. Having transformed customer experience across our branches, the Bank was named as the ''best bank in service'' by the reputable Institute of Customer Service during their Excellence awards.

In the 2015 Think Business awards, the Bank was named the Fastest Growing Bank, Best Bank in Mobile Banking and Best Bank in Agency Banking. The Bank also won an award as the Best Islamic Window Bank in East Africa in the Islamic Business and finance awards.

In line with the ongoing transformation at the bank, we launched a Premium banking platform as a way of product differentiation. The platform ensures that our high net worth customers at the bank enjoy premium facilities including dedicated relationship managers, private meeting rooms and banking hours to suit their expectations.

The service additionally avails convenient facilities such as high speed internet access and mounted tablets from which customers can transact or check mails.

Word From the Managing Director

The Bank launched PIN delivery via SMS with support from Compass Plus, being one of the first banks in the region to offer this service to its customers. Based on TranzWare products from Compass Plus, the new service has significantly reduced operational costs for the bank by eliminating postage charges, as well as the need to print PIN envelopes.

The project followed the successful migration of the bank's IT infrastructure toTranzWare, as part of a large-scale project to unify and optimize the bank's IT infrastructure, as well as to simplify integration between various information systems.

The Bank also launched an in-house Card Personalization facility for efficient card issuing. This facility enables us to issue high security chip cards to our customers within 24hrs of application. This milestone makes us one of the first banks in Kenya to achieve this as the banking sector deepens the adoption of EMV chip and PIN technology.

The bank's in-house card personalization centre has helped stabilize card issuance at the bank and improve the turnaround time for card production to issuing. The innovation has helped ensure customers can receive an ATM card within 24hrs as we continue to deliver on our Bank on Better promise.

In order to diversify our revenue streams while taking services close to our customers, the Bank is constantly growing the Multi-channel distribution network that now stands at 80 branches, 140 ATMs and over 1500 agencies.

The key objective of the Bank is to have a solid platform that would provide outstanding customer service delivery, enhance our capacity and expand our distribution network throughout the country. The Bank partnered with Pesa Point to enable our customers enjoy access to over 1,000 ATMs belonging to PesaPoint and its partners around the country.

In order to improve efficiency and serve our customers better, the bank has embarked on a major project to upgrade our core banking system (BFUB) to cater for its requirements spanning various functionalities including deposits, lending, payments, international trade, etc. The Bank has had to aggressively pursue avenues that would allow it to offer its customers the much needed access to our services. This will further free our banking halls enabling us to serve our customers better through innovatively embracing the technological advances in transaction banking.

Business outlook

In 2015, we continued to take important steps to improve the Bank's customer experience. We shall continue to engage and enhance our services in order to make them more competitive and current with the needs of our customers.

National Bank is well positioned to capitalize on the opportunities ahead. We are intensifying our pursuit of the Bank's strategic priority of becoming the top tier bank by the year 2017 and other priorities outlined in our transformation plan by focusing specifically in the following areas:

• Extending the digital experience across all channels. We are developing strategies to further integrate the bank's digital and physical channels – merging the online and mobile experience into our retail branch and ATM network.

• Simplifying and automating for greater efficiency. By exploring new ways to streamline processes, modernize platforms and embed cost controls, we are adding to the productivity and efficiency gains realized over the past three years.

• Leveraging data insights to serve customers better. By enhancing the bank's analytics capabilities, we are reshaping our understanding of what customers are looking for and how they want to do business with us. Deeper insights will make us even more effective in attracting new customers, assessing risk, tailoring and cross-selling our products and services.

• Continuing to build a strong, differentiated brand. As we extend a consistent identity and message throughout our expanded footprint, we reinforce existing relationships while fostering new ones.

Conclusion

In closing, I would like to thank our customers around the country for their business. It is a privilege for us. I also want to thank our shareholders and the Board of Directors for your confidence and continued support. Finally, I want to recognize all National Bank staff for their dedication to out serve our customers. Together, our future is exceedingly bright.

Wilfred Musau
Managing Director & CEO

TAARIFA KUTOKA KWA
MENEJA MKURUGENZI

Kwa wanahisa,

Mwaka 2015 ulikuwa na ufanisi kwa benki ya National licha ya kuongezeka kwa mazingira magumu ya utekelezaji biashara , kuibuka kwa masharti na kuwepo kwa ushindani mkali. Tumeandikisha mafanikio mengi ikiwemo upanuzi wa mtandao wa matao yetu, sura na muundo mpya wa biashara zetu na mwisho lakini muhimu bidhaa zetu za aina mbali mbali zilizofanyiwa mabadiliko mapya za kubuniwa upya.

Mtazamo wa matokeo:

Kwa hakika, mwaka 2015 ulikuwa wenye changamoto nyingi kwa benki ya National kwa matokeo yake ya kifedha licha ya usajili mwema ulioshuhudiwa maeneo mengine. Matokeo yetu ya kifedha ni ishara ya mazingira magumu ya chumi ndogo pamoja na kuongezeka kwa kitengo kwa mikopo isiyolipika ambayo ilipelekea kuongezeka kwa matumizi ya akiba za faida hali ambayo ni ya kawaida kwa ukaguzi wa fedha.

Wakati wa kipindi cha mwaka unaoangaziwa, benki ilisajili ongezeko la asilimia 3.3 (3.3%) la mikopo kwa jumla na malipo ya awali ya Kshs. 67.8 bilioni . Akiba ya wateja iliongezeka kwa hadi Kshs.5.9 bilioni na kufikia Kshs.110. 6 bilioni kipindi sawa cha hiki na kuwakilisha ukuaji wa asilimia 5.6 (5.6%).

Mapato ya jumla ya utekelezaji kazi yalipungua kwa asilimia 5.9 (5.9%) na kufikia Kshs. 9.6 bilioni mnamo Desemba 31, 2015 kutokana na gharama za juu za ufadhili. Biashara ilikuza mapato ya riba ya jumla ya Kshs. 12.2 bilioni mwaka 2015 ikilinganishwa na Kshs. 10.7 bilioni kipindi sawa na hiki mwaka 2014 na kuwakilisha ongezeko la asilimia 14.5 (14.5%) Mapato ya Jumla ya riba yalipungua kwa kshs. 0.4 bilioni hadi Ksh. 6.4 bilioni hasa kutokana na ongezeko la gharama za riba na kufikia Kshs. 5.9 bilioni kutokana na shinikizo kali la pesa mwaka 2015. Gharama za uendeshaji ziliongezeka kwa asilimia 7.1 (7.1%) hadi Kshs.7.5 bilioni. Hii ni kufungamana na makadirio ya bajeti iliyolengwa ya Kshs. 7.9 bilioni. Ada kutokana na mikopo ziliongezeka kwa Kshs.3.2 bilioni kipindi hiki kutokana na kuongezeka kwa mikopo isiyolipika mwishoni mwa mwaka 2015.

Benki ilisajili kiwango cha hasara baada ya ushuru cha Kshs.1.2 bilioni hasa kutokana na viwango vya mikopo isiyolipika na gharama za juu za ufadhili.

Ufanisi wa Mkakati na ukuaji wa biashara

Benki ya National ina mkakati wa maono na mbinu za upanuzi wa biashara ambao umebuniwa ili kuleta thamani ya muda mrefu kwa wanahisa wetu.

Mnamo 2015, benki ilitambuliwa na taasisi tofauti zinazotambulika kutokana na ufanisi mbali mbali. Baada ya kubadilisha hisia za wateja kupitia matawi yake mbali mbali nchini, Benki hii ilitambuliwa kama '' benki bora zaidi kwa utoaji wa huduma'' (best bank in service) na taasisi ya '' institute of Customer Service'' wakati wa hafla yao ya uzawadiaji. Kwenye halfa ya mwaka 2015 ya '' Think Business Awards'', benki hii ilitangazwa kama benki inayokua kwa kasi sana , benki bora zaidi kwa huduma tamba (mobile banking) na taasisi bora zaidi kwa uwakala wa benki. Benki hii pia ilizawadia kama benki bora zaidi ya kiislamu (Best Islamic Window Bank) Afrika Mashariki kwa huduma za biashara ya kiislam na uzawadiaji wa fedha.

Kufungamana na zoezi linaloendelea sasa la kufanyia benki mabadiliko, tulizindua jukwaa la huduma za hali ya juu '' premium banking'' kama njia mojawapo ya kutofautisha bidhaa. Huduma hii inahakikisha kwamba wateja wetu wa benki wanaohitaji huduma za hali ya juu wanafurahia ikiwemo huduma za mameneja wa uhusiano bora waliojitolea , vyumba vya faragha na saa za benki zitakazoafikiana na matarajio yao. Huduma hii poa hutoa vifaa vya ziada vitakavyorahisisha kazi kama vile mtambo wa kasi wa intanenti ambao wateja wanaweza kuutumia na pia kusoma barua.

Benki ilizindua huduma ya kutuma nambari ya PIN kwa njia ya ujumbe mfupi (SMS) kupitia msaada kutoka ''Compass Plus'' na kuwa mojawapo wa benki za kwanza katika kanda hii kutoa huduma hii kwa wateja wake. Kupitia bidhaa za Tranzware kutoka Compass Plus, huduma hii mpya imepunguza kwa kiwango kikubwa gharama za utekelezaji kazi za benki kwa kuondoa ada za utumaji barua pamoja na haja ya kuchapisha bahasha za PIN. Mradi huu ulifuatia ufanisi wa kuhamisha muundo msingi wa teknolojia ya mawasiliano hadi mfumo wa TranzWare kama sehemu mojawapo ya mradi mkubwa wa kuunganisha na kuboresha muundo huu na pia kurahisisha uhusiano baina mifumo mbali mbali ya mawasiliano.

Pia, benki ilizindua kifaa cha matumizi ya ndani cha utambuzi ''Card Personalization'' kwa utoaji wa haraka wa kadi. Kifaa hiki kinatuwezesha kutoa kwa haraka kadi za hali ya juu za usalama kwa wateja wateja wetu kwa muda wa saa 24 baada ya ombi kutumwa. Ufanisi huu mkubwa umetuwezesha sisi kuwa mojawapo wa benki za humu nchini kuafikia hili huku sekta ya benki ikiendelea na teknolojia ya matumizi ya vifaa vya EMV chip na PIN. Kituo cha ndani cha benki cha utoaji kadi kimetusaidia kuthibiti utoaji wa kadi na kuimarisha mabadiliko ya muda ya utengezaji wake pia utoaji. Ubunifu huu umetuwezesha kuhakikisha kwamba wateja wanawaeza kupata kadi zao za ATM kwa muda wa saa 24 huku tunapoendelea kuhudumia benki kwa ahadi bora.

Ili kupanua mikondo ya mapato yetu na kupeleka huduma zetu karibu na wateja wetu, daima, benki imekuwa ikipanua mtandao wake mkubwa wa utoaji huduma ambao sasa una matawi 80, vituo 140 vya ATM na zaidi ya mawakala 1500. Lengo kuu la benki ni kuwa na njia thabiti ambayo itatoa huduma za hali ya juu kwa wateja, kuimarisha uwezo wetu na kupanua mtandao wetu wa utoaji huduma kote nchini. Benki iliingia mkataba na Pesa Point ili kuwawezesha wateja wetu kufikia huduma zetu kupitia zaidi ya vituo 1000 vya ATM vinavyomillikiwa na PesaPoint na washirika kote nchini.

Ili kuimarisha utendaji kazi wetu na kuwahudumia vyema wateja, benki imerejelea mradi mkubwa kuimarisha mfumo wake muhimu (BFUB) kushughulikia mahitaji yake ili kuendesha majukumu mbali mbali ikiwemo uwekaji akiba, utoaji mikopo, biashara za kimataifa na kadhalika.

Benki iliwajibika kutafuta kwa bidii njia nyingine ambazo zingewawezesha wateja wake kuafikia kwa urahisi huduma wanazohitaji sana. Hali hii itarahisisha kazi kwenye kumbi zetu za benki na kutuwezesha kuwahudumia wateja weu vvyema kupitia mbinu za kisasa za ubunifu wa kiteknolojia.

Mtazamo wa Biashara

Mwaka 2015, tuliendelea kuchukua hatua muhimu kuimarisha huduma kwa wateja. Tutaendelea kuhusisha na kuimarisha huduma zetu ili kuzifanya kuwa shindani na za kisasa kufungamana na mahitaji ya wateja wetu.

Benki ya National imejiandaa vyema kutumia kikamilifu nafasi zitakazojitokeza siku za usoni. Tunaimarisha juhudi za mkakati wa benki yetu na kuiweka kileleni ifikiapo mwaka 2017 na maswala mengine yaliyopewa kipaumbele kama ilivyolelezwa kwenye mpango wetu wa mabadiliko kwa kuangazia maeneo yafuatayo: Kupanua matumizi ya dijiteli kwenye mikondo yote. Tunabuni mikakati ambayo itaunganisha zaidi mifumo ya pamoja ya kidijiteli ya benki na mbinu zinazotumia mikono.

Kuunganisha pamoja mtandao wa mawasiliano ya kidijiteli na simu kwenye mtandao wetu wa hudma za reja reja wa ATM.

Kurahisisha na utumiaji wa mitambo ya kujiendesha ili kuimarisha utenda kazi; Kubuni njia mpya ili kulainisha mikondo ya kazi, kuimarisha mbinu na kuwa za kisasa kuweka njia za kuthibiti gharama tunzoongeza kwenye uzalishaji na manufaa ya utendukaji kazi kwa haraka uliopatikana kwa muda wa miaka 3 iliyopita.

Kuongeza uwezo wa utambuzi wa data ili kuwahudumia vyema wateja. Kwa kuimarisha uwezo wa taaluma ya uchanganuzi ya benki, tunaimarisha ufahamu wetu kuhusu matarajio ya wateja wetu na jinsi wangetaka kufanya biashara na sisi. Uchanganuzi wa kina utatufanya kuwa bora zaidi kuwavutia wateja wapya, kufanya tathmini dhidi ya hatari zinazotukabili, kurekebisha na kuuza kote bidhaa na huduma zetu

Hitimisho

Kwa kuhitimisha, ningependa kuwashukuru wateja wetu kote nchini kutokana na biashara yao. Ni fahari kubwa kwetu. Ningependa pia kuwashukuru wanahisa wetu na Halmashauri ya Wakurugenzi kwa imani yenu na kuendelea kutuunga mkono. Mwisho, ningependa kutambua wafanyakazi wote wa benki ya National kwa kujitolea kwao kuwahudumia wateja wetu. Tukiwa pamoja, matumaini yetu ya siku za usoni na mazuri.

Wilfred Musau
Meneja Mkurugenzi na Afisa Mkuu


WE ARE NATIONAL

Statement of Corporate Governance

The overall control over the activities, affairs, operations, business and property of the Bank is vested in the Bank's Board of Directors.

Corporate governance continues to be a key priority of the Board in exercise of its mandate as it accounts and reports to all stakeholders of the Bank about the procedures, systems and controls they have put in place to safeguard their interests in line with the highest standards of corporate governance. The Board of Directors of the Bank is committed to ensure full compliance with all relevant or applicable laws in the sector, the ''Guidelines on Corporate Governance Practices for Public Listed Companies in Kenya'' issued by the Capital Markets Authority, the Banking Act and the Central Bank of Kenya (CBK) Prudential Guidelines as well as all the Bank's internal policies.

The Board as the focal point of corporate governance is committed to ensuring that the Bank's business and operations are conducted with integrity and in compliance with the law, internationally accepted principles and best practices of corporate governance and business ethics.

In this respect, the Board confirms that the Bank complies with all relevant laws, regulations, including the provisions of the Banking Act and the prudential regulations issued by the CBK.

Board of Directors

The Board fulfills its fiduciary obligations to the shareholders and other stakeholders by maintaining control over the strategic, financial, operational and compliance issues of the Bank. Whilst the Board provides direction and guidance on strategic and general policy matters and remains responsible for establishing and maintaining overall internal controls over financial, operational and compliance issues, the Managing Director exercises delegated authority to conduct the day-to-day business of the Bank. All Board members are expected to act in a professional manner, thereby upholding the core values of integrity and enterprise with due regard to their fiduciary duties and responsibilities and in accordance with the Bank's code of ethics.

The current Board comprises of seven non-executive directors (including the Chairman) and two executive directors (including the Managing Director).

The Board considers all of the non-executive directors to be independent and free of any business relationship or other circumstances that could materially interfere with the exercise of objective or independent judgment. Board members possess extensive experience in a variety of disciplines, including; banking, business and financial management, all of which are applied in the overall management of the Bank. All non-executive directors are subject to periodic retirement and re-election to the Board, in accordance with the Bank's Articles of Association.

The Board meets regularly and the directors are given appropriate and timely information to enable them to maintain full and effective control over strategic, financial, operational and compliance issues. The remuneration of all directors is subject to regular monitoring to that levels of remuneration and compensation are appropriate. Non-executive directors are paid an annual fee in addition to a sitting allowance for every meeting attended. They are not eligible for membership of the pension scheme and do not participate in any of the Bank's bonus schemes.

The Board frequently reviews operations of sub-committees constituted to supplement its functions. These include:

Board Nomination and Remuneration Committee

The membership of the Committee comprises four (4) non-executive directors and the Managing Director. The Committee which meets at least once every quarter, is responsible for proposing new nominees to the Board, assessing the performance and effectiveness of directors and staff and ensuring, through annual reviews, that the Board composition reflects an appropriate mix of skills and expertise required. The Committee is also mandated to periodically review and recommend to the full Board the remuneration of executive directors and senior management staff and the bankwide structure of compensation.

Board Audit Committee

This Committee comprises four (4) non-executive directors, and meets at least once every quarter. The Committee is mandated to check the quality of financial reporting, strengthening the control environment and the effectiveness of the internal and external auditing functions, advising the Board on best practices, monitors compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedure, ensuring quality, integrity, effectiveness and reliability of the Bank's systems. The Committee also reviews the proposed work plans for the Internal Audit function each year.

Board Risk Committee

This Committee comprises four (4) non-executive directors, and meets at least once every quarter. The Committee is mandated to provide oversight on risk management and the compliance issues facing the Bank and ensuring quality, integrity, effectiveness and reliability of the Bank's risk management framework is maintained. The Committee defines the scope of the risk management work, ensures that there are adequate risk policies and strategies in place to effectively identify, measure, monitor and appropriately mitigate the various risks which the Bank is exposed to from time to time, and ultimately, monitors the Bank's compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies, as well as the Bank's laid-down policies and procedures.

Board Credit & Remedial Committee

The Committee comprises five (5) non-executive directors and meets at least once every month. The primary responsibilities of the Committee include; periodic review and oversight of the overall lending policy of the Bank, deliberate and consider loan proposals beyond the credit discretion limits extended to management, on an ongoing basis, as well as review lending approved by management within its discretionary limits. The Committee reviews and considers all issues that may materially impact the present and future quality of the Bank's credit risk management as well as assist the Board in discharging its responsibility to review the quality of the loan portfolio and ensure adequate bad debts provisions are maintained in line with the CBK prudential guidelines. The Committee also provides oversight over all legal and remedial measures being taken on non performing loans.

Board and Director Evaluation

In line with the requirements of the Bank's Corporate Governance Policy and the relevant prudential guideline issued by the CBK, each member of the Board (including the Chairman) conducts a peer as well as self-evaluation of the Board and the returns made to the CBK by 31 of March every year.

Attendance of Board Meetings

The Board meets regularly and has a formal schedule of matters reserved for periodic deliberation. The directors receive appropriate and timely information to enable them exercise full and effective control over strategic, financial, operational, compliance and governance matters of the Bank.

Name of Non-executive Director	No. of meetings in the year 2015	No. of meetings attended	% Attendance
Mr. Mohamed A. Hassan	11	11	100
Managing Trustee -NSSF	11	7	64
Cabinet Secretary - National Treasury	11	10	91
Eng. Erastus K. Mwongera	11	8	73
Mr. Francis L. Atwoli	11	10	91
Ms. Linnet Mirehane	8	7	88
Mr. Jospeh K. Kering'	8	8	100

Internal Control Systems

The Bank has well defined written policies and procedures to ensure that best practices are followed in conducting the day-to-day operations and financial reporting as well as in implementing strategic action plans approved by the Board. A well-structured organization chart ensures that there is adequate segregation of duties. Structures and systems have been defined in the Bank's policies and procedures to facilitate complete, accurate and timely execution of transactions, operations and commitments and the safeguarding of assets. Financial information is prepared using appropriate accounting policies, which are applied consistently. The Board is committed to managing risk and to controlling its business and financial activities in a manner which enables it to maximise profitable business opportunities, manage and ensure compliance with applicable laws and regulations and enhance resilience to external events.

To assist management in fulfilling its mandate and to ensure compliance with the laid-down policies and procedures, various management committees have been established. The roles, responsibilities and composition of some of the key management committees are given below:

Executive Management Committee ("EMC")

The EMC is chaired by the Managing Director and comprises other senior management staff. It meets regularly and ensures that all financial and operational plans of the Bank are monitored and implemented as per the Board approved strategy. The Committee tracks the implementation of Bank's business projects, financial and staff performance trends, forecasts and actual performance against budgets and prior periods and regularly reports the same to the Board.

Executive Credit Committee ("ECC")

In accordance with the Bank's Credit Policy, the ECC is chaired by the Managing Director and comprises other senior management staff including the Chief Credit Officer. The Committee reports to the Board Credit Committee on credit risk and credit approval matters every month. The ECC meets regularly to review and approve customer credit applications within limits delegated by the Board and from time to time to analyse the Bank's overall credit risk management.

Assets and Liability Committee ("ALCO")

This Committee is chaired by the Managing Director and comprises the Head of Treasury and other members of senior management staff. The ALCO, which meets at least once each month, is mandated to optimise returns, whilst prudently managing and monitoring the assets and liabilities of the Bank. The ALCO is responsible for controlling and managing the Bank's interest rate risk (price), market risk, currency risk and liquidity risk, in addition to ensuring compliance with the Bank's Investment Policy, and statutory requirements relating to liquidity, foreign exchange exposure and cash ratio.

Executive Operations Risk Committee ("EORC")

The EORC reports to the Board Risk Committee and is chaired by the Managing Director and comprises the Head of Enterprise Risk and other senior management staff. The EORC meets at least once every month and is responsible for identifying major areas of business operations prone to operational risks, implementing respective mitigations and implementing suitable policy guidelines for managing and mitigating operational risk and reviewing audit irregularities relating to operations.

ICT Steering Commitee

This committee in chaired by the Director of Information and Communication Technology and comprises other senior management staff. The committee meets at least once every quarter and is responsible for provision of oversight in the development and implementation of the ICT strategy, ensuring the management and review of the organization's ICT Plan are consistent with the goals, objectives and strategy of the Bank, assist with resolving strategic level issues and risks and provide advice and guidance on business issues facing ICT.

Relations with Shareholders

The Board recognizes the importance of good communication with all shareholders. The Annual General Meeting (AGM) as well as published annual reports and financial statements are used as an opportunity to communicate with all shareholders. The Bank always gives its shareholders due notice of the AGM as defined in its Memorandum and Articles of Association and in compliance with the Companies Act.

Shareholders have direct access to the Bank, its Company Secretary and the Shares Registrar who respond to the correspondence received from the shareholders on a wide range of issues.

The Company through it's Share Registrar (Image Registrars Limited), files returns regularly in line with the requirements of the companies act and the Capital Markets Act.

Statement of Corporate Governance (Cont..)

The number of shareholders as at 31 December 2015 was 48,639 distributed as shown below;

A. Top 10 Shareholders as at 31 December 2015

No	Names	ADDRESS	Number of Shares	% of shares
1	National Social Security Fund	P.o. Box 30664 - 00100 Nairobi, Kenya	148,002,497	48.05%
2	The Permanent Secretary To The Treasury	P.o. Box 30007 - Nairobi, Kenya	69,300,000	22.50%
3	Kenya Reinsurance Corporation Limited	P.o. Box 40984 - 00100 Nairobi, Kenya	4,400,000	1.40%
4	Best Investment Decisions Limited	P.o. Box 40127 - 00100 Nairobi, Kenya	2,136,610	0.70%
5	Co-op Bank Custody A/C 4003a	P.o. Box 48231 - 00100 Nairobi, Kenya	1,695,330	0.55%
6	NIC Custodial Services A/C 077	P.o. Box 44599 - 00100 Nairobi, Kenya	1,277,496	0.40%
7	Craysell Investments Limited	P.o. Box 80862 - 80100 Mombasa, Kenya	1,143,442	0.40%
8	Equity Nominee Ltd A/C00084	P.o. Box 75104 - 00200 Nairobi, Kenya	1,142,130	0.40%
9	Natbank Trustee & Investment Services Ltd A/C 1	P.o. Box 72866 - 00200 Nairobi, Kenya	1,039,500	0.30%
10	Eng. Ephraim Mwangi Maina	P.o. Box 53208 - 00200 Nairobi, Kenya	1,004,549	0.30%
11	Others		76,858,446	25.00%
	Total		**308,000,000**	**100.00%**

B. Investor Distribution Summary as at 31 December 2015

Range	Number of Shareholders	Number of Shares	Percentage of Shares held
1 to 1,000	32,497	16,246,433	5.28%
1,001 to 10,000	15,320	31,097,481	10.10%
10,001 to 100,000	761	18,757,346	6.09%
100,001 to 1,000,000	51	10,757,186	3.49%
1,000,001 to 10,000,000	8	13,839,057	4.49%
10,000,001 to 100,000,000	1	69,300,000	22.50%
100,000,001 to 1,000,000,000	1	148,002,497	48.05%
TOTAL	**48,639**	**308,000,000**	**100.00%**

C. Investor Summary Shareholding as at 31 December 2015

Category	Count of Shareholders	Sum of Shares	% of Shares
Local Individual	46,800	62,636,107	20.34%
Local Corporate	1,687	243,491,412	79.06%
Foreign Individual	143	1,273,265	0.41%
Foreign Corporate	9	599,216	0.19%
Total	**48,639**	**308,000,000**	**100.00%**

The First lady of the Republic of Kenya Ms. Margaret Kenyatta planting a tree in Mandera town. The Bank has surpassed the 2 million target.

National Bank team donating basic commodities to a Children's Home.

National Bank staff from Head Office engage in tree planting activity in Nakuru County.

Director Operations Mr. Thomas Gachie awarding Koth Biro tournament Champions of 2015.

2015 Annual Corporate Social Responsibility Report

At National Bank, we believe that being socially and environmentally responsible is good for people and the planet, and essential to the long-term sustainability of our business. In this regard, in 2015, the bank was engaged in various Corporate Social Responsibility activities across the country aimed at impacting the communities where we conduct our business positively.

Environment

National Bank has been involved in a Kenya @50 legacy project aimed at planting 2 million trees by 2017. This is a challenge that the Bank took up from H.E. the President of the Republic of Kenya, as our country was celebrating 50 years of independence. The project was launched in 2013 by H. E. Margaret Kenyatta, the First Lady of the Republic of Kenya. We have managed to achieve and even surpass our target beyond the set time schedule. So far, we have planted trees across all the 47 counties through our partnerships with the county governments, schools, Kenya Forest Service, environmental Non Governmental Organizations and the Kenya Scouts Association.

National Bank partnered with Kirinyaga County in their tree planting. This joint venture began in the year 2014 through 2015. We donated 100,000 tree seedlings that were planted in 201 schools. 60,000 students were empowered, 750 teachers engaged and tones of community members were involved and will benefit from the trees planted in the county. In 2015, we partnered with SCOPE (Saving and Conservation of Our Planet Earth) Intervention, an NGO that works towards environmental conservation. SCOPE Intervention has currently adopted 250 Ha for restoration and together we are carrying out Rehabilitation on the Mau Forest Complex, Kiptunga Forest which is part of the Organization's Mau and Kerio Region Conservation Project aimed at rehabilitating Mau and Cherang'any water towers.

The Bank's latest partnership is with the Mandera County Government which was launched on the 6th of November, 2015 with H.E the First Lady, as the chief guest. This was a colourful occasion that saw the Bank plant 2500 trees in Mandera town and sponsor several women groups to nurture them to maturity. Our main aim in this project is to re-forest the land so as to create a better environment, reduce desertification and drought, involve the communities in protection of trees and improve farming conditions and agricultural outputs in the country. All this is a bid to take our afforestation plans to the areas that need it the most as environmental conservation is of immense significance to the Bank.

Sports

National Bank has been a Responsible Corporate Citizen over the years. It has not only assisted the needy but also promoted local talent in the society. We have worked with several organization from both partnerships and sponsorships front. It is through this support that both the youth with young talent and the experienced have excelled both locally and internationally. 2015 saw us sponsoring more sporting activities as compared to the previous years. We majorly sponsored Golf and soccer tournaments all for worthy courses. We were delighted to partner with the Kenya Army Corps of Engineers in Thika Garrison at the Sappers Green Golf course, the Nyanza Golf Club for this year's Chairman's Putter, the Mombasa Lady Golfer, Sigona and Laibon Golf Tournaments among others.

In soccer, we sponsored Mathare Youth Sports Association (MYSA) to officially launch their Alumni Group which will help raise more funds to support nurturing of talents in MYSA. This association has changed the lives of thousands of youth in Mathare and its environs. We also sponsored the KothBiro football tournaments that was dedicated to nurture new soccer talent by bringing them together with established footballers in a bid to address social and economic issues. As a bank, we acknowledge the importance of engaging in sporting activities, the health and physical benefits behind physical fitness and most importantly our appreciate activities that nurture young talent to create a future responsible generation.

Health

The Bank has continued to support government efforts for the attainment of Kenya's health targets. In 2015, we partnered with the First Lady in her bid to accelerate progress in HIV Control and promotion of maternal, newborn and child health in Kenya by donating and participating towards the Beyond Zero Marathon This went along way to alleviate challenges faced by disadvantaged Kenyans to end preventable deaths among women and children, giving new impetus to the fight.

Education

National Bank takes cognizance of the fact that education is a critical facet of the country's vision 2030 attainment and therefore supports initiatives in education in order to improve the learning standards in the schools. The Bank donated in kind to Pepo La Tumaini Primary School, in Isiolo, towards the school development. The Bank also supported the Northern Kenya Education Trust (NoKET) school fees kitty towards access and quality education for bright and needy students from Arid and Semi Arid (ASAL) communities.
In order to grow and nurture young and upcoming talents in schools, the Bank's school's trophy programme continued to reward performing students in academics as well as in sports.

Vulnerable Groups

National Bank continually supports socially vulnerable groups, including charity funds for disabled people, orphaned children and victims of natural disasters and manmade catastrophes. In response to the Garissa University attack by terrorists, the Bank donated over kshs. 5 million and ran a campaign that saw staff and public members contribute in support of the victims and families of the attack.The donation went a long way in assisting the victims in funeral expenses, medical expenses for the injured, counseling for the students and relief for the families left behind. During the Ramadhan the Bank donated food stuff to the Mama Fatuma Goodwill Children's Home and Muguga Children's home in it's continued efforts of reaching out to the less fortunate in our society and in response to a request for assistance.

As a bank, we will continually take part in exercises that help improve the livelihood of all our stakeholders and the society where we ply our trade.


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REPORT OF THE DIRECTORS

The directors present their report together with the audited financial statements for the year ended 31 December 2015 which show the state of financial affairs of National Bank of Kenya Limited (the ''bank'') and its subsidiaries (together the ''group'').

ACTIVITIES
The principal activity of the bank and its subsidiaries, which are licensed under the Banking Act, is the provision of banking, bancassurance and related financial services.

RESULTS FOR THE YEAR	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(Loss)/profit before taxation	(1,637,985)	1,303,131	(1,684,397)	1,203,326
Taxation credit/(charge)	484,508	(432,429)	501,104	(402,628)
(Loss)/profit for the year	(1,153,477)	870,702	(1,183,293)	800,698

DIVIDEND
i) The directors do not recommend the payment of a dividend to the holders of the preference shares over and above any further dividend that may be paid to them and the ordinary shareholders in respect of the financial year ended 31 December 2015 (2014 – Sh nil).

ii) The directors do not recommend the payment of a dividend to the holders of the ordinary shares in respect of the financial year ended 31 December 2015 (2014 – Sh nil).

DIRECTORS
The present members of the board are as shown on page 7. Ms. Wangui Mwaniki and Ms. Sylvia Kitonga retired as a non-executive directors with effect from 27 March 2015. Mr. Robert Kibaara resigned as an executive director with effect from 5 July 2015. Mr. Joseph Kering' and Ms. Linnet Mirehane were appointed as a non-executive directors with effect from 27 March 2015. Mr. Boniface Biko was appointed as an executive director with effect from 17 July 2015. Munir S. Ahmed and Boniface Biko exited from the company in April 2016. Mr. Wilfred Musau was appointed Ag. Managing & CEO with effect from 29 March 2016

BONUS SHARES
As at 31 December 2015, the issued and fully paid share capital comprised of 307,995,200 (2014 - 280,000,000) ordinary shares with a par value of Sh. 5. The additional 27,995,200 ordinary shares was on account of a bonus issue that was applied in paying up in full the unissued ordinary shares. The bonus shares which were approved by the shareholders at its annual general meeting held on 27 March 2015, were allocated to shareholders in the proportion of one for every ten of existing issued and paid up 280,000,000 shares then held by shareholders respectively.

AUDITORS
The Auditors, Deloitte & Touche, having expressed their willingness, continue in office in accordance with section 159 (2) of the Companies Act and subject to approval by the Central Bank of Kenya under Section 24 (1) of the Banking Act.

ON BEHALF OF THE BOARD

H A Waswani
Company Secretary
Nairobi
29 March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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 and its subsidiaries (together, the ''group'') as at the end of the financial year and of the operating results of the bank and its subsidiaries for that year. It also requires the directors to ensure that the bank and its subsidiaries keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the group and the bank. They are also responsible for safeguarding the assets of the group.

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

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act and the Banking 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 group and the bank and of the group's 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 group will not remain a going concern for at least the next twelve months from the date of this statement.

Director	Director

29 March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NATIONAL BANK OF KENYA LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of National Bank of Kenya Limited and its subsidiaries, set out on pages 42 to 110, which comprise the consolidated and bank statements of financial position as at 31 December 2015, and the consolidated and bank statements of profit or loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated and bank statements of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we considered the internal controls relevant to the group's preparation of financial statements that give a true and fair view in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the group'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 give a true and fair view of the state of financial affairs of the bank and its subsidiaries as at 31 December 2015 and of their profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act and the Banking Act.

Report on Other Legal Requirements

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

i) we have obtained all the information and explanations, which to the best of our knowledge and belief, were necessary for the purposes of our audit;
ii) in our opinion, proper books of account have been kept by the bank, so far as appears from our examination of those books; and
iii) the bank's statement of financial position and statement of profit and loss and other comprehensive income are in agreement with the books of account.

The engagement partner responsible for the audit resulting in this independent auditors' report is CPA F Okwiri - P/No 1699.

Deloitte & Touche

Certified Public Accountants (Kenya)
Nairobi, Kenya
31 March 2016


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NATIONAL BANK OF KENYA
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2015

		GROUP		BANK	
		2015	2014	2015	2014
	Note	Sh'000	Sh'000	Sh'000	Sh'000
INTEREST INCOME	5	12,248,203	10,697,180	12,248,203	10,697,180
INTEREST EXPENSE	6	(5,850,664)	(3,899,729)	(5,866,846)	(3,907,301)
NET INTEREST INCOME		6,397,539	6,797,451	6,381,357	6,789,879
Fee and commission income		2,126,699	2,136,425	2,052,177	2,003,628
Fee and commission expense		-	(5,178)	-	(5,178)
NET FEE AND COMMISSION INCOME	7	2,126,699	2,131,247	2,052,177	1,998,450
Gains on foreign exchange dealings	8	564,754	434,229	564,754	434,229
Other operating income	9	466,101	571,267	466,101	571,267
Operating expenses	10(a)	(7,473,950)	(6,977,202)	(7,429,658)	(6,936,638)
Impairment losses on loans and advances	17(c)	(3,719,128)	(525,307)	(3,719,128)	(525,307)
OPERATING (LOSS)/PROFIT		(1,637,985)	2,431,685	(1,684,397)	2,331,880
Restructuring costs	10(b)	-	(1,128,554)	-	(1,128,554)
(LOSS)/PROFIT BEFORE TAXATION		(1,637,985)	1,303,131	(1,684,397)	1,203,326
TAXATION CREDIT/(CHARGE)	12	484,508	(432,429)	501,104	(402,628)
(LOSS)/PROFIT FOR THE YEAR		(1,153,477)	870,702	(1,183,293)	800,698
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Fair value gain on available for sale financial assets	16(c)	-	16,997	-	16,997
Cumulative fair value gain reclassified from equity on disposal of available for sale assets		(16,997)	-	(16,997)	-
TOTAL OTHER COMPREHENSIVE (LOSS)/INCOME		(16,997)	16,997	(16,997)	16,997
TOTAL COMPREHENSIVE (LOSS)/INCOME		(1,170,474)	887,699	(1,200,290)	817,695
(LOSS)/EARNINGS PER SHARE - basic & diluted	13	Sh (3.86)	Sh 2.91	Sh (3.96)	Sh 2.67

NATIONAL BANK OF KENYA LIMITED

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Notes	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
ASSETS					
Cash and balances with Central Bank of Kenya	14	16,438,119	17,195,213	16,119,714	16,965,482
Deposits and balances due from banking institutions	15	4,257,046	2,033,662	4,257,046	2,033,662
Government securities	16	27,083,464	30,091,040	27,083,464	30,091,040
Loans and advances to customers (net)	17	67,803,990	65,641,491	67,803,990	65,641,491
Other assets	18	2,589,828	2,000,651	2,589,689	1,898,187
Other investments	19	231,647	168,305	231,647	168,305
Due from a subsidiary company	20(a)	-	-	169,991	98,845
Corporate tax recoverable	12(c)	505,652	423,518	510,846	431,696
Deffered tax assets	21	483,299	-	482,668	-
Investment in subsidiary companies	22	19,963	19,963	19,963	19,963
Property and equipment	23(a)	4,188,468	4,551,542	4,187,457	4,550,257
Operating lease prepayments	24	-	419	-	419
Intangible assets	25	1,399,365	966,192	1,399,085	965,539
		125,000,841	123,091,996	124,855,560	122,864,886
Non-current assets held for sale	23(b)	439,475	-	439,475	-
TOTAL ASSETS		125,440,316	123,091,996	125,295,035	122,864,886
LIABILITIES					
Customer deposits	26	110,622,469	104,733,709	110,622,469	104,733,709
Deposits and balances due to banking institutions	27	2,343,245	5,077,625	2,343,245	5,077,625
Other liabilities	28	1,369,251	971,351	1,363,897	854,119
Due to a subsidiary company	20(b)	21,976	21,976	21,976	21,976
Borrowings	29(a)	29,826	38,085	29,826	38,085
Unclaimed dividends	21	-	25,227	-	25,460
Deferred tax liability					
TOTAL LIABILITIES		114,386,767	110,867,973	114,381,413	110,750,974
CAPITAL RESOURCES					
Share capital	30	7,214,976	7,075,000	7,214,976	7,075,000
Property revaluation surplus		509,752	1,188,147	509,752	1,188,147
Revenue reserve		2,709,414	3,378,423	2,569,487	3,268,312
Statutory reserve		619,407	565,456	619,407	565,456
Investment revaluation reserve		-	16,997	-	16,997
SHAREHOLDERS' FUNDS		11,053,549	12,224,023	10,913,622	12,113,912
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		125,440,316	123,091,996	125,295,035	122,864,886

The financial statements on pages 42 to 110 were approved and authorised for issue by the board of directors on 29 March 2015 and were signed on its behalf by:

Director	Director	Managing Director	Secretary

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

	Note	Share capital Sh'000	Property revaluation surplus Sh'000	Retaied earnings Sh'000	Statutory reserve Sh'000	Fair value reserve Sh'000	Total Sh'000
At 1 January 2014		7,075,000	1,201,022	3,277,535	334,842	-	11,888,399
Total comprehensive income for the year		-	-	870,702	-	16,997	887,699
Transfer of excess depreciation		-	(18,393)	18,393	-	-	-
Deferred tax on excess depreciation		-	5,518	(5,518)	-	-	-
Transfer to statutory reserve		-	-	(230,614)	230,614	-	-
Dividends declared – year 2013	29(a)	-	-	(552,075)	-	-	(552,075)
At 31 December 2014		7,075,000	1,188,147	3,378,423	565,456	16,997	12,224,023
At 1 January 2015		7,075,000	1,188,147	3,378,423	565,456	16,997	12,224,023
Total comprehensive income for the year		-	-	(1,153,477)	-	(16,997)	(1,170,474)
Realized revaluation reserve on sale of property		-	(668,546)	668,546	-	-	-
Bonus shares issued	30	139,976	-	(139,976)	-	-	-
Transfer of excess depreciation		-	(14,070)	14,070	-	-	-
Deferred tax on excess depreciation		-	4,221	(4,221)	-	-	-
Transfer to statutory reserve		-	-	(53,951)	53,951	-	-
At 31 December 2015		7,214,976	509,752	2,709,414	619,407	-	11,053,549

The property revaluation surplus represents the surplus arising from the revaluation of properties and is not distributable.

The statutory reserve represents the excess of loan loss provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39, on financial instruments. The statutory reserve is not distributable.

The fair value represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Revenue reserve relates to the cumulative retained earnings from operations and is distributable.

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

	Note	Share capital Sh'000	Property revaluation surplus Sh'000	Retained earnings Sh'000	Statutory reserve Sh'000	Fair Value reserve Sh'000	Total Sh'000
At 1 January 2014		7,075,000	1,201,022	3,237,428	334,842	-	11,848,292
Total comprehensive income for the year		-	-	800,698	-	16,997	817,695
Transfer of excess depreciation		-	(18,393)	18,393	-	-	-
Deferred tax on excess depreciation		-	5,518	(5,518)	-	-	-
Transfer to statutory reserve		-	-	(230,614)	230,614	-	-
Dividends declared – year 2013	29(a)	-	-	(552,075)	-	-	(552,075)
At 31 December 2014		7,075,000	1,188,147	3,268,312	565,456	16,997	12,113,912
At 1 January 2015		7,075,000	1,188,147	3,268,312	565,456	16,997	12,113,912
Total comprehensive income for the year		-	-	(1,183,293)	-	(16,997)	(1,200,290)
Realized revaluation reserve on sale of property		-	(668,546)	668,546	-	-	-
Bonus shares issued	30	139,976	-	(139,976)	-	-	-
Transfer of excess depreciation		-	(14,070)	14,070	-	-	-
Deferred tax on excess depreciation		-	4,221	(4,221)	-	-	-
Transfer to statutory reserve		-	-	(53,951)	53,951	-	-
At 31 December 2015		7,214,976	509,752	2,569,487	619,407	-	10,913,622

The property revaluation surplus represents the surplus arising from the revaluation of properties and is not distributable.

The statutory reserve represents the excess of loan loss provisions computed in accordance with Central Bank of Kenya prudential guidelines over the impairment of loans and advances arrived at in accordance with IAS 39, on financial instruments. The statutory reserve is not distributable.

The fair value reserve represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Revenue reserve relates to the cumulative retained earnings from operations and is distributable.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash generated from/(used in) operations	31(a)	4,526,550	(1,025,184)	4,417,887	(1,171,263)
Taxation paid	12(c)	(106,152)	(1,188,394)	(86,174)	(1,165,391)
Net cash generated from/(used in) operating activities		4,420,398	(2,213,578)	4,331,713	(2,336,654)
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchase of property and equipment	23(a)	(999,826)	(1,057,100)	(999,815)	(1,056,024)
Purchase of intangible assets	25	(758,494)	(267,328)	(758,494)	(267,328)
Proceeds from disposal of property and equipment		695,505	26,804	695,505	26,804
Purchase of other investments	19	(14,447)	(1,280)	(14,447)	(1,280)
Net cash used in investing activities		(1,077,262)	(1,298,904)	(1,077,251)	(1,297,828)
CASH FLOWS FROM FINANCING ACTIVITIES					
Dividends paid	29(a)	(8,259)	(545,060)	(8,259)	(545,060)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		3,334,877	(4,057,542)	3,246,203	(4,179,542)
CASH AND CASH EQUIVALENTS AT 1 JANUARY		8,701,584	12,759,126	8,471,853	12,651,395
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31(b)	12,036,461	8,701,584	11,718,056	8,471,853

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015

1. REPORTING ENTITY

National Bank of Kenya Limited (''the bank'') and its subsidiaries (together, the ''group'') provide banking, bancassurance, financial and related services. The bank is incorporated in Kenya under the Companies Act as a public limited liability company and is domiciled in Kenya. The bank's shares are listed on the Nairobi Securities Exchange.

The address of the bank's registered office is as follows:

National Bank Building
18 Harambee Avenue
P.O Box 72866 City Square
00200 Nairobi.

2. ACCOUNTING POLICIES

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

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

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC)

(i) *Relevant new standards and amendments to published standards effective for the year ended 31 December 2015*

The following new and revised IFRSs were effective in the current year and had no material impact on the amounts reported in these financial statements.

IAS 19 Defined Benefit Plans: Employee Contributions

The amendments to IAS 19 clarify the accounting treatment for contributions from employees or third parties to a defined benefit plan.
According to the amendments, discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan. When the formal terms of the plan specify contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (e.g. contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they affect the remeasurement of the net defined benefit liability (asset).

- If contributions are linked to services, they reduce service costs. If the amount of contribution is dependent on the number of years of service, the entity should reduce service cost by attributing it to the contributions to periods of service using the attribution method required by IAS 19 paragraph 70 (for the gross benefits). If the amount of contribution is independent of the number of years of service, the entity is permitted to either reduce service cost in the period in which the related service is rendered, or reduce service cost by attributing the contri-butions to the employees' periods of service in accordance with IAS 19 paragraph 70 The amendment requires retrospective application

The directors anticipate that the application of the standard will not have an impact on the group's financial statements since the company doesn't have a defined benefit plan.

2. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(i) Relevant new standards and amendments to published standards effective for the year ended 31 December 2015 (Continued)

Annual Improvements 2010-2012 Cycle

The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendment to IFRS 2 is to clarify the definition of vesting condition and market condition to ensure the consistent classification of conditions attached to a share-based payment. It also adds definitions for 'performance condition' and 'service condition' which were previously included as part of the definition of 'vesting condition'. The amendment requires prospective application.

The amendment to IFRS 3 clarifies that contingent consideration should be measured at fair value at each reporting date, irrespective of whether or not the contingent consideration falls within the scope of IFRS 9 or IAS 39. Changes in fair value (other than measurement period adjustments as defined in IFRS 3) should be recognised in profit and loss. The amendment to IFRS 3 requires prospective application

The amendment to IFRS 8(i) requires an entity to disclose the judgements made by management in applying the aggregation criteria to operating segments, including a brief description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments share similar economic characteristics; and (ii) clarifies that a reconciliation of the total of the reportable segments' assets to the entity's assets should only be provided if information about the amount of segment assets are regularly provided to the chief operating decision-maker.

The amendment to IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions.

The amendment to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/ amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses

The amendment to IAS 24 clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required.

Annual Improvements 2011-2013 Cycle

The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 3 clarify that the standard does not apply to the accounting for the formation of all types of joint arrangement in the financial statements of the joint arrangement itself.

The amendments to IFRS 13 clarify that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32

The amendments to IAS 40 clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

(a) the property meets the definition of investment property in terms of IAS 40; and
(b) the transaction meets the definition of a business combination under IFRS 3

The directors of the group do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

2. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(ii) New standards and amendments to published standards effective for the year ended 31 December 2015

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9	1 January 2018
IFRS 15	1 January 2017
Amendments to IFRS 11	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 July 2015

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

- All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The directors of the group anticipate that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the group's financial assets and financial liabilities However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed by the group.

IFRS 15 Revenue from Contracts with Customers

In May 2015, IFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related Interpretations when it becomes effective.

2. ACCOUNTING POLICIES (Continued)

Application of new and revised International Financial Reporting Standards (IFRSs) and interpretations (IFRIC) (Continued)

(iii) Impact of relevant new and amended standards and interpretations on the financial statements for the year ended 31 December 2015 and future annual periods (Continued)

IFRS 15 Revenue from Contracts with Customers (Continued)

The core principle of IFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the Standard introduces a 5-step approach to revenue recognition:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

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

The amendments to IAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to IAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue; or
b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the bank uses the straight-line method for depreciation and amortisation for its property, and equipment, and intangible assets respectively. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 15 until a detailed review has been completed.

Annual Improvements 2012-2014 Cycle

The amendments to IFRS 5 adds specific guidance in IFRS 5 for cases in which an entity reclassifies an asset from held for sale to held for distribution or vice versa and cases in which held-for-distribution accounting is discontinued.

The amendments to IFRS 7 adds additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of determining the disclosures required. Clarifies the applicability of the amendments to IFRS 7 on offsetting disclosures to condensed interim financial statements.

The amendments to IAS 19 clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid (thus, the depth of the market for high quality corporate bonds should be assessed at currency level).

The amendment to IAS 34 clarifies the meaning of 'elsewhere in the interim report' and requires a cross-reference

The directors of the group do not anticipate that the application of these amendments will have a significant impact on the group's financial statements.

(iv) Early adoption of standards

The group did not early adopt any new or amended standards in 2015.

2. ACCOUNTING POLICIES (Continued)

Basis of preparation

The consolidated financial statements have been prepared under the historical cost convention modified to include the revaluation of certain properties and investments.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the bank and its subsidiary National Bank Insurance Agency Limited for the year ended 31 December 2015. Subsidiaries are those companies in which the bank has power to exercise control over the operations of the entities. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the group. Intra-group balances and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

a) Changes in ownership interests in subsidiaries without change of control

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

b) Disposal of subsidiaries

When the group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated as fair value through profit and loss, are recognized within interest income and interest expense in the profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently. Interest income includes interest on loans and advances, placements with other banks and investments in government securities, and is recognised in the period in which it is earned.

Fees and commissions

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

Fees and commission income, including account servicing fees, investment management fees, placement fees, commission on insurance business rendered and syndication fees, are recognised as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, loan commitment fees are recognised on a straight-line basis over the commitment period. Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

Foreign currency trading income

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

2. ACCOUNTING POLICIES (Continued)

Investments in subsidiary companies

Investments in subsidiary companies are stated at cost less impairment loss where applicable.

Property and equipment

Property and equipment are stated at cost or as professionally revalued from time to time less accumulated depreciation and accumulated impairment losses. Any increase arising on the revaluation is recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset are recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss. Each year , the difference between depreciation based on the revalued carrying amount of an asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost is transferred from the revaluation surplus to revenue reserves. The group's policy is to professionally revalue property at least once every five years. The last valuation was carried out as at 31 December 2013.

Depreciation

Freehold land is not depreciated. Depreciation on other property and equipment is calculated to write off their cost or valuation in equal annual instalments over their estimated useful lives. The annual rates in use are:

Buildings on long leasehold and freehold land	2%
Buildings on short leasehold land	over the unexpired period of the lease
Computers	20%
Motor vehicles	20%
Equipment, furniture and fittings	12.5%
	====

Short leasehold land refers to leases whose lease period does not exceed 50 years. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Non-current assets held for sale

Non-current assets, comprising assets, that are expected to be recovered primarily through sale rather than through continuing use, are classified as held for sale.

Leasehold land

Payments to acquire leasehold interest in land are treated as operating lease prepayments and amortised over the period of the lease.

Computer software development costs

Generally, costs associated with developing computer software programmes are recognised as an expense incurred. However, costs that are clearly associated with an identifiable and unique product which will be controlled by the group and has a probable benefit exceeding the cost beyond one year, are recognised as an intangible asset. Expenditure which enhances and extends computer software programmes beyond their original specifications and lives is recognised as a capital improvement and added to the original costs of the software.

Computer software development costs recognised as assets are stated at cost less amortisation. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding a period of 5 years.

Work in progress

Work in progress relates to the acquisition of banking software and related hardware; and the construction of the banking halls for the branches under the branch expansion program. Costs include materials, direct labour and any other direct expenses incurred in respect of the project. Depreciation of these assets commences when the assets are ready for their intended use.

2. ACCOUNTING POLICIES (Continued)

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

i) Current taxation

The corporate tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

ii) Deferred taxation

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in associates, except where the company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

iii) Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into Kenya Shillings at the rates of exchange ruling at the end of each reporting period. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Gains and losses on exchange of monetary items are dealt with in the profit or loss in the period in which they arise.

Offsetting financial instruments

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

2. ACCOUNTING POLICIES (Continued)

Statutory reserve

IAS 39 requires the group to recognise an impairment loss when there is objective evidence that loans and advances are impaired. However, Central Bank of Kenya prudential guidelines require the group to set aside certain prescribed amounts for impairment losses on loans and advances in addition to those losses that have been recognised under IAS 39. Any such amounts set aside represent appropriations of retained earnings and not expenses in determining profit or loss. These amounts are dealt with in the statutory reserve.

Property revaluation surplus

This arises on revaluation of land and buildings and is not distributable. When revalued land or buildings are sold, the portion of the properties revaluation reserve that relates to that asset is transferred directly to retain earnings. Items of other comprehensive income included in the properties revaluation reserve will not be reclassified subsequently to profit or loss.

Investments revaluation reserve

This represents the unrealised increase or decrease in the fair value of available for sale investments, excluding impairment losses. The reserve is not distributable to the shareholders.

Retirement benefit costs

i) The group's defined contribution pension scheme

The group operates a defined contribution scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by contributions from both the employees and employer. Benefits are paid to retiring staff in accordance with the scheme rules. The group's contribution is charged to profit or loss.

ii) Statutory defined contribution pension scheme

The group also contributes to the statutory National Social Security Fund (NSSF). This is a defined contribution scheme registered under the National Social Security Act. The group's obligations under the scheme are limited to specific contributions legislated from time to time. The group's obligations to staff retirement benefit schemes are charged to the profit or loss in the year to which they relate.

iii) Other employee entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave accrued at the end of the reporting period. Certain employees of the group are entitled to service gratuity on resignation or termination of employment based on the salary at the time of such resignation or termination of services. The service gratuity is provided for in the financial statements as it accrues to each employee.

Other investments

Other investments comprise quoted and unquoted equity instruments. Unquoted investments are classified as available for sale and are stated at cost less impairment loss where applicable. Quoted investments are classified as fair value through profit or loss and are stated at their fair value determined by the published price in the stock exchange markets they are traded in.

Financial instruments

i) Recognition

A financial asset or liability is recognised when the group becomes party to the contractual provisions of the instrument.

ii) Classification and Measurement

2. ACCOUNTING POLICIES (Continued)

Financial assets

The group classifies its financial assets into the following categories: Financial assets at fair value through profit or loss; loans, advances and receivables; held- to- maturity investments; and available-for-sale assets. Management determines the appropriate classification of its investments at initial recognition. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the group has transferred substantially all risks and rewards of ownership.

Financial assets at fair value through profit or loss

This category has two sub-categories: Financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading. Financial assets at fair value through profit or loss are subsequently carried at fair value. Gains and losses arising from changes in the fair value of financial assets at fair value through profit or loss are included in the profit or loss in the period in which they arise.

Loans, advances and receivables

Loans, advances and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and advances are recognized when cash is advanced to borrowers. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method.

Held to maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. Where a sale occurs, other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Available-for-sale financial assets

Financial assets that are not (a) financial assets at fair value through profit or loss, (b) loans, advances and receivables, or (c) financial assets held to maturity. Available-for-sale financial assets are subsequently carried at fair value. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the investment revaluation reserve, with the exception of impairment losses, interest calculated using the effective interest method, and foreign exchange gains and losses on monetary assets, which are recognized in profit or loss. Where the investment is disposed off or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Where fair value cannot be reliably measured, the unquoted investment is carried at cost. Dividends on available-for-sale equity instruments are recognised in the profit or loss when the group's right to receive payment is established.

Fair values of quoted investments in active markets are based on quoted bid prices. Equity securities for which fair values cannot be measured reliably are measured at cost less impairment.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

2 ACCOUNTING POLICIES (Continued)

Impairment and uncollectability of financial assets

At the end of each reporting period, all financial assets are subject to review for impairment. If it is probable that the group will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The carrying amount of the asset is reduced to its estimated recoverable amount through use of an allowance account. The amount of the loss incurred is included in profit or loss for the period.

If a loss on a financial asset carried at fair value (recoverable amount is below original acquisition cost) has been recognised directly in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative net loss that had been recognised directly in other comprehensive income is removed from equity and recognised in profit or loss for the period even though the financial asset has not been derecognised.

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

Objective evidence that financial assets are impaired can include observable data that comes to the attention of the group about the following loss events:

- Significant financial difficulty of the borrower
- default or delinquency by a borrower,
- restructuring of a loan or advance by the group on terms that the group would not otherwise consider,
- indications that a borrower or issuer will enter bankruptcy,
- the disappearance of an active market for a security, or
- other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that is, on the basis of the group's grading process that considers asset type, industry, geographical location, collateral types, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

a) Assets carried at amortised cost

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

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

b) Assets carried at fair value

Impairment losses on available-for-sale investment securities are recognised by transferring the difference between the amortised acquisition cost and current fair value out of equity to profit or loss. When a subsequent event causes the amount of impairment loss on an available-for-sale debt security to decrease, the impairment loss is reversed through profit or loss.
However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised directly in equity. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

2 ACCOUNTING POLICIES (Continued)

Derecognition of financial assets

Financial assets are derecognized when the rights to receive cashflows from the financial assets have expired or where the company has transferred substantially all risks and rewards of ownership.

Financial liabilities

Debt and equity instruments are classified, as either financial liabilities or as equity in accordance with the substance of the contractual agreement.

After initial recognition, the group measures all financial liabilities including customer deposits and borrowings other than liabilities held for trading at amortised cost. Liabilities held for trading (financial liabilities acquired principally for the purpose of generating a profit from short-term fluctuations in price or dealer's margin) are subsequently measured at their fair values.

Interest-bearing borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

Derecognition of financial liability

Financial liabilities are derecognised and the consideration paid and payable is recognized in profit or loss.

Repurchase agreement transactions

Securities purchased from the Central Bank of Kenya under agreements to resell ('' reverse repo's''), are disclosed as balances with the Central Bank of Kenya as they are held to maturity after which they are repurchased and are not negotiable/discounted during the tenure. The difference between the sale and repurchase price is treated as interest and accrued over the life of the repurchase agreement using the effective yield method.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the group's net investment outstanding in respect of the leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

The group as lessee

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Contingent liabilities

Letters of credit, acceptances, guarantees and performance bonds are generally written by the group to support performance by a customer to third parties. The group will only be required to meet these obligations in the event of the customer's default. These obligations are accounted for as off balance sheet transactions and disclosed as contingent liabilities.

2 ACCOUNTING POLICIES (Continued)

Fiduciary activities

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

Cash and cash equivalents

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advances.

Dividends

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

Segmental reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses; whose operating results are regularly reviewed by the entity's Chief Operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES

In the process of applying the group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected. These are dealt with below:

(i) Critical accounting judgments in applying the group's accounting polices

Impairment losses on loans and advances

The group reviews its loan portfolios to assess impairment regularly. In determining whether an impairment loss should be recorded in the profit or loss, the group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cashflows from a portfolio of loans, before a decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a bank, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING THE BANK'S ACCOUNTING POLICIES (Continued)

(i) Critical accounting judgments in applying the group's accounting polices (Continued)

Held -to-maturity investments

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

Classification of leases of land as finance or operating leases

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

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

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

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

(ii) Key sources of estimation uncertainty

Property and equipment

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

Fair value measurement and valuation

Some of the group's assets and liabilities are measured at fair value for financial reporting purposes. In estimating the fair values of an asset or liabilities, the group uses market –observable data to the extent it is available. Where level 1 inputs are not available, the group engages third party qualified valuers to perform the valuation.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. CAPITAL MANAGEMENT

Regulatory capital

The group's objectives when managing capital are:

- To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for the shareholders and benefits for the other stakeholders.
- To maintain a strong capital base to support the current and future development needs of the business.
- To comply with the capital requirements set by the Central Bank of Kenya (CBK).

Capital adequacy and use of regulatory capital are monitored by management, employing techniques based on the guidelines developed by the Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

Banking business

The Central Bank of Kenya requires each bank to:
a) Hold the minimum level of regulatory capital of Shs 1 billion.
b) Maintain a ratio of total regulatory capital to risk weighted assets plus risk weighted off balance assets at above the required minimum of 12% ;
c) Maintain a core capital of not less than 8% of total deposit liabilities and
d) Maintain total capital of not less than 12% of risk weighted assets plus risk weighted off balance sheet items.

In addition to the above minimum capital adequacy ratios of 8% and 12%, with effect from January 2014, institutions are required to hold a capital conservation buffer of 2.5% over and above these minimum ratios to enable institutions withstand future periods of stress. This brings the minimum core capital to risk weighted assets and total capital to risk weighted assets requirements to 10.5% and 14.5% respectively, with effect from January 2016. The capital conservation buffer is made up of high quality capital which should comprise mainly of common equity, premium reserves and retained earnings.

The bank met all the above minimum requirements by the Central Bank of Kenya as at 31 December 2014. However,as at 31 December 2015 the bank met all the minimum requirements with the exception of the total capital to risk weighted assets requirements which stood at 14.0% against the minimum requirement of 14.5%.The bank met all the above minimum requirements by the Central Bank of Kenya as at 31 December 2015 and 31 December 2014.

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

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings, after deductions for intangible assets (excluding computer software), investments in equity instruments of other institutions and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. CAPITAL MANAGEMENT (Continued)

Regulatory Capital (Continued)

- Tier 2 capital, which includes 25% revaluation surplus which have received prior CBK approval, qualifying subordinated liabilities and collective impairment allowances.

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 and the bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

There have been no material changes in the bank's management of capital during the period.

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

	2015 Sh'000	2014 Sh'000
Tier 1 capital		
Ordinary share capital	7,214,976	7,075,000
Retained earnings	2,569,487	3,268,312
	9,784,463	10,343,312
Tier 2 capital		
Revaluation surplus (25%)	127,438	297,037
Statutory reserves	619,407	565,456
	746,845	862,493
Total regulatory capital	10,531,308	11,205,805
Risk weighted assets		
On- balance sheet	73,909,225	77,381,999
Off- balance sheet	1,356,851	3,051,022
Total risk weighted assets	75,266,076	80,433,021

	2015	2014
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (CBK minimum 2015-14.5%; 2014- 12%)	14.0%	13.9%
Tier 1 capital expressed as a percentage of total risk-weighted assets (CBK minimum 2015-10.5%; 2014- 8%)	13.0%	12.9%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

4. CAPITAL MANAGEMENT (Continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but, in some cases, the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles, subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes.

The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Bank Risk and Bank Credit Committees, and is subject to review by the Bank Credit, Finance, Information & Technology Committee or ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the bank to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the bank's longer term strategic objectives are also taken into account.

The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
5. INTEREST INCOME		
Loans and advances	8,934,150	7,562,961
Deposits and balances due from banking institutions	112,150	149,749
Repurchase agreements with Central Bank of Kenya	-	5,467
Treasury bills – Held to maturity	134,864	259,057
Treasury bonds – Held to maturity	2,672,936	2,433,703
Treasury bonds – Available for sale	394,103	286,243
	12, 248,203	10,697,180

NOTES TO THE FINANCIAL STATEMENTS (Continued)

6. INTEREST EXPENSE

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(a) On deposits:				
Fixed and short term deposits	3,043,921	2,767,534	3,050,103	2,775,106
Savings accounts	113,792	62,850	113,792	62,850
Demand deposits	1,965,058	782,709	1,965,058	782,709
	5,122,771	3,613,093	5,128,953	3,620,665
(b) On borrowed funds:				
Repurchase agreement with Central Bank of Kenya	-	8,455	-	8,455
Placements from banks and financial institutions	737,893	278,181	737,893	278,181
	737,893	286,636	737,893	286,636
	5,850,664	3,899,729	5,866,846	3,907,301

7. FEES AND COMMISSION

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(a) INCOME				
Letters of credit	124,292	113,556	124,292	113,556
Foreign currency transactions fees and commissions	308	332	308	332
Local currency transactions fees and commissions	1,732,074	1,743,428	1,657,552	1,610,631
Ledger fees	270,025	279,109	270,025	279,109
	2,126,699	2,136,425	2,052,177	2,003,628
(b) EXPENSE				
Letters of credit	-	(5,178)	-	(5,178)
	2,126,699	2,131,247	2,052,177	1,998,450

Included in group local currency transactions fees and commissions is Sh 74,522,778 (2014 - Sh 132,797,135) relating to commissions collected by National Bank Insurance agency, a subsidiary company.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

8. GAINS ON FOREIGN EXCHANGE DEALINGS

Gains on foreign currency dealings arose from dealings in foreign currency transactions and also on the translation of foreign currency assets and liabilities.

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
9. OTHER OPERATING INCOME		
Bad debts recovered	238,941	402,707
Securities trading held for trading	28,585	28,098
Rental income	23,411	42,870
Gain on disposal of property and equipment	111,335	18,987
Fair value gain on quoted investments (note 19)	48,895	30,358
Miscellaneous income	14,934	48,247
	466,101	571,267

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
10 (a) OPERATING EXPENSES				
Staff costs (Note 11)	3,561,473	3,673,389	3,528,710	3,643,040
Directors' emoluments- fees	24,875	21,124	24,875	21,124
Directors' emoluments- other (executive remuneration)	59,285	55,985	59,285	55,985
Depreciation (note 23)	337,363	349,603	337,078	349,353
Amortisation of operating lease prepayments (note 24)	2	6	2	6
Amortisation of intangible assets (note 25)	320,069	301,231	319,696	300,859
Repairs and maintenance	160,795	163,601	160,731	162,677
Security	280,552	238,232	280,552	238,232
Telephone and postage	173,734	169,608	173,679	169,571
Operating lease rentals	317,289	252,968	317,289	252,968
Rates and insurance	115,454	111,976	114,322	110,832
Contribution to deposit protection fund	128,893	103,712	128,893	103,712
Software fees	408,786	233,033	408,002	231,791
Training & research	36,807	36,880	36,800	36,830
Legal and other professional fees	134,772	230,479	134,772	230,479
Auditors' remuneration	10,788	9,817	9,610	9,117
Banking license and fee	13,746	10,396	13,746	10,396
Other operating expenses	1,389,267	1,015,162	1,381,616	1,009,666
	7,473,950	6,977,202	7,429,658	6,936,638
10 (b) RESTRUCTURING COSTS				
Voluntary early retirement costs*	-	1,128,554	-	1,128,554

*The above costs relates to the amounts incurred in the voluntary early retirement exercise conducted in 2014.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
11. STAFF COSTS				
Salaries and wages	2,967,139	3,045,075	2,937,220	3,018,953
Pension costs - defined benefit scheme	366,017	347,975	364,388	344,057
National Social Security Fund Contributions	4,117	4,392	4,081	4,364
Other staff costs	224,200	275,947	223,021	275,666
	3,561,473	3,673,389	3,528,710	3,643,040
12. TAXATION				
(a) Taxation (credit)/charge				
Current taxation:				
Current taxation based on the chargeable profit for the year	24,018	500,732	7,024	470,791
Prior year current tax over provision	-	(9,729)	-	(9,729)
	24,018	491,003	7,024	461,062
Deferred taxation (note 21):				
Current year credit	(508,526)	(33,470)	(508,128)	(33,330)
Prior year over provision	-	(25,104)	-	(25,104)
	(508,526)	(58,574)	(508,128)	(58,434)
	(484,508)	432,429	(501,104)	402,628

12. TAXATION

(b) Reconciliation of taxation credit/charge to the expected taxation based on accounting profit

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Accounting (loss)/profit before taxation	(1,637,985)	1,303,131	(1,684,397)	1,203,326
Tax at the applicable rate of 30%	(491,396)	390,939	(505,319)	360,998
Tax effect of expenses not deductible for tax	211,943	170,655	209,270	170,655
Tax effect of income not taxable	(205,055)	(94,332)	(205,055)	(94,192)
Prior year current tax over provision	-	(9,729)	-	(9,729)
Prior year deferred taxation (over)/under provision	-	(25,104)	-	(25,104)
	(484,508)	432,429	(501,104)	402,628

(c) Corporate tax (recoverable)/payable

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
At 1 January	(423,518)	273,873	(431,696)	272,633
Charge for the year (note 12(a))	24,018	491,003	7,024	461,062
Paid in the year	(106,152)	(1,188,394)	(86,174)	(1,165,391)
At 31 December	(505,652)	(423,518)	(510,846)	(431,696)

13. EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to ordinary shareholders by the number of ordinary shares in issue during the year.

13. EARNINGS PER SHARE (Continued)

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
Earnings				
(Loss)/profit after taxation (Sh '000)	(1,153,477)	870,702	(1,183,293)	800,698
Preference dividend (Sh'000)				
- 1.5% negotiated preferential dividend	-	-	-	-
- Participation pari passu with ordinary shareholders	-	-	-	-
Total preference dividend	-	-	-	-
(Loss)/earnings attributable to ordinary shareholders (Sh'000)	(1,153,477)	870,702	(1,183,293)	800,698
Weighted average number of ordinary shares ('000)				
At 31 December	299,098	299,098	299,098	299,098
(Loss)/Earnings per share				
Basic and diluted (Sh)	(3.86)	2.91	(3.96)	2.67

The holders of the non-cumulative preference shares are entitled to a non-cumulative dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the preference share capital, if the directors declare a dividend on ordinary shares. In addition, whenever the profits of the group in respect of any year are more than sufficient to pay the preferential dividend, the holders of preference shares are entitled to participate in the surplus pari passu with the holders of ordinary shares.
There were no potentially dilutive instruments outstanding at the end of the reporting period.

14. CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
Cash on hand	3,668,583	2,980,344	3,350,178	2,750,613
Balances with Central Bank of Kenya				
- Cash ratio requirement	5,726,388	5,449,666	5,726,388	5,449,666
- Other	7,043,148	8,765,203	7,043,148	8,765,203
	16,438,119	17,195,213	16,119,714	16,965,482

As at 31 December 2015, the cash ratio requirement was 5.25% (2014 – 5.25%) of eligible deposits. The cash ratio requirement funds are not available for the day to day operations of the bank and are non interest bearing.

15. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP AND BANK 2015 Sh'000	2014 Sh'000
Deposits due from banking institutions:		
Foreign currency deposits	598,211	695,756
Balances due from banking institutions:		
Local currency	3,658,835	1,337,906
Foreign currency	-	-
	3,658,835	1,337,906
	4,257,046	2,033,662
Maturity analysis of deposits and balances due from banking institutions:		
Maturity within 91 days after placement	3,667,975	2,033,662
Maturity 91 days after placement	589,071	-
	4,257,046	2,033,662

The effective interest rate on deposits due from banking institutions at 31 December 2015 was 10.3% (2014 – 8%). Included in deposits due from banking institutions is an amount of Sh 96,366,600 (2014- 91,779,073) held under lien as collateral for letters of credit and guarantees issued to the group's customers.

16. GOVERNMENT SECURITIES

	GROUP AND BANK 2015 Sh'000	2014 Sh'000
(a) Government securities are categorised as follows;		
Treasury bills held to maturity - At amortised cost	-	2,439,311
Treasury bonds held to maturity – At amortised cost	15,908,078	11,866,906
Treasury bonds held to maturity (long term non – negotiable) – At amortised cost*	11,175,386	11,171,207
Treasury bonds – Available for sale (at fair value)	-	4,613,616
	27,083,464	30,091,040

NOTES TO THE FINANCIAL STATEMENTS (Continued)

16. GOVERNMENT SECURITIES (Continued)

(a) Government securities are categorised as follows;(Continued)

*The Government of Kenya issued the group with long term non-negotiable treasury bonds amounting to Sh 20 billion on 1 June 2007 in part settlement of its debt with the group. In January 2008, the Government of Kenya cleared the balance of debt outstanding as at 31 December 2007 with a zero coupon non- negotiable bond of Sh1.062 billion. The bonds began maturing during the year 2010.

	GROUP AND BANK	
	2015 Sh'000	**2014 Sh'000**
(b) Maturity analysis of Government securities:		
(i) Treasury bills held to maturity		
Maturing less than 1 year	-	2,439,311
(ii) Treasury Bonds - Held to Maturity		
Maturing less than 1 year		-
Maturing between 3 and 5 years	7,147,999	4,465,994
Maturity between 5 and 10 years	6,207,159	7,400,912
Maturity Over 10 years	2,552,920	-
	15,908,078	11,866,906
(iii) Treasury bonds- (long term non- negotiable bonds) Held to maturity		
Interest bearing:		
Maturing less than 1 year	-	-
Maturing between 3 and 5 years	5,079,721	5,155,202
Maturing between 5 and 10 years	6,095,665	6,016,005
	11,175,386	11,171,207
(iv) Treasury Bonds – Held for trading		
Maturing between 3 and 10 years	-	4,613,616
Total Government securities	27,083,464	30,091,040

16. GOVERNMENT SECURITIES (Continued)

(c) Movement of treasury bonds held for trading –

At fair value

	GROUP AND BANK 2015 Sh'000	2014 Sh'000
At 1 January	4,613,616	535,726
Purchased during the year	-	4,060,893
Disposed during the year	(4,613,616)	-
Fair value gain through other comprehensive income	-	16,997
At 31 December	-	4,613,616

(d) The weighted average effective interest rate for Government securities is as summarized below:

	2015 %	2014 %
Treasury bills – At amortised cost	-	8.50
Treasury bonds – At amortised cost	11.97	11.84
Treasury bonds – At fair value through profit or loss	-	10.90

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	GROUP AND BANK 2015 Sh'000	2014 Sh'000
17 (a) LOANS AND ADVANCES TO CUSTOMERS		
Gross loans and advances:		
Overdrafts	4,536,061	4,223,799
Mortgages	17,642,723	16,049,000
Loans	49,244,352	47,765,445
	71,423,136	68,038,244
Provision for impaired loans and advances:		
- Individually assessed	(3,238,707)	(2,263,409)
- Collectively assessed	(380,439)	(133,344)
	(3,619,146)	(2,396,753)
NET LOANS AND ADVANCES TO CUSTOMERS	67,803,990	65,641,491

Included in net advances are loans and advances amounting to Sh 6,724,977,000 (2014–Sh 4,784,720,000), net of specific provisions, which have been classified as non-performing (impaired). Included in loans and advances to customers are staff loans amounting to Sh 4,918,991,810 (2014 – Sh 4,851,152,000). The effective interest rate on loans and advances was 16.3% as at 31 December 2015 (2014-14.90%).

	GROUP AND BANK 2015 Sh'000	2014 Sh'000
(b) ANALYSIS OF GROSS ADVANCES BY MATURITY		
Maturing:		
Within one year	7,187,525	16,230,099
One year to three years	17,352,399	10,797,191
Three to five years	19,413,526	36,149,114
Over five years	27,469,686	4,861,840
	71,423,136	68,038,244
(c) PROVISION FOR LOANS AND ADVANCES		
At 1 January	2,396,753	1,871,446
Additional provisions during the year	3,719,128	525,307
Recoveries during the year	(34,532)	-
Bad debts written off during the year	(2,462,203)	-
At 31 December	3,619,146	2,396,753

NOTES TO THE FINANCIAL STATEMENTS (Continued)

18. OTHER ASSETS

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
Interbank clearing items	719,619	560,075	719,619	560,075
Rent and service charge receivable	248,024	44,192	248,024	44,192
Pesa Point deposits and Mpesa deposits	527,409	348,692	527,409	348,692
Receivable on disposal of property	551,945	-	551,945	-
Other receivables	542,831	1,047,692	542,692	945,228
	2,589,828	2,000,651	2,589,689	1,898,187

19. OTHER INVESTMENTS

	GROUP AND BANK 2015 Sh'000	GROUP AND BANK 2014 Sh'000
Unquoted		
Available for sale investments		
At cost:		
IDB Capital Limited	1,501	1,501
African Export Import Bank (US$ 10,000)	19,620	8,895
SWIFT	5,883	2,161
	27,004	12,557
Quoted		
At fair value through profit or loss		
At market value:		
VISA International	183,313	137,362
Safaricom Limited	21,330	18,386
	204,643	155,748
	231,647	168,305
Movement in investments:		
At 1 January	168,305	136,667
Additions – African Export Import Bank	10,725	1,280
Additions - SWIFT	3,722	-
Fair value gain (note 9)	48,895	30,358
At 31 December	231,647	168,305

NOTES TO THE FINANCIAL STATEMENTS (Continued)

19. OTHER INVESTMENTS (Continued)

Visa International shares were allotted to the group at no cost by virtue of the group's membership to the Visa International network of users and are quoted at the New York Stock Exchange.

Safaricom shares are quoted on the Nairobi Securities Exchange.

Society for Worldwide Interbank Financial Telecommunication (SWIFT) shares are allocated to an institution based on the institution contribution to the SWIFT network. The share allocation takes place every three years the last of which was done in early 2012. The transfer value of one SWIFT was fixed at EUR 3,300 at the June 2011 General Meeting of shareholders.

The group does not have either management or voting control over the investee companies and it's percentage shareholding is insignificant.

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
20. RELATED PARTY BALANCES				
a) Due from a subsidiary				
NBK Insurance Agency Limited	-	-	169,991	98,845
b) Due to a subsidiary				
Natbank Trustee and Investment Services Limited	21,976	21,976	21,976	21,976
21. DEFERRED TAX LIABILITY				
The net deferred income tax liability is attributable to the following items:				
Liabilities:				
Revaluation surplus on property	482,577	486,798	482,577	486,798
Assets:				
Excess of depreciation over capital allowances	(171,018)	(195,568)	(170,387)	(195,335)
Unrealised fair value loss on Government securities	(285,479)	(225,175)	(285,479)	(225,175)
Gratuity provision	(825)	(825)	(825)	(825)
General provisions	(286,035)	(40,003)	(286,035)	(40,003)
Tax losses	(222,519)	-	(222,519)	-
	(965,876)	(461,571)	(965,245)	(461,338)
Net deferred tax (asset)/liability	(483,299)	25,227	(482,668)	25,460
Movement on the deferred tax account is as follows:				
At 1 January	25,227	83,801	25,460	83,894
Prior year over provision –note 12 (a)	-	(25,104)	-	(25,104)
Profit or loss credit – note 12(a)	(508,526)	(33,470)	(508,128)	(33,330)
At 31 December	(483,299)	25,227	(482,668)	25,460

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. INVESTMENT IN SUBSIDIARY COMPANIES

	GROUP AND BANK	
	2014 Sh'000	2013 Sh'000
At cost:		
Natbank Trustee and Investment Services Limited, 100% owned	19,963	19,963
Kenya National Capital Corporation Limited, 100% owned	-	-
NBK Insurance Agency Limited 100% owned	-	-
	19,963	19,963

All the subsidiary companies have their financial year ending 31 December and are incorporated as limited liability companies. They are incorporated in Kenya under the Companies Act and domiciled in Kenya.

All the subsidiaries are 100% owned and fully controlled by the Bank.
The group financial statements include the results of one of the subsidiaries, NBK Insurance Agency Limited which is consolidated and began trading in 2010. The principal activity of the company is the provision of insurance agency services. The other two subsidiaries, Natbank Trustee and Investment Services Limited and Kenya National Capital Corporation Limited are dormant and have not been consolidated since they are insignificant. Consolidation of these subsidiaries has no material impact on the group's net assets and profit for the year and would not add any real value to the shareholders.

The results and net assets of the consolidated subsidiary company are as outlined below:

NBK Insurance Agency Limited

	GROUP AND BANK	
Summarised statement of financial position	2015 Sh'000	2014 Sh'000
Total assets	329,289	235,288
Total liabilities	(190,304)	(125,177)
Net assets	138,985	110,111
Summarised statement of profit and loss and other comprehensive income		
Revenue	90,705	132,797
Profit before income tax	46,262	99,805
Income tax expense	(16,596)	(29,801)
Total comprehensive income for the year	29,666	70,004

NOTES TO THE FINANCIAL STATEMENTS (Continued)

22. INVESTMENT IN SUBSIDIARY COMPANIES (Continued)

NBK Insurance Agency Limited (Continued)

	2015 Sh'000	2014 Sh'000
Summarised statement of cash flows		
Net cash generated from operating activities	72,847	123,076
Net cash used in from investing activities	15,826	(1,076)
Net increase in cash and cash equivalents	88,673	122,000
Cash and cash equivalents at beginning of year	229,731	107,731
Cash and cash equivalents at end of year	318,404	229,731

The results and net assets of the dormant subsidiaries not consolidated are as outlined below:

(a) *Natbank Trustee and Investment Services Limited*

	2015 Sh'000	2014 Sh'000
Summarised statement of financial position		
Total assets	21,976	21,976
Total liabilities	(19,963)	(19,963)
Net assets	2,013	2,013
Summarised statement of profit and loss and other comprehensive income	-	-
Summarised statement of cash flows	-	-

(b) *Kenya National Capital Corporation Limited*

	2015 Sh'000	2014 Sh'000
Summarised statement of financial position		
Total assets	-	-
Total liabilities	-	-
Net assets	-	-
Summarised statement of profit and loss and other comprehensive income	-	-
Summarised statement of cash flows	-	-

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT - GROUP

GROUP

	Land and buildings	Long leasehold land and Buildings on long and short leasehold land	Motor vehicles, equipment, furniture and fittings	Computers	Capital work in progress	Leasehold Improvements	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
COST OR VALUATION							
At 1 January 2014	205,000	2,216,973	1,359,382	881,830	302,211	1,009,086	5,974,482
Additions	-	-	264,193	88,457	697,072	7,378	1,057,100
Disposals	-	-	(77,902)	-	-	-	(77,902)
Write-off	-	-	-	(8,232)	(51,103)	(36,710)	(96,045)
Transfers from capital work in progress	-	-	-	-	(247)	247	-
At 31 December 2014	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
Comprising:							
Cost	-	-	1,545,673	962,055	947,933	980,001	4,435,662
Valuation – 2013	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2014	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
At 1 January 2015	205,000	2,216,973	1,545,673	962,055	947,933	980,001	6,857,635
Transfer to non-current asset held for sale (note 23(b))	-	(445,000)	-	-	-	-	(445,000)
Additions	-	812	163,954	102,833	665,055	-	999,826
Disposals	(205,000)	(391,775)	(6,377)	(17,963)	-	67,172	(621,115)
Write-off	-	-	-	-	(1,893)	-	(1,893)
Transfers from capital work in progress	-	-	22,056	-	(72,612)	50,556	-
At 31 December 2015	-	1,381,010	1,725,306	1,046,925	1,538,483	1,097,729	6,789,453
Comprising:							
Cost	-	-	1,725,306	1,046,925	1,538,483	1,097,729	5,408,444
Valuation – 2015	-	1,381,010	-	-	-	-	1,381,010
At 31 December 2015	-	1,381,010	1,725,306	1,046,925	1,538,483	1,097,729	6,789,454

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT - GROUP (Continued)

	GROUP						
	Land and buildings	Long leasehold land and Buildings on long and short leasehold land	Motor vehicles, equipment, furniture and fittings	Computers	Capital work in progress	Leasehold Improvements	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
DEPRECIATION							
At 1 January 2014	-	-	769,123	782,101	-	508,911	2,060,135
Charge for the year	-	32,708	115,341	48,734	-	152,820	349,603
Disposal	-	-	(70,085)	-	-	-	(70,085)
Write-off	-	-	-	(4,947)	-	(28,613)	(33,560)
At 31 December 2014	-	32,708	814,379	825,888	-	633,118	2,306,093
At 1 January 2015	-	32,708	814,379	825,888	-	633,118	2,306,093
Charge for the year	-	24,812	132,242	50,619	-	129,690	337,363
Transfer to non-current asset held for sale (note 23(b))	-	(5,525)	-	-	-	-	(5,525)
Disposal	-	(13,681)	(5,301)	(17,963)	-	-	(36,945)
At 31 December 2015	-	38,314	941,320	858,544	-	762,808	2,600,986
NET BOOK VALUE (Valuation)							
At 31 December 2015	-	1,342,696	783,987	188,381	1,538,483	334,921	4,188,468
At 31 December 2014	205,000	2,184,265	731,294	136,167	947,933	346,883	4,551,542
At 31 December 2015	-	350,367	783,987	188,381	1,538,483	334,921	3,196,139
At 31 December 2014	60,917	509,320	731,294	136,167	947,933	346,883	2,732,514

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT – BANK (Continued)

BANK

	Land and buildings Sh'000	Long leasehold land and Buildings on long and short leasehold land Sh'000	Motor vehicles, equipment, furniture and fittings Sh'000	Computers Sh'000	Capital work in progress Sh'000	Leasehold Improvements Sh'000	Total Sh'000
COST OR VALUATION							
At 1 January 2014	205,000	2,216,973	1,357,942	881,781	302,211	1,009,086	5,972,993
Additions	-	-	263,343	88,231	697,072	7,378	1,056,024
Disposals	-	-	(77,902)	-	-	-	(77,902)
Write-off	-	-	-	(8,232)	(51,103)	(36,710)	(96,045)
Transfers from capital work in progress	-	-	-	-	(247)	247	-
At 31 December 2014	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
Comprising:							
Cost	-	-	1,543,383	961,780	947,933	980,001	4,433,097
Valuation – 2013	205,000	2,216,973	-	-	-	-	2,421,973
At 31 December 2014	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
At 1 January 2015	205,000	2,216,973	1,543,383	961,780	947,933	980,001	6,855,070
Transfer to non-current asset held for sale (note 23(b))	-	(445,000)	-	-	-	-	(445,000)
Additions	-	812	163,943	102,833	665,055	-	999,815
Disposals	(205,000)	(391,775)	(6,377)	(17,963)	-	67,172	(621,115)
Write-off	-	-	-	-	(1,893)	-	(1,893)
Transfers from capital work in progress	-	-	22,056	-	(72,612)	50,556	-
At 31 December 2015	-	1,381,010	1,723,005	1,046,650	1,538,483	1,097,729	6,786,877
Comprising:							
Cost	-	-	1,723,005	1,046,650	1,538,483	1,097,729	5,405,867
Valuation – 2015	-	1,381,010	-	-	-	-	1,380,010
At 31 December 2015	-	1,381,010	1,723,005	1,046,650	1,538,483	1,097,729	6,786,877

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT – BANK (Continued)

	GROUP						
	Land and buildings	Long leasehold land and Buildings on long and short leasehold land	Motor vehicles, equipment, furniture and fittings	Computers	Capital work in progress	Leasehold Improvements	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
DEPRECIATION							
At 1 January 2014	-	-	768,095	782,099	-	508,911	2,059,105
Charge for the year	-	32,708	115,122	48,703	-	152,820	349,353
Disposal	-	-	(70,085)	-	-	-	(70,085)
Write-off	-	-	-	(4,947)	-	(28,613)	(33,560)
At 31 December 2014	-	32,708	813,132	825,855	-	633,118	2,304,813
At 1 January 2015	-	32,708	813,132	825,855	-	633,118	2,304,813
Charge for the year	-	24,812	132,013	50,563	-	129,690	337,078
Transfer to non-current asset held for sale (note 23(b))	-	(5,525)	-	-	-	-	(5,525)
Disposal	-	(13,681)	(5,301)	(17,963)	-	-	(36,945)
At 31 December 2015	-	38,314	939,844	858,455	-	762,808	2,599,421
NET BOOK VALUE (Valuation)							
At 31 December 2015	-	1,342,696	783,162	188,195	1,538,483	334,921	4,187,457
At 31 December 2014	205,000	2,184,265	730,251	135,925	947,933	346,883	4,550,257
NET BOOK VALUE (Valuation) *(Cost Basis)*							
At 31 December 2015	-	350,367	783,162	188,195	1,538,483	334,921	3,195,128
At 31 December 2014	60,917	509,320	730,251	135,925	947,933	346,883	2,731,229

NOTES TO THE FINANCIAL STATEMENTS (Continued)

23 (a) PROPERTY AND EQUIPMENT – BANK (Continued)

Included in computers, motor vehicles, equipment and furniture & fittings are assets with a cost of Sh 1,137,568,823 (2014 – Sh 1,022,207,636) which were fully depreciated. The normal annual depreciation charge on these assets would have been Sh 191,654,003 (2014 - Sh 174,174,163).
Capital work in progress mainly relates to the acquisition of banking software related hardware; and the branch expansion programme.

The group's properties were last revalued as at 31 December 2013 by independent valuers, Legend Valuers Limited, registered valuers and estate agents. Valuations were made on the basis of open market value for existing use. The book values of the properties were adjusted to the revalued amounts. Any increase arising on the revaluation was recognised in other comprehensive income and accumulated in the revaluation surplus. Decreases that offset previous increases of the same asset were recognised in other comprehensive income and charged against the revaluation surplus; all other decreases are charged to the profit or loss.

Land and building with a total carrying value of Sh 1,342,696,000 (2014 - Sh 2,389,266,000) are categorized under level 3 fair value hierachy as their value is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices. There were no transfers between the various levels during the year.

23 (b) NON-CURRENT ASSET HELD FOR SALE

	GROUP AND BANK	
	2015 Sh'000	**2014 Sh'000**
COST		
At 1 January	-	-
Transfer from property and equipment (Note 21(a))	445,000	-
At 31 December	445,000	-
DEPRECIATION		
At 1 January	-	-
Charge for the year (Note 21(a))	(5,525)	-
At 31 December	(5,525)	-
NET BOOK VALUE		
At 31 December	439,475	-

The non-current asset held for sale relates to a property for which the bank has initiated the sale process. The property has been placed on the market with the sale expected within the 2016 financial year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

24. OPERATING LEASE PREPAYMENTS

	GROUP AND BANK	
	2015 Sh'000	2014 Sh'000
COST		
At 1 January	525	525
Disposal*	(525)	-
At 31 December	-	525
AMORTISATION		
At 1 January	106	100
Charge for the year	2	6
Disposal*	(108)	-
At 31 December	-	106
NET BOOK VALUE		
At 31 December	-	419

* The disposal relates to the sale of Kitui property during the year.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

25. INTANGIBLE ASSETS

	GROUP Computer software Sh'000	GROUP Capital work in progress Sh'000	GROUP Total Sh'000	BANK Computer software Sh'000	BANK Capital work in progress Sh'000	BANK Total Sh'000
At 1 January 2014	1,814,561	1,052	1,815,613	1,812,698	1,052	1,813,750
Additions	71,672	195,656	267,328	71,672	195,656	267,328
Transfers from capital work in progress	(15,808)	15,808	-	(15,808)	15,808	-
At 31 December 2014	1,870,425	212,516	2,082,941	1,868,562	212,516	2,081,078
At 1 January 2015	1,870,425	212,516	2,082,941	1,868,562	212,516	2,081,078
Additions	236,479	522,015	758,494	236,479	522,015	758,494
Transfers from capital work in progress	118,725	(118,725)	-	118,725	(118,725)	-
Write-off	-	(5,252)	(5,252)	-	(5,252)	(5,252)
At 31 December 2015	2,225,629	610,554	2,836,183	2,223,766	610,554	2,834,320
AMORTISATION						
At 1 January 2014	815,518	-	815,518	814,680	-	814,680
Charge for the year	301,231	-	301,231	300,859	-	300,859
At 31 December 2014	1,116,749	-	1,116,749	1,115,539	-	1,115,539
At 1 January 2015	1,116,749	-	1,116,749	1,115,539	-	1,115,539
Charge for the year	320,069	-	320,069	319,696	-	319,696
At 31 December 2015	1,436,818	-	1,436,818	1,435,235	-	1,435,235
NET BOOK VALUE						
At 31 December 2015	788,811	610,554	1,399,365	788,531	610,554	1,399,085
At 31 December 2014	753,676	212,516	966,192	753,023	212,516	965,539

Capital work in progress relates to ongoing work in respect of upgrade of the core banking system, automation of Finance, Human Resources and Procurement processes and acquisition of softwares for automation of other Bank processes . Included in intangible assets are assets with a cost of Sh 397,410,354 (2014: Sh 352,209,936) which were fully amortised. The normal annual amortisation charge on these assets would have been Sh 79,482,070 (2014: Sh 70,441,987).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

26. CUSTOMER DEPOSITS

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
Fixed deposit accounts	32,507,357	30,941,468	32,507,357	30,941,468
Savings accounts	16,788,578	15,702,825	16,788,578	15,702,825
Current and demand accounts	48,104,716	50,749,167	48,104,716	50,749,167
Foreign currency deposits	13,221,818	7,340,249	13,221,818	7,340,249
	110,622,469	104,733,709	110,622,469	104,733,709
MATURITY ANALYSIS OF CUSTOMER DEPOSITS				
a) From Government and parastatals:				
Payable within 90 days	56,109,552	55,154,173	56,109,552	55,154,173
Payable after 90 days and within one year	1,386,255	2,152,055	1,386,255	2,152,055
	57,495,807	57,306,228	57,495,807	57,306,228
b) From Private Sector and individuals				
Payable within 90 days	45,487,396	41,364,567	45,487,396	41,364,567
Payable after 90 days and within one year	7,639,266	6,062,914	7,639,266	6,062,914
	53,126,662	47,427,481	53,126,662	47,427,481
At 31 December	110,622,469	104,733,709	110,622,469	104,733,709

The effective interest rate on interest bearing customer deposits at 31 December 2015 was 4.7 % (2014 – 4.1%).

27. DEPOSITS AND BALANCES DUE TO BANKING AND FINANCIAL INSTITUTIONS

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
Deposits at end of year	2,343,245	5,077,625	2,343,245	5,077,625

The effective interest rate on deposits due to banking institutions at 31 December 2015 was 4.1 % (2014 – 6.3%). The deposits are payable within 90 days after the end of the reporting period.

28. OTHER LIABILITIES

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
Bills payable	162,932	183,949	162,932	183,949
Other liabilities	1,206,319	787,402	1,200,965	670,170
	1,369,251	971,351	1,363,897	854,119

29. DIVIDENDS

a) Unclaimed dividends

	GROUP & BANK 2015 Sh'000	GROUP & BANK 2014 Sh'000
At 1 January	38,085	31,070
Dividends declared – for year 2013	-	552,075
Dividends paid	(8,259)	(545,060)
At 31 December	29,826	38,085

Unclaimed dividends relates to dividends declared in past years by the group but not collected by the shareholders or their representatives.

b) Proposed dividends

Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting. No dividend is to be proposed at the next annual general meeting in respect of the year 2015. Payment of dividends is subject to withholding tax at a rate of 10% for non-resident shareholders and 5% for resident shareholders.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

30. SHARE CAPITAL

	GROUP AND BANK	
	2015	2014
	Sh'000	Sh'000
Authorised:		
1,400,000,000 Ordinary shares of Sh 5 each	7,000,000	7,000,000
1,200,000,000 Preference shares of Sh 5 each	6,000,000	6,000,000
	13,000,000	13,000,000
Issued and fully paid:		
307,995,200 (2014: 280,000,000) Ordinary shares of Sh 5 each	1,539,976	1,400,000
1,135,000,000 Preference shares of Sh 5 each	5,675,000	5,675,000
	7,214,976	7,075,000

	GROUP AND BANK		GROUP AND BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
Number of shares issued and fully paid:				
At 1 January -280,000,000 Ordinary Shares	1,400,000	1,400,000	280,000,000	280,000,000
Bonus issue - 27,995,200 Ordinary shares	139,976	-	27,995,200	-
At 31 December - 307,995,200 Ordinary shares	1,539,976	1,400,000	307,995,200	280,000,000

As at 31 December 2015, the issued and fully paid share capital comprised of 307,995,200 (2014: 280,000,000) ordinary shares with a par value of Sh. 5. The additional 27,995,200 ordinary shares was on account of a bonus issue that was applied in paying up in full the unissued ordinary shares. The bonus shares which were approved by the shareholders at the Annual General meeting held on 27 March 2015 were allocated to shareholders in the proportion of one for every ten of existing issued and paid up 280,000,000 shares then held by shareholders respectively.

The following special rights and privileges are attached to the preference shares:

a) The holders of the non-cumulative preference shares shall be entitled to receive out of the profits of the bank as a first charge a non-cumulative preferential dividend at a negotiable rate not exceeding 6% per annum on the capital for the time being paid up on the Preference Shares held by them respectively if the directors declare a dividend on the distributable profits.

b) Whenever the profits of the bank in respect of any year shall be more than sufficient to pay the preferential dividend aforesaid to the close of such year, the holders of the preference shares shall be entitled to participate in the surplus pari passu with the holders of the ordinary shares provided that such participation shall be non-cumulative.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

c) In the event of the bank being wound up or on a reduction of capital involving a return of capital, the surplus assets thereof shall be applied in the first place in repaying the holders of the said preference shares, and of any other shares entitled to rank pari passu with them, the full amount paid up thereon, and, subject as aforesaid, such surplus assets shall belong to and be divided among the other members of the company.

d) The holders of the preference shares shall not be entitled to receive notice of, or attend, or vote at any general meeting of the bank.

e) The preference shares aforesaid shall be issued to such persons and on such terms and conditions as the board may think fit.

31. NOTES TO THE STATEMENT OF CASH FLOWS

	GROUP		BANK	
	2015 Sh'000	**2014 Sh'000**	**2015 Sh'000**	**2014 Sh'000**
(a) Reconciliation of profit before taxation to cash generated from/(used in) operations				
(Loss)/profit before taxation	(1,637,985)	1,303,131	(1,684,397)	1,203,326
Adjustments for:				
Depreciation	337,363	349,603	337,078	349,353
Amortisation of intangible assets	320,069	301,231	319,696	300,859
Amortisation of operating lease prepayments	2	6	2	6
Write-off - fixed assets	1,893	62,485	1,893	62,485
Write-off - intangible assets	5,252	-	5,252	-
Gain on disposal of equipment	(111,335)	(18,987)	(111,335)	(18,987)
Fair value gain on quoted investments	(48,895)	(30,358)	(48,895)	(30,358)
Profit before working capital changes	(1,133,636)	1,967,111	(1,180,706)	1,866,684
Increase in cash ratio requirement	(276,722)	(1,341,556)	(276,722)	(1,341,556)
Decrease/(increase) in Government securities	3,007,576	(2,673,694)	3,007,576	(2,673,694)
Increase/(decrease) in deposits and balances due from financial institutions	(605,652)	91,779	(605,652)	91,779
Increase in loans and advances to customers	(2,162,499)	(26,074,813)	(2,162,499)	(26,074,813)
(Increase)/ decrease in other assets	(589,177)	732,669	(691,502)	835,133
Increase in amount due from subsidiary	-	-	(71,146)	(52,312)
Increase in customer deposits	5,888,760	26,740,889	5,888,760	26,740,889
Increase/(decrease) in other liabilities	397,900	(467,569)	509,778	(563,373)
	4,526,550	(1,025,184)	4,417,887	(1,171,263)

NOTES TO THE FINANCIAL STATEMENTS (Continued)

31. NOTES TO THE STATEMENT OF CASH FLOWS (Continued)

	GROUP 2015 Sh'000	GROUP 2014 Sh'000	BANK 2015 Sh'000	BANK 2014 Sh'000
(b) Analysis of the balances of cash and cash equivalents				
Cash on hand (note 14)	3,668,583	2,980,344	3,350,178	2,750,613
Balances with Central Bank of Kenya (note 14)	7,043,148	8,765,203	7,043,148	8,765,203
Deposits and balances due from banking institutions (note 15)	3,667,975	2,033,662	3,667,975	2,033,662
Deposits and balances due to banking institutions (note 27)	(2,343,245)	(5,077,625)	(2,343,245)	(5,077,625)
	12,036,461	8,701,584	11,718,056	8,471,853
C) Analysis of the increase in Government securities				
Movement in Government securities (note 16)	3,007,576	(2,690,691)	3,007,576	(2,690,691)
Non- cashflow items- revaluation of available for sale bonds (note 16(c))	-	16,997	-	16,997
Included in the cashflow statement	3,007,576	(2,673,694)	3,007,576	(2,673,694)

For the purposes of the statement of cash flows, cash equivalents include short term liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the dates of the advance.

32. FINANCIAL RISK MANAGEMENT

Introduction and overview

The group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the group's business, and the operational risks are an inevitable consequence of being in business. The group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on its financial performance.
The most important types of risk include:

- Credit risk
- Liquidity risk
- Market risk- includes currency, interest rate and price risk

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)
Introduction and Overview (Continued)

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the bank's risk management framework.
The board has established a Board Audit and Risk Committee and a risk department to assist in the discharge of this responsibility. The board has also established the Credit, Finance, Information & Technology Committee, the tender committee and operations and marketing committees which are responsible for developing and monitoring risk management in their respective areas.

These committees comprise of non executive members and report regularly to the Board of Directors.

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

The group's Audit and Risk Committee is responsible for monitoring compliance with the group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the group.

The Audit and Risk Committee is assisted in these functions by internal audit and the risk departments. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee. The risk department is responsible for the development of detailed risk management policies and for the day to day implementation of those policies.

(i) Credit risk

Credit risk is the risk of financial loss to the group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the group's loans and advances to customers and other banks and investment securities.

For risk management reporting purposes, the group considers and consolidates all elements of credit risk exposure.

Management of Credit risk

The Board of Directors has delegated responsibility for the management of credit risk to its Credit, Finance, Information & Technology Committee. A separate credit department, reporting to the Credit, Finance, Information & Technology Committee, is responsible for oversight of the group's credit risk, including:

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.

- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by the Credit Finance, Information & Technology Committee or the Board of Directors as appropriate.

- *Reviewing and assessing credit risk*. The Credit department assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.

- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and advances), and by issuer, credit rating band, market liquidity and country (for investment securities).

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Management of credit risk (Continued)

- *Developing and maintaining the group's risk gradings* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of eight grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by the Credit, Finance, Information & Technology Committee.

- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, country risk and product types. Regular reports are provided to the credit department on the credit quality of local portfolios and appropriate corrective action is taken.

- *Providing advice, guidance and specialist skills* to business units to promote best practice throughout the group in the management of credit risk.

Maximum exposure to credit risk before collateral held or other enhancements

The table below represents the maximum credit risk exposure to the group 31 December 2015 and 2014, without taking into account any collateral held or other credit enhancements attached.

		GROUP AND BANK	
		2015	2014
		Sh'000	Sh'000
On- balance sheet items			
a)	Government securities held for trading	-	-
	Government securities available for sale	-	4,613,616
	Government securities held to maturity	27,083,464	25,477,424
		27,083,464	30,091,040
b)	Deposits and balances due from banking institutions		
	- Local Currency	3,658,835	1,337,906
	- Foreign Currency	598,211	695,756
		4,257,046	2,033,662

		GROUP AND BANK	
		2015	2014
		Sh'000	Sh'000
c)	Loans and advances to customers:		
	Loans to individuals:		
	- Overdrafts	401,910	381,155
	- Credit cards	238,195	104,744
	- Term loans	13,096,335	15,787,547
	- Mortgages	2,737,404	5,066,290
		16,473,844	21,339,736

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)
(i) Credit risk (Continued)
Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

		GROUP AND BANK	
		2015	2014
		Sh'000	Sh'000
	Loans to corporate entities:		
	- Overdrafts	4,134,151	4,169,554
	- Credit cards	-	-
	- Term loans	35,909,824	31,088,692
	- Mortgages	14,905,317	11,440,262
		54,949,292	46,698,508
	Total loans and advances	71,423,136	68,038,244
d)	Other assets		
	Interbank clearing items	719,619	560,075
	Total on balance sheet items	103,483,265	100,723,021

The group does not perceive any significant credit risk on the following financial assets:

- Investments in Government securities and Central Bank of Kenya.
- Off balance sheet items

Investments in Government securities are deemed adequately secured by the Government of Kenya with no inherent default risk whereas from history, the group has not incurred any loss from off balance sheet items hence the low credit risk in the two categories of financial assets.

The credit risk on the deposits and balances due from banking institutions is considered to be low because the counterparties are banks with high credit ratings.

Classification of loans and advances

The table below represents the maximum credit risk exposure to the group at 31 December, after taking into account credit enhancements attached.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Maximum exposure to credit risk before collateral held or other credit enhancements (Continued)

Classification of loans and advances (Continued)

	GROUP AND BANK			
2015 Loans and advances to customers	**Gross amounts Shs'000**	**Impairment Allowances Shs'000**	**Net amounts Shs'000**	**%**
Neither past due nor impaired	45,596,451	-	45,596,451	67
Past due but not impaired	15,863,001	(380,439)	15,482,562	23
Impaired	9,963,684	(3,238,707)	6,724,977	10
	71,423,136	(3,619,146)	67,803,990	100
2014				
Neither past due nor impaired	56,545,319	-	56,545,319	86
Past due but not impaired	4,444,796	(133,344)	4,311,452	7
Impaired	7,048,129	(2,263,409)	4,784,720	7
	68,038,244	(2,396,753)	65,641,491	100

Each business unit is required to implement group credit policies and procedures, with credit approval authorities delegated from the group Credit, Finance, Information & Technology Committee. Each business unit has a Chief Credit Risk officer who reports on all credit related matters to local management and the group Credit, Finance, Information & Technology Committee. Each business unit is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in its portfolios, including those subject to central approval.

Regular audits of business units and group credit processes are undertaken by the Internal Audit department.

Impaired loans

Impaired loans and advances are those for which the group determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan / securities agreement(s). These loans are graded 3 to 5 in the group's internal credit risk grading system as required by the regulator. According to the Central Bank of Kenya prudential guidelines, loans and advances overdue by over 90 days are considered non performing.
Past due but not impaired loans

Loans and advances where contractual interest or principal payments are past due but the group believes that impairment is not appropriate on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the group. Loans under this category are no more than 90 days overdue.

Loans and advances that are neither past due nor impaired

The group classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a statutory provision at 1% is made and appropriated under statutory reserves.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Classification of loans and advances (Continued)

Allowances for impairment

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

Write-off policy

The group writes off a loan / security balance (and any related allowances for impairment losses) when the Credit department determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status.

Collateral held

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

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at 31 December 2015 or 2014.

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

Loans and advances to customers

	GROUP AND BANK	
	2015	**2014**
	Sh'000	**Sh'000**
Against individually impaired		
Property	6,499,965	3,993,881
Against collectively impaired		
Property	1,069,053	3,815,743
Against past due but not impaired		
Property	1,441,589	8,116,480
Against neither past due nor impaired		
Property	63,652,278	31,469,853
Total	72,662,885	47,395,957

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Concentrations of risk

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

(a) Advances to customers- gross

	GROUP AND BANK			
	2015		2014	
	Sh'000	%	Sh'000	%
Agriculture	2,057,372	3	2,923,843	4
Manufacturing	1,841,024	3	3,556,008	5
Wholesale and retail trade	15,184,368	21	6,885,316	10
Transport and communications	5,678,934	8	2,899,333	4
Mining and quarrying	21,977	-	481,955	1
Building and construction	7,690,181	11	7,789,566	12
Foreign trade	4,251,478	6	1,377,063	2
Business services	111,513	-	624,253	1
Real estate	13,997,782	20	16,506,521	24
Social community and personal services	19,998,583	27	23,912,163	35
Others	589,924	1	1,082,223	2
	71,423,136	100	68,038,244	100

(b) Off balance sheet items (letters of credit and guarantees)

	2015		2014	
	Sh'000	%	Sh'000	%
Social community and personal services	270,839	3	163,891	3
Business services	664,695	8	402,222	8
Wholesale and retail	1,810,879	20	1,095,804	20
Transport and communication	1,528,078	17	924,675	17
Manufacturing	2,038,644	23	1,233,630	23
Other	2,529,296	29	1,530,535	29
	8,842,431	100	5,350,757	100

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(i) Credit risk (Continued)

Concentration of risk (Continued)

Settlement risk

The group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honour its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions the group mitigates this risk by conducting settlements through a settlement /clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process described earlier. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals from the group's risk function.

(ii) Liquidity risk

Liquidity risk is the risk that the group will encounter difficulty in meeting obligations from its financial liabilities-

Management of liquidity risk

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

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

Exposure to liquidity risk

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

Details of the reported bank ratio of net liquid assets to deposits and balances due to banking institutions and customer deposits at the reporting date and during the reporting period were as follows:

	2015	2014
At 31 December	31%	32%
Average for the period	24%	28%
Maximum for the period	31%	39%
Minimum for the period	20%	21%
Statutory minimum requirement	20%	20%

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (Continued)

The table below presents the cash flows payable by the group under non-derivative financial liabilities by the remaining contractual maturities at the end of the reporting period. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the group manages the inherent liquidity risk based on expected undiscounted inflows.

	Carrying amount Sh'000	Up to 1 month Sh'000	1-3 months Sh'000	3-12 months Sh'000	1-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Customer deposits	110,622,469	101,401,800	7,971,592	1,249,077	-	-	110,622,469
Deposits and balances due to banking institutions	2,343,245	2,343,245	-	-	-	-	2,343,245
Due to a subsidiary company	21,976	-	-	-	-	21,976	21,976
Total financial liabilities	**112,987,690**	**103,745,045**	**7,971,592**	**1,249,077**	**-**	**21,976**	**112,987,690**
FINANCIAL ASSETS							
Cash and balances with Central Bank of Kenya	16,438,119	16,438,119	-	-	-	-	16,438,119
Deposits and balances due from financial institutions	4,257,046	3,658,835	598,211	-	-	-	4,257,046
Government securities	27,083,464	-	-	-	12,106,891	14,976,573	27,083,464
Loans and advances to customers (net)	67,803,990	3,865,106	5,366,225	11,594,660	25,798,113	21,179,886	67,803,990
Other assets-Interbank clearing items	719,619	719,619	-	-	-	-	719,619
Total financial assets	**116,302,238**	**24,681,679**	**5,964,436**	**11,594,660**	**37,905,004**	**36,156,459**	**116,302,238**
NET LIQUIDITY GAP	**3,314,548**	**(79,063,366)**	**(2,007,156)**	**10,345,583**	**37,905,004**	**36,134,483**	**3,314,548**
31 December 2013							
Total financial liabilities	109,833,310	93,807,267	12,212,083	3,791,984	-	21,976	109,833,310
Total financial assets	115,521,481	34,393,194	2,680,331	7,380,612	31,780,607	39,286,737	115,521,481
NET LIQUIDITY GAP	**5,688,171**	**(59,414,073)**	**(9,531,752)**	**3,588,628**	**31,780,607**	**39,264,761**	**5,688,171**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(ii) Liquidity risk (Continued)

The previous table shows the undiscounted cash flows on the group's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The group's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

The gross nominal inflow / (outflow) disclosed in the previous table is the contractual, undiscounted cash flow on the financial liability or commitment.

(iii) Market risks

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

Management of market risks

Overall responsibility for management of market risk rests with a management committee of the group, the Asset and Liability Committee (ALCO). The risk department is responsible for the development of detailed market risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

a) Interest rate risk

The group is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The maturities of asset and liabilities and the ability to replace at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the group's exposure to changes in interest rates and liquidity.

Interest rates on advances to customers and other risk assets are either pegged to the group's base lending rate. The base rate is adjusted from time to time to reflect the cost of funds.

ALCO closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

a) Interest rate risk (Continued)

The table below summarises the exposure to interest rate risks. Included in the table are the group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates. The group does not bear an interest rate risk on off balance sheet items.

(All figures in thousand shillings)

	Less than 1 month	1 month less than 3 months	3 months less than 6 months	6 months less than 1 year	1 year less than 3 years	3 years less than 5 years	Over 5 years	Non-interest bearing	Total
31 December 2015									
Cash and balances with Central Bank of Kenya	-	-	-	-	-	-	-	16,438,119	16,438,119
Deposits and balances due from banking institutions	3,658,835	598,211	-	-	-	-	-	-	4,257,046
Government securities held to maturity	-	-	-	-	-	12,106,991	14,977,473	-	27,084,464
Loans and advances to customers (net)	4,083,714	5,373,205	9,481,773	2,119,243	11,903,173	13,889,360	20,953,522	-	67,803,990
Total financial assets	**7,742,549**	**5,971,416**	**9,481,773**	**2,119,243**	**11,903,173**	**25,996,351**	**35,930,995**	**16,438,119**	**115,583,619**
FINANCIAL LIABILITIES									
Customer deposits	19,084,490	58,070,053	3,218,951	2,828,966	-	-	-	27,420,009	110,622,469
Deposits and balances due to banking institutions	2,343,245	-	-	-	-	-	-	-	2,343,245
Due to a subsidiary company	-	-	-	-	-	-	-	21,976	21,976
Total financial liabilities	**21,427,735**	**58,070,053**	**3,218,951**	**2,828,966**	**-**	**-**	**-**	**27,441,985**	**112,987,690**
INTEREST RATE SENSITIVITY GAP	**(13,685,186)**	**(52,098,637)**	**6,262,822**	**(709,723)**	**11,903,173**	**25,996,351**	**35,930,995**	**(11,003,866)**	**2,595,929**
31 December 2014									
Total financial assets	13,423,588	4,022,170	1,422,916	4,443,516	10,743,261	22,497,328	39,289,044	19,119,583	114,961,406
Total financial liabilities	20,046,132	16,487,885	2,563,900	1,228,084	-	-	-	69,507,309	109,833,310
INTEREST RATE SENSITIVITY GAP	**(6,622,544)**	**(12,465,715)**	**(1,140,984)**	**3,215,432**	**10,743,261**	**22,497,328**	**39,289,044**	**(50,387,726)**	**5,128,096**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

a) Interest rate risk (Continued)

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the group.

Interest rate risks – Increase/decrease of 5% in Net Interest Margin

The interest rate risks sensitivity analysis is based on the following assumptions.

- Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments
- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The interest rate changes will have a significant effect on interest sensitive assets and liabilities and hence simulation modeling is applied to net interest margins.
- The interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged.
- The projections make other assumptions including that all positions run to maturity.

The table below sets out the impact on future net interest income of an incremental 5% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2015.

	Amount at 31-Dec Sh'000	Scenario 1 5% increase in net interest margin Sh'000	Scenario 2 5% decrease in net interest margin Sh'000
2015			
Profit Before Taxation	(1,684,398)	(1,256,724)	(2,112,072)
Adjusted Core Capital	9,784,463	10,212,137	9,356,789
Adjusted Total Capital	10,531,308	10,958,982	10,103,634
Risk Weighted Assets (RWA)	75,266,075	75,266,075	75,266,075
Adjusted Core Capital to RWA	13.00%	13.57%	12.43%
Adjusted total Capital to RWA	13.99%	14.56%	13.42%
2014			
Profit Before Taxation	1,203,326	1,025,930	1,380,722
Adjusted Core Capital	10,343,312	10,219,135	10,467,489
Adjusted Total Capital	11,205,805	11,081,627	11,329,982
Risk Weighted Assets (RWA)	80,433,021	80,433,021	80,433,021
Adjusted Core Capital to RWA	12.86%	12.71%	13.01%
Adjusted total Capital to RWA	13.93%	13.78%	14.09%

Assuming no management actions, a series of such rises would increase/decrease net interest income for 2015 by Sh 427,624,000 (2014- Sh 339,493,950). In addition, a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.54% and 0.54% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.54% and 0.54% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk

The group operates wholly within Kenya and its assets and liabilities are carried in local currency.

The group maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The group is exposed to the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates.

The group's currency position and exposure are managed within the exposure guideline of 10% (2015 - 10%) of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The exchange rates used for translating the major foreign currency balances at the year end were as follows:

	GROUP AND BANK	
	2015	2014
	Sh	Sh
US Dollar	102.30	90.70
GB Pound	151.72	141.45
EURO	111.44	110.18

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk (Continued)

The table below summarises the group's exposure to foreign currency exchange rate risk as at the end of the reporting period.

ASSETS	KSHS Sh'000	USD Sh'000	GBP Sh'000	EUR Sh'000	OTHER Sh'000	TOTAL Sh'000
Cash and balances with Central Bank of Kenya	15,421,841	584,075	117,172	247,975	67,056	16,438,119
Deposits and balances due from banking institutions	3,658,835	598,211	-	-	-	4,257,046
Government securities held to maturity	27,083,464	-	-	-	-	27,083,464
Loans and advances to customers (net)	52,531,210	15,216,828	10	55,942	-	67,803,990
Other investments	22,831	202,933			5,883	231,647
Other assets-Inter bank clearing items	11,659	692,942	1,026	10,721	3,271	719,619
Total financial assets	**98,729,840**	**17,294,989**	**118,208**	**314,638**	**76,210**	**116,533,885**
FINANCIAL LIABILITIES						
Customer deposits	96,473,354	13,799,668	109,019	237,860	2,568	110,622,469
Deposits and balances due to banking institutions	450,695	1,892,550	-	-	-	2,343,245
Due to a subsidiary company	21,976	-	-	-	-	21,976
Total financial liabilities	**96,946,025**	**15,692,218**	**109,019**	**237,860**	**2,568**	**112,987,690**
NET BALANCE SHEET POSITION	**1,783,815**	**1,602,771**	**9,189**	**76,778**	**73,642**	**3,546,195**
NET OFF BALANCE SHEET POSITION	**2,417,353**	**6,276,807**	**-**	**134,524**	**13,748**	**8,842,432**
As at 31 December 2014						
Total financial assets	102,198,456	13,165,389	176,706	104,715	44,520	115,689,786
Total financial Liabilities	98,115,943	11,525,775	116,339	66,022	9,231	109,833,310
NET BALANCE SHEET POSITION	**4,082,513**	**1,639,614**	**60,367**	**38,693**	**35,289**	**5,856,476**
NET OFF BALANCE SHEET POSITION	**4,908,532**	**291,136**	**84,982**	**66,107**	**-**	**5,350,757**

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iii) Market risks (Continued)

b) Foreign exchange risk

Foreign exchange risk – Appreciation/depreciation of Sh against other currencies by 10%

The Foreign exchange risks sensitivity analysis is based on the following assumptions:

- Foreign exchange exposures represent net currency positions of all currencies other than Kenya Shillings.
- The currency risk sensitivity analysis is based on the assumption that all net currency positions are highly effective.
- The base currency in which the group's business is transacted is Kenya Shillings.

The table below sets out the impact on future earnings of an incremental 10% parallel fall or rise in all foreign currencies at the beginning of each quarter during the 12 months from 1 January 2015.

Assuming no management actions, a series of such rise and fall would impact the future earnings and capital as illustrated in the table below;

	Amount at 31-Dec Sh'000	Scenario 1 10% appreciation Sh'000	Scenario 2 10% depreciation Sh'000
2015			
Profit Before Taxation	(1,684,398)	(1,839,822)	(1,528,974)
Adjusted Core Capital	9,784,463	9,675,666	9,893,260
Adjusted Total Capital	10,531,308	10,422,511	10,640,105
Risk Weighted Assets (RWA)	75,266,075	75,266,075	75,266,075
Adjusted Core Capital to RWA	13.00%	12.86%	13.14%
Adjusted total Capital to RWA	13.99%	13.85%	14.14%
2014			
Profit Before Taxation	1,203,326	1,025,930	1,380,722
Adjusted Core Capital	10,343,312	10,219,135	10,467,489
Adjusted Total Capital	11,205,805	11,081,627	11,329,982
Risk Weighted Assets (RWA)	80,433,021	80,433,021	80,433,021
Adjusted Core Capital to RWA	12.86%	12.71%	13.01%
Adjusted total Capital to RWA	13.93%	13.78%	14.09%

Assuming no management actions, a series of such appreciation /depreciation would decrease/ increase operating income for 2015 by Sh 155,424,000 (2014- Sh 175,198,700). In addition, a series of such rises would decrease the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.1% respectively, while a series of such falls would increase the adjusted core capital to RWA and Adjusted total capital to RWA by 0.1% and 0.01% respectively. Both the revised capital ratios are well above the minimum capital requirement of 8% and 12% respectively.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

32. FINANCIAL RISK MANAGEMENT (Continued)

(iv) Fair value of financial assets and liabilities

a) Financial instruments measured at fair value

Determination of fair value and fair values hierarchy
IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the group's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The group considers relevant and observable market prices in its valuations where possible.

The following table shows an analysis of financial and non- financial instruments recorded at fair value by level of the fair value hierarchy:

At 31 December 2015

	GROUP AND BANK			
	Level 1	**Level 2**	**Level 3**	**Total**
	Sh'000	**Sh'000**	**Sh'000**	**Sh'000**
Financial Assets				
Equity investments	204,643	-	-	204,643
Non- financial Assets	-	-	-	-
Land and buildings	-	-	1,380,198	1,380,198
	204,643	-	1,380,198	1,584,841

At 31 December 2014

	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Government securities held for trading	4,613,616	-	-	4,613,616
Equity investments	155,748	-	-	155,748
Non- financial Assets				
Land and buildings				
		-	2,389,266	2,389,266
	4,769,364	-	2,389,266	7,158,630

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

b) Financial instruments not measured at fair value

Disclosures of fair values of financial instruments not measured at fair value have not been made because the financial carrying amounts are a reasonable approximation of their fair values.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. CONTINGENCIES AND COMMITTMENTS INCLUDING OFF BALANCE SHEET ITEMS

a) Contingent liabilities

In common with other banks, the group conducts business involving acceptances, guarantees, performances and indemnities. The majority of these facilities are offset by corresponding obligations of third parties.

	2015 Sh'000	2014 Sh'000
Letters of credit	5,281,742	1,514,381
Letters of guarantee	3,560,689	3,828,833
Other	2,633,846	2,677,896
Demand from KRA	15,440	-
	11,491,717	8,021,110

The bank has a number of pending court cases but directors, having undertaken legal consultation, believe no material financial liabilities will arise from these cases.
Letters of credit commit the group to make payments to third parties, on production of documents, which are subsequently reimbursed by customers.

Letters of guarantee are issued by the group to guarantee performance by the customers to third parties. The group will only be required to meet these obligations in the event of customer default.
Concentrations of letters of credit and guarantees are covered under note 32.

	2015 Sh'000	2014 Sh'000
b) Capital commitments		
Authorised and contracted for	465,188	212,622
Authorised but not contracted for	-	-

The authorized and contracted capital commitments largely relate to upgrade of the core banking system and refurbishment of branches.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

33. CONTINGENCIES AND COMMITTMENTS INCLUDING OFF BALANCE SHEET ITEMS (Continued)

c) Operating lease arrangements

The group as a lessor

Rental income earned during the year was Sh 23,411,366 (2015 – Sh 42,870,000). At the end of the reporting period, the group had contracted with tenants for the following future lease receivables:

	2015 Sh'000	2014 Sh'000
Within one year	31,890	22,569
In the second to fifth year inclusive	80,569	40,069
After five years	1,604	-
	114,063	62,638

Leases are negotiated for an average term of 5 years and rentals are reviewed annually. The leases are cancellable with a penalty. Tenants are required to pay full rent for the quarter in which termination of lease notice is given.

The group as a lessee

At the end of the reporting period, the group had outstanding commitments under operating leases which fall due as follows:

	2015 Sh'000	2014 Sh'000
Within one year	330,251	158,067
In the second to fifth year inclusive	907,178	505,986
After five years	123,468	55,924
	1,360,897	719,977

Operating lease payments represent rentals payable by the group for some of its branch premises. Leases are negotiated for an average term of 6 years.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

34. RETIREMENT BENEFIT OBLIGATIONS

The group makes contributions to a defined contribution pension scheme and a defined contribution provident fund in respect of eligible non unionisable and unionisable employees respectively. It also contributes to the statutory defined pension scheme, the National Social Security Fund.

Contributions to the company plans are determined by the rules of the plan and amounted to Sh 366,017,000 (2014 – Sh 347,975,000) in the year. Contributions to the statutory scheme are determined by local statute and are currently set at Sh. 200 per employee per month. For the year ended 31 December 2015, the group contributed Sh 4,117,000 (2014 – Sh. 4,392,000) to the statutory scheme.

Previously, the group had been operating a defined benefit scheme. This was converted to a defined contribution scheme on 1 July 2004. As at the conversion date, six members declined to convert and elected to remain in the Defined Benefit Scheme. However, in 2006, five out of the six members who had initially declined conversion accepted to convert, leaving only one member in the defined benefit scheme who stayed in the scheme until he left the group's employment during the year ended 31 December 2014. No amounts have been recognized in profit or loss in respect of this defined benefit plan during the year (2014 – Sh nil). The group's liability in the pension scheme is limited to the extent of its unpaid contributions to the scheme.

The scheme's funds are jointly managed by Genesis Kenya Investment Management Limited and Pine Bridge Investment .

35. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

Placings are made in the bank by directors and companies associated to directors. Advances to customers at 31 December 2015 include advances and loans to companies associated to directors.

All transactions with related parties are at arm's length in the normal course of business, and on terms and conditions similar to those applicable to other customers.

	2015 Sh'000	2014 Sh'000
(a) Advances to customers:		
Directors (note 35(d))	100,955	95,626
Employees	4,893,563	4,851,152
	4,994,518	4,946,778
(b) Customer deposits:		
Directors (note 35(d))	49,170	46,667
Natbank Trustee & Investment services Limited	125,116	21,976
National Social Security Fund	2,274,155	3,983,418
	2,448,441	4,052,061
(c) Contributions to the statutory defined contribution pension scheme, the National Social Security Fund	4,091	4,125

NOTES TO THE FINANCIAL STATEMENTS (Continued)

35. RELATED PARTY TRANSACTIONS (Continued)

(d) The volumes of related party transactions with directors during the year and the outstanding amounts at the year-end are as follows:

	2015 Sh'000	2014 Sh'000
Directors		
Loans and advances:		
At 1 January	95,626	88,024
Advanced during the year	34,841	22,182
Interest charged	2,803	2,701
Repayments during the year	(32,315)	(17,281)
At 31 December	100,955	95,626
Deposits:		
At 1 January	46,667	40,267
Received during the year	121,781	90,973
Withdrawn during the year	(119,278)	(84,573)
At 31 December	49,170	46,667

Key management compensation

The remuneration of directors and other members of key management during the year were as follows:

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Salaries and other short-term employment benefits	191,927	183,144	191,927	183,144
Pension and gratuity	21,686	14,973	21,686	14,973
	213,613	198,117	213,613	198,117
Directors' remuneration				
Fees for services as a director	24,875	21,124	24,875	21,124
Other emoluments (included in key management compensation above)	61,392	55,985	61,392	55,985
	86,267	77,109	86,267	77,109

36. FIDUCIARY ACTIVITIES

The group holds asset security documents on behalf of customers with a value of Sh 5,936,294,100 (2014 – Sh 6,252,306,147). Most of these securities are held by the custody services department. The assets held comprise deposits with financial institutions, government securities, and quoted and unquoted securities.

37. SEGMENTAL REPORTING

The group adopted IFRS 8 Operating Segments which became effective for the periods beginning 1 January 2011. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the corporation that are regularly reviewed by the Chief Operating Decision Maker (CODM) in order to allocate resources to the segments and to assess performance. Thus, under IFRS 8, the major reporting segment is banking with other income comprising less than 10% of total income. This is the information which has been reported in these financial statements.
Therefore, no further segmental information has been provided.

38. ASSETS PLEDGED AS SECURITY

Deposits due from foreign banks amounting to Sh 96,366,600 (Sh 2014 - Sh 91,779,073) were under lien as collateral for the letters of credit and guarantees issued to the group's customers.

39. NON FINANCIAL DISCLOSURES

STRATEGIC RISK

Strategic risk is the current and prospective impact on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. It is a risk that can significantly impact on the achievement of the institution's vision and strategic objectives as documented in the strategic plan.

Who manages strategic risk?

The Board of Directors is responsible for the preparation and implementation of the bank's strategy. The board delegates implementation to the managing director and the senior management team who execute strategy. The Board through its Board Audit and Risk Committee (BARC) works together with senior management to ensure that the bank meets its strategic goals and objectives.

How we manage strategic risk

The bank sets strategic goals and objectives, evaluates its strategic position and develops appropriate strategies and then translates those strategies into a 5 year Strategic plan.

Each department or branch head is responsible for directing strategies in their respective units and ensures that such strategies are aligned to the overall strategy of the Bank. Regular comparison of actual performance to desired outcomes serves as an important check on the success of implementing approved strategies, and allows management to take timely remedial actions to address significant deviations from set targets.

The bank's capital planning is risk-based. It takes into account the banks current and future capital needs, anticipated capital expenditures, dividend payment forecasts and desirable capital levels.

The bank employs stress-testing techniques in its strategic planning and management processes to assess any potential threats to the implementation of the strategies.

The bank's internal control system subjects bank strategies to audit reviews. The results of such audit reviews, including any issues and weaknesses identified are reported to the Board and senior management. The Board and senior management are responsible for effective implementation of strategies. Reports on strategic issues are made on quarterly basis.

39. NON FINANCIAL DISCLOSURES (Continued)

OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. It is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks that arise in the normal course of business.

Who manages operational risk?

Senior management is responsible for management of operational risks by implementing and maintaining throughout the institution, policies, processes and systems for managing operational risk in all material products, services and activities, consistent with the bank's risk appetite and tolerance.

How does the bank manage operational risk?

The bank has established risk management and internal control procedures to address operational risks.
Some of the banks policies rules and procedures include; procurement policy; ant-money laundering policy; asset management policy; outsourcing policy; capital management policy; code of conduct; delegation of authority; segregation of duties; audit coverage; compliance; succession planning; mandatory leave; staff compensation; recruitment and training; dealing with customers; complaint handling; record keeping; Management Information Systems (MIS) and physical controls.

Internal controls are designed to provide reasonable assurance that the bank has efficient and effective operations; safeguard its assets; produce reliable financial reports; and comply with applicable laws and regulations.

The bank provides adequate capital to cover losses emanating from internal sources (operation activities, bank's systems, people and processes) and loss from external environment. A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met.

REPUTATIONAL RISK

Reputational risk is the potential that negative publicity regarding an institution's business practices, whether true or not, will cause a decline in the customer base, costly litigation, or revenue reductions.

Who manages reputational risk?

Ultimate accountability for reputational risk management rests with the board of directors and senior management by addressing explicitly reputational risk as a distinct and controllable risk to the institution's safety and soundness. Employees and representative of the bank have a responsibility to contribute positively to the bank's reputation.

How we manage reputational risk?

Corporate governance principles require the bank to manage reputation risk by addressing corporate culture, management integrity matters and have code of conduct and relevant policies. The Bank has a code of conduct policy, conflict of interest policy, anti-corruption policy aim at encouraging ethical behaviors in the work place. A log of complaints and other events with reputational implication is maintained and analyzed regularly to guide in mitigating the risk.

COMPLIANCE RISK

Compliance risk is the current or prospective risk to earnings and capital arising from violations or non-compliance with laws, rules, regulations, agreements, prescribed practices, or ethical standards, as well as from the possibility of incorrect interpretation of effective laws or regulations.

Who manages compliance risk?

The ultimate accountability for compliance risk management rests with the board, which is aware of the major aspects of the institution's compliance risk.

How we manage compliance risk?

NOTES TO THE FINANCIAL STATEMENTS (Continued)

39. NON FINANCIAL DISCLOSURES (Continued)

The Compliance Department monitors the bank's compliance with statutory regulations and directives from other regulatory bodies by:

a) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations as required.

b) Tracking, escalating and reporting significant issues and findings to senior management and the Board of Directors through BARC.

c) Implementing or assisting with reviews of policies, procedures and training. This is done by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.

d) Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

40. INCORPORATION

The bank and its subsidiaries are incorporated and domiciled in Kenya under the Companies Act.

41. CURRENCY

These financial statements are presented in Kenya Shillings thousands (Sh'000).

PROXY FORM

Shareholder's Member/CDSC No. ______________________________

The Company Secretary
National Bank of Kenya
Harambee Avenue
P.O. Box 72866 - 00200
NAIROBI

I/We.. of (address) .... being a member/ members of National Bank of Kenya Limited, hereby appoint :- ....of (address).. an failing him, the Chairman of the meeting to be my/our proxy, to vote on my / our behalf at the 47th Annual General Meeting of the Company held on Friday 3rd June 2016 at 10:00am or at any adjournment thereof.

As witness my/our hand/ hands is/ are set this .... Day of .... (Month) 2016

Signed ________________________________

NOTE: 1. A proxy need not be a member.
2. In the case of a corporate body the proxy must be under its Common Seal.
3. This proxy must be delivered to the Company's registered office not later than 10.00 a.m. on **Tuesday 31st May 2016**

Shareholder Admission Letter

Please complete this form and note that it must be produced at the Company's Annual General Meeting by your proxy for admission.

Name .... Signature ....

Shareholder's Member/CDSC Number ....

The 47th Annual General Meeting of National Bank of Kenya Limited to be held at Kenyatta International Conference Centre (KICC), Amphitheatre on Friday 3rd June 2016 at 10:00am.

FOMU YA UWAKILISHI

Nambari ya mwanachama/ akaunti ya CDSC ____________________________

Katibu wa Kampuni

National Bank of Kenya Limited

Harambee Avenue

SLP 72866-00200

NAIROBI

Mimi/sisi ....

Kutoka (anwani) ....

Kama Mwanachama/ wanachama wa National Bank of Kenya Limited, namteua/twamteua:-

....

Kutoka (anwani)...

au akikosa, mwenyekiti wa mkutano kuwa wakala wangu/wetu, ili kupiga kura kwa niaba yangu/yetu wakati wa mkutano wa 47 wa pamoja wa mwaka wa Kampuni utakao fanyika **Ijumaa Juni 3, 2016 kuanzia saa nne asubuhi** au kuahirishwa kwake.

Kama shahidi ninatia /tunatia sahihi hii/hizi siku ya .... Mwezi wa 2016

Sahihi ______________________________________

MUHIMU

1. Si lazima kwa wakala kuwa mwanachama
2. Katika hali ambapo mwanachama ni shirika, fomu ya uwakilishi iwe imepigwa mhuri Wake
3. Ni lazima fomu hii ya uwakilishi kuwasilishwa katika ofisi za benki zilizosajiliwa kabla ya Jumatano Mei 25, 2016

Barua ya Kumruhusu mwanachama kuhudhuria mkutano

Tafadhali jaza fomu hii na ufahamu kwamba ni lazima itolewe nawe au wakala wako ili kukuruhusu kuhudhuria Mkutano wa pamoja wa mwaka wa kampuni.

Jina .... Sahihi ....

Nambari ya mwanachama/ nambari ya CDSC ....

Mkutano wa 47 wa pamoja wa mwaka wa wanahisa wa National Bank of Kenya Limited (kampuni) utafanyika katika ukumbi wa Amphitheatre jumba la Kimataifa la Jomo Kenyatta lililoko barabara ya Harambee Avenue Nairobi Ijumaa Juni 3, 2016 kuanzia saa nne asubuhi.


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National Bank Contact Details

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Fax: 020-311444/222304
E-Mail: info@nationalbank.co.ke
Website: www.nationalbank.co.ke

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Fax: 020-2213084
MOBILE:0711038000
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3. Inland Container Depot Agency
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Mobile: 0711038000
E-mail:icdagency@nationalbank.co.ke

4. Hill Plaza Branch
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Mobile: 0711038000
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5. NSSFAgency
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6. Hospital Branch
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7. Kenyatta Avenue Branch
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15. Eldoret International Airport Agency
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37. Ukunda Branch
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39. Nandi Hills Branch
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41. Westlands Branch
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43. Wilson Airport
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80. Busia KRA Agency
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Notes

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