Deloitte.

AFRICAN BANKING CORPORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

31 DECEMBER 2015

AFRICAN BANKING CORPORATION LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Contents **Pages**

AFRICAN BANKING CORPORATION LIMITED

CORPORATE INFORMATION

DIRECTORS	Richard Omwela	-	Chairman
	Shamaz Savani	-	Group Managing Director
	Sridhan Natarajan	-	Group Chief Executive Officer
	Ashraf Savani		
	Joseph Muiruri		
	Anil Ishani		
	Alban Mwendar		
BOARD AUDIT COMMITTEE	Joseph Muiruri	-	Chairman
	Ashraf Savani		
	Anil Ishani		
BOARD CREDIT COMMITTEE	Alban Mwendar	-	Chairman
	Ashraf Savani		
	Shamaz Savani		
BOARD RISK AND COMPLIANCE COMMITTEE	Joseph Muiruri	-	Chairman
	Ashraf Savani		
	Anil Ishani		
BOARD NOMINATION AND REMUNERATION COMMITTEE	Alban Mwendar	-	Chairman
	Shamaz Savani		
	Sridhar Natarajan		
EXECUTIVE COMMITTEE	Shamaz Savani	-	Chairman
	Sridhar Natarajan	-	Group Chief Executive Officer
	Paul Tikani	-	Chief Operating Officer
	Josiah Muia	-	Head of Corporate Banking
	Samuel Muchiri	-	Head of Finance, Strategy and CMAC
	Philip Wambua	-	Head of Treasury
	Raj Pal Arora	-	Chief Credit Risk Officer
	Corline Amanda	-	Head of Retail Banking
	Lee Gachomba	-	Head of SME Banking
	Peter Kinyanjui	-	General Manager –Business Development
	Wambui Kaguongo	-	Head of Product Development & Marketing
	Elizabeth kimani	-	Head of Operation
ASSETS & LIABILITIES COMMITTEE	Sridhar Natarajan	-	Chairman
	Shamaz Savani		
	Samuel Muchiri		
	Philip Wambua		
	Josiah Muia		
	Corline Amanda		
	Lee Gachomba		
	Raj Pal Arora		
	Peter Kinyanjui		

COMPANY SECRETARY	Victoria Nthenya Muya Certified Public Secretary (Kenya) P O Box 28896, 00100 Nairobi
REGISTERED OFFICE	ABC Bank House LR No. 1870/IX/107 6th Floor, Woodvale Grove P O Box 13889, 00800 Nairobi
HEAD OFFICE	ABC Bank House 6th Floor, Woodvale Groove P O Box 13889, 00800 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place,Waiyaki Way, Muthangari P O Box 40092, 00100 Nairobi

AFRICAN BANKING CORPORATION LIMITED

STATEMENT ON CORPORATE GOVERNANCE

African Banking Corporation Limited (the "bank") is fully committed to the principles of transparency, integrity and accountability. The Directors are ultimately accountable to all stakeholders for ensuring that the bank's business is conducted in accordance with high standards of corporate governance. Of particular importance to the bank are the observance of shareholders' interest, efficient practices and open corporate communication systems.

1. BOARD OF DIRECTORS

The names of the Directors who held office in the year and to the date of this report are set out on page 2.

The Board is responsible for formulating the bank policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the bank and implements corporate governance policies of the bank.

The Board comprises five independent non-executive Directors and two Executive Directors; the Group Managing Director and Group Chief Executive Officer. The Directors have diverse skills and are drawn from various sectors of the economy. The Chairman of the Board and Chairmen of Board committees are non-executive Directors.

A timetable of calendar dates for Board meetings to be held in the following year is fixed in advance by the Board. The notice of Board meetings is given in advance in accordance with the bank's Articles of Association and is distributed together with the agenda and board papers to all the Directors beforehand. The Board meets regularly and at least four times annually. During the year, the board convened and held five ordinary meetings. In accordance with the bank's practice, one Board meeting is normally scheduled to coincide with the occasion of the Annual General Meeting.

The bank's Secretary is always available to the Board of Directors.

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year is disclosed in Note 36(e) to the financial statements for the year ended 31 December 2015. The bank advanced loans to Directors and their associated companies as disclosed in Note 36(a).

b) Related Party Transactions

There have been no materially significant related party transactions, pecuniary transactions or relationships between the bank and its Directors or Management except those disclosed in Note 36 to the financial statements for the year ended 31 December 2015.

c) Board and Director Evaluation

Both peer and self evaluations of the Board members including the Chairman have been done.

2. BOARD COMMITTEES

The Board has in place three main committees, namely the Board Audit Committee, the Board Credit Committee and the Board Risk and Compliance Committee. In addition, the Board has set up in 2015 a Board Human Resources Committee to handle Board appointments as well as the Bank's Human Resources matters. To discharge its mandate effectively, the Board delegates its authority to various sub-committees, whose chairpersons report to the Board. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structure are in place to achieve the bank's objectives and obligations to its stakeholders. All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary. The authority for the day to day running of the bank is delegated to the Group Managing Director.

a) Board Audit Committee

The Audit Committee is chaired by a non-executive director (Mr. J. Muiruri) and meets on a quarterly basis. Other members are two non-executive directors (Mr. A Savani and Mr.A Ishani). The responsibilities of this committee are the review of financial information and the monitoring of the effectiveness of management information and internal control systems. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. In addition, the committee deliberates on the significant findings arising from inspections by the Supervision Department of Central Bank.

2. BOARD COMMITTEES (Continued)

b) Risk and Compliance Committee

The Risk and Compliance Committee is chaired by a non-executive Director (Mr. J. Muiruri).The other members are two non-executive appointees of the Board (Mr.A Savani and Mr.A. Ishani). The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the bank are properly established, monitored and reported on. The committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank.

c) Board Credit Committee

The Credit Committee is chaired by a non-executive director (Mr. A. Mwendar) and meets on a quarterly basis or as need arises to review credit policies, facilities granted and other credit related issues that require Board deliberation. Other members are Mr. A. Savani, Group Managing Director (Mr. S. Savani).

d) Board Nomination and Remuneration Committee

The Nomination and Remuneration Committee is chaired by a non-executive director (Mr. A. Mwendar) and meets on a semi-annual basis or as need arises to review human resources related issues that require Board deliberation. Other members are Mr. Sridhar Natarajan the Group Chief Executive Officer, and the Group Managing Director Mr. S. Savani.

e) Executive Committee (Exco)

The executive committee chaired by the Group MD, is comprised of Unit Heads. This committee has overall responsibility for risk management, monitoring and evaluation of performance and strategy formulation and implementation. The committee advises and assists the Group MD in making decisions that define the direction the bank takes.

f) Assets and Liabilities Management Committee (ALCO)

The Group Chief Executive Officer chairs this committee and its membership comprises business heads. The committee meets monthly and is responsible for the monitoring and management of the statement of financial position, including liquidity risk, maturity risk, interest rate risk, and exchange rate risk, compliance with statutory requirements governing liquidity, cash ratio and foreign exchange exposure, investment policies and the setting of interest rates.

g) Other Committees

Other management support structures revolve around committees set up to support the Group Managing Director in the day-to-day management of the bank and the group and include the Credit Committee (CC), the Non-Performing Loans Committee (NPL), Management Committee (MANCO), Purchase and Tendering Committee (PTC), Health and Safety Committee (HSC) and the Human Resources Committee (HRC). The CC meets at least weekly to review credit applications, pending disbursements and credit risk. The other committees meet at least monthly.

3. RISK MANAGEMENT AND INTERNAL CONTROL

Management, in consultation with the Board Committees, is responsible for the bank's day-to-day overall risk management to minimize potential adverse effects on its financial performance while the Board is responsible for the bank's system of internal control and for reviewing its effectiveness. The bank has an ongoing process of identifying, evaluating and managing significant risks inherent in its business, by the Risk Management department. This process is also reviewed by the Internal Auditor. The bank has in place controls and a Balanced Scorecard Tool which include, but are not limited to, an annual strategic planning and budgeting process, a regular review of strategic initiatives, a well-defined organizational structure which is kept under regular review by the Board, clearly laid down authority levels, and a review of quarterly financial and operating information by Management and the Board.

4. BUSINESS ETHICS

The bank conducts its business in compliance with high ethical standards of business practice. In this respect, transactions with its intermediaries, employees and other stakeholders are conducted at arm's length, with integrity and transparency.

5. RESPONSIBILITY FOR STAFF WELFARE AND TRAINING

As part of its policy, the bank recognizes the need for diversity, equal opportunities, gender sensitivity and provision of a safe and conducive work environment for its entire staff. The bank assists its staff to undertake continuous professional and development training programmes to fulfill their potential. This process is appropriately managed to align staff development with the bank's strategic and business goals and objectives, and is reinforced with appropriate remuneration and incentive systems.

6. SHAREHOLDERS

The composition of shareholders and their individual holdings at the year ended 2015 was in full compliance with the provisions of the Banking Act and Central Bank of Kenya Prudential Guidelines. There was no change in the shareholding structure in 2015.

7. BOARD AND COMMITTEE MEETINGS ATTENDANCE

The Board meets quarterly for scheduled meetings to review the Groups performance against business plans as well as to formulate and implement strategy and on other occasions to deal with any issue that requires attention between the quarterly meetings. During the year, the Board held 5 ordinary meetings. Details of attendance for each member of board are as below.

	Director	**No of meetings attended**
1	Ashraf Savani	5
2	Richard Omwela	4
3	Joseph Muiruri	5
4	Anil Ishani	5
5	Alban Mwendar	5
6	Shamaz Savani	5
7	Sridhar Natarajan	5

The Executive Committee and ALCO convened during each month and held twelve meetings each whereas the Board Audit Committee, the Board Credit Committee and the Board Risk and Compliance Committee convened and held four meetings each. All the meetings convened had sufficient quorum with all the board members attending more than 75% of the meetings held as required by CBK prudential Guidelines. As part of corporate governance, board assessments are performed annually per the regulator's requirements.

8. COMPLIANCE

The Bank operates within the requirements of the Banking Act, among other Acts, and adopts certain universally accepted principles in the areas of human rights, labour standards and environment in its commitment to best practice. Additionally, the Group prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

-- Director

-- Director

31 March 2016

AFRICAN BANKING CORPORATION LIMITED

REPORT OF THE DIRECTORS

The directors have the pleasure of submitting their report together with the audited financial statements of African Banking Corporation Limited (the "bank") and its subsidiaries (together, the "Group") for the year ended 31 December 2015, in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act, which disclose the state of affairs of the Group and of the bank.

ACTIVITIES

The principal activities of the Group are the provision of banking, insurance brokerage, stock brokerage and other financial related services.

RESULTS

	Sh'000
Profit before taxation	388,399
Taxation expense	(98,480)
Retained profit for the year	289,919
Attributable to:	
Equity holders of the parent company	279,562
Non-controlling interests	10,357
	289,919

DIVIDENDS

Directors do not purpose payment of any dividend (2014: 84,000,000).

DIRECTORS

The present members of the Board of Directors are shown on page 2.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office in accordance with section 159 (2) of the Kenyan Companies Act and subject to approval by the Central Bank of Kenya in accordance with section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

VICTORIA NTHENYA MUYA
R 2355
P. O. Box 28898-00100
Nairobi, KENYA
CERTIFIED PUBLIC SECRETARY

Secretary

Nairobi

31 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 as at the end of the financial year and of their operating results for that year. It also requires the directors to ensure that the companies in the Group keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and of the bank. They are also responsible for safeguarding the assets of the Group and the bank.

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 for such internal controls as the directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgments and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the group and of their operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

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

Director	Director

31 MARCH 2016

Deloitte.

Deloitte & Touche
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INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED

Report on financial statements

We have audited the financial statements of African Banking Corporation Limited (the "Company") and its subsidiaries (together, the "Group"), set out on pages 11 to 71, which comprise the consolidated and bank statements of financial position as at 31 December 2015, and the consolidated statement of profit and loss and other comprehensive income, consolidated and bank statements of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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 the Group's 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.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AFRICAN BANKING CORPORATION LIMITED (Continued)

Report on Other Legal Requirements

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

i) we have obtained all the information and explanations which, to the best of our knowledge and belief, were 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 (balance sheet) is 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**

AFRICAN BANKING CORPORATION LIMITED

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

	Note	2015 Sh'000	2014 Sh'000
INTEREST INCOME	6	2,974,601	2,731,491
INTEREST EXPENSE	7	(1,602,719)	(1,351,627)
NET INTEREST INCOME		1,371,882	1,379,864
Fees and commission income		355,617	347,373
Foreign exchange trading income		64,225	138,395
Other operating income	8	43,080	47,234
OPERATING INCOME		1,834,804	1,912,866
Operating expenses	9	(1,358,317)	(1,414,039)
Impairment charge on loans and receivables	19(d)	(88,088)	(161,948)
PROFIT BEFORE TAXATION		388,399	336,879
TAXATION EXPENSE	11(a)	(98,480)	(67,532)
PROFIT FOR THE YEAR	12	289,919	269,347
OTHER COMPREHENSIVE LOSS			
Items that may be reclassified subsequently to profit or loss			
Net fair value loss on available for sale investments	22(d)	(30,347)	(105,110)
Reclassfication adjustments relating to available for-sale financial assets disposed during the year	8	-	(33)
Exchange differences on translating foreign operations		(76,917)	(18,711)
Other comprehensive loss		(107,264)	(123,854)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		182,655	145,493
PROFITATTRIBUTABLE TO:			
Equity holders of the parent company		279,562	264,367
Non-controlling interests		10,357	4,980
		289,919	269,347
OTHER COMPREHENSIVE LOSS ATTRIBUTABLE TO:			
Equity holders of the parent company		(84,562)	(110,789)
Non-controlling interests		(22,702)	(13,065)
		(107,264)	(123,854)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the parent company		195,000	153,578
Non-controlling interests		(12,345)	(8,085)
		182,655	145,493
Earnings per share – Basic & Diluted	14	2.66	2.52

AFRICAN BANKING CORPORATION LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015 Sh'000	2014 Sh'000
ASSETS			
Cash and balances with Central Banks	15	1,230,902	1,209,272
Deposits and balances due from banking institutions	16	442,652	223,303
Government securities	17	4,060,586	5,200,769
Corporate bonds	18	157,115	234,677
Loans and advances to customers	19(a)	15,292,071	13,679,881
Corporate tax recoverable	11(c)	35,038	96,130
Other assets	20(a)	573,704	561,161
Property and equipment	21(a)	532,416	582,548
Intangible assets	22(a)	132,719	140,237
Investment in Nairobi Securities Exchange	22(c)	129,938	107,625
Goodwill	24	660	660
Deferred tax asset	29(c)	29,943	36,860
TOTAL ASSETS		22,617,744	22,073,123
LIABILITIES			
Balances due to Central Banks	26	1,098,624	-
Deposits and balances due to banking institutions	26	370,229	796,388
Customer deposits	27	16,300,473	16,390,568
Other liabilities	28	413,454	489,035
Long term loan	30	384,501	529,670
Corporate bond issued	31	1,020,077	1,019,731
TOTAL LIABILITIES		19,587,358	19,225,392
SHAREHOLDERS' FUNDS			
Share capital	32(a)	1,050,000	1,050,000
Retained earnings		1,742,052	1,474,971
Investment revaluation reserve		(136,555)	(104,666)
Statutory reserve	32(b)	120,957	108,557
Translation reserve		(30,322)	22,351
Attributable to equity holders of the parent company		2,746,132	2,551,213
Non-controlling interests	33	284,254	296,518
TOTAL SHAREHOLDERS' FUNDS		3,030,386	2,847,731
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		22,617,744	22,073,123

The financial statements on pages 11 to 71 were approved and authorised for issue by the board of directors on 31 March 2016 and were signed on its behalf by:

________________________) Director

________________________) Director

________________________) Chief Executive Officer

________________________) Company Secretary

VICTORIA NTHENYA MUYA
R 2355
P O. Box 28896-00100
Nairobi, KENYA
CERTIFIED PUBLIC SECRETARY

AFRICAN BANKING CORPORATION LIMITED

BANK STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2015

	Note	2015 Sh'000	2014 Sh'000
ASSETS			
Cash and balances with Central Bank of Kenya	15	1,085,030	1,110,044
Deposits and balances due from banking institutions	16	123,265	90,671
Government securities	17	3,741,051	4,705,478
Corporate bonds	18	157,115	234,677
Loans and receivables to customers	19(a)	14,828,522	13,127,628
Corporate tax recoverable	11(c)	20,655	80,302
Other assets	20(a)	539,140	474,099
Due from related parties	20(b)	21,542	19,252
Property and equipment	21(b)	498,770	539,937
Intangible assets	22(b)	132,362	139,735
Investment in subsidiaries	23	885,405	885,405
Deferred tax asset	29(b)	25,440	31,501
TOTAL ASSETS		22,058,297	21,438,729
LIABILITIES			
Balances due to Central Bank of Kenya	26	1,098,624	-
Deposits and balances due to banking institutions	26	554,442	796,382
Customer deposits	27	15,688,082	15,976,010
Due to related parties	20(c)	86,383	74,343
Other liabilities	28	389,580	420,043
Long term loan	30	384,501	529,670
Corporate bond issued	31	1,020,077	1,019,731
TOTAL LIABILITIES		19,221,689	18,816,179
SHAREHOLDERS' FUNDS			
Share capital	32(a)	1,050,000	1,050,000
Retained earnings		1,733,365	1,480,589
Investment revaluation reserve		(60,908)	(8,248)
Statutory reserve	32(b)	114,151	100,209
SHAREHOLDERS' FUNDS		2,836,608	2,622,550
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		22,058,297	21,438,729

The financial statements on pages 11 to 71 were approved and authorised for issue by the board of directors on 31 MARCH 2016 and were signed on its behalf by:

__________________________) Director

__________________________) Director

__________________________) Chief Executive Officer

__________________________) Company Secretary

VICTORIA NTHENYA MUYA
R 2355
P. O. Box 28896 00100
Nairobi, KENYA
CERTIFIED PUBLIC SECRETARY

AFRICAN BANKING CORPORATION LIMITED

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

	Note	Share capital Sh'000	Retained earnings Sh'000	Investment revaluation reserve Sh'000	Statutory reserve Sh'000	Translation reserve Sh'000	Attributable to equity holders of the parent Sh'000	Non controlling interests Sh'000	Total Sh'000
At 1 January 2015		1,050,000	1,474,971	(104,666)	108,557	22,351	2,551,213	296,518	2,847,731
Total comprehensive income		-	279,562	(31,889)	-	(52,673)	195,000	(12,345)	182,655
Transfer to statutory reserve	32	-	(12,400)	-	12,400	-	-	-	-
Impact of dilution of non controlling interests		-	(81)	-	-	-	(81)	81	-
At 31 December 2015		1,050,000	1,742,052	(136,555)	120,957	(30,322)	2,746,132	284,254	3,030,386
At 1 January 2014		1,050,000	1,296,122	(6,713)	107,039	35,187	2,481,635	304,603	2,786,238
Total comprehensive income		-	264,367	(97,953)	-	(12,836)	153,578	(8,085)	145,493
Transfer to statutory reserve	32	-	(1,518)	-	1,518	-	-	-	-
Dividend paid 2014		-	(84,000)	-	-	-	(84,000)	-	(84,000)
At 31 December 2014		1,050,000	1,474,971	(104,666)	108,557	22,351	2,551,213	296,518	2,847,731

The statutory reserve relates to the excess provision for impairment of loans and receivables as computed per the Central Bank Prudential guidelines over that computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.

The Investment revaluation reserve represents the net cumulative surplus/(deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

AFRICAN BANKING CORPORATION LIMITED

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

	Share capital Sh'000	Retained earnings Sh'000	Revaluation reserve Sh'000	Statutory reserve Sh'000	Total Sh'000
At 1 January 2015	1,050,000	1,480,589	(8,248)	100,209	2,622,550
Total comprehensive income for the year	-	266,718	(52,660)	-	214,058
Transfer to statutory reserve	-	(13,942)	-	13,942	
At 31 December 2015	1,050,000	1,733,365	(60,908)	114,151	2,836,608
At 1 January 2014	1,050,000	1,307,319	(6,713)	99,334	2,449,940
Total comprehensive income for the year	-	258,145	(1,535)	-	256,610
Transfer to statutory reserve	-	(875)	-	875	-
Dividends paid – 2014 interim	-	(84,000)	-	-	(84,000)
At 31 December 2014	1,050,000	1,480,589	(8,248)	100,209	2,622,550

The statutory reserve relates to the excess provision for impairment of loans and receivables as computed per the Central Bank of Kenya Prudential guidelines over the loans and receivables impairment provision as computed in accordance with IAS 39 on financial instruments. The statutory reserve is not distributable.

The investment revaluation reserve represents the net cumulative surplus/(deficit) arising from revaluation of available for sale investments. The revaluation reserve is not distributable.

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Note	2015 Sh'000	2014 Sh'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash used in operations	34(a)	(1,560,844)	(1,823,646)
Taxation paid	11(c)	(24,167)	(155,657)
Net cash used in operating activities		(1,585,011)	(1,979,303)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	21(a)	(28,688)	(86,226)
Purchase of intangible assets	22(a)	(7,921)	(8,363)
Proceeds from disposal of proprerty		2,586	1,663
Net cash used in investing activities		(34,023)	(92,926)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	13	-	(84,000)
Issue of corporate bond	31	-	1,000,000
Net cash generated from financing activities		-	916,000
Decrease in cash and cash equivalents		(1,619,034)	(1,156,229)
Cash and cash equivalents at 1 January		1,233,562	2,323,390
Exchange differences		(36,915)	66,401
Cash and cash equivalents at 31 December	34(b)	(422,387)	1,233,562

1 GENERAL INFORMATION

African Banking Corporation Limited ('the company') and its subsidiaries (together, 'the group'), comprising African Banking Corporation Limited which is a commercial bank incorporated in Kenya and the ultimate holding company of all subsidiaries, ABC Financial Services Limited which is an investment and holding company of ABC Capital Limited, a stock-broking and investment company licensed by the Capital Markets Authority (CMA), ABC Nominee Limited, ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited, a commercial bank incorporated and operating in Uganda. The main principal activity for the group is banking, insurance brokerage, stock brokerage and other financial related services. The address of its registered office and principal place of business are disclosed in the introduction to the annual report.

2 ACCOUNTING POLICIES

Statement of compliance

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

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 equivalent to the statement of profit and loss and other comprehensive income.

Application of new and revised International Financial Reporting Standards (IFRS)

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.

Annual improvements 2010 to 2012 Cycle	The Annual Improvements to IFRSs 2010-2012 Cycle include a number of amendments to various IFRSs, of which, the relevant one are summarised below: 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 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 amendments to IAS 24 clarify 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 through another entity is not required. The application of these amendments have not had any impact on the disclosures or the amounts recognised in these financial statements.

2 ACCOUNTING POLICIES (CONTINUED)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

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

Annual improvements 2011 to 2013 Cycle	The Annual Improvements to IFRSs 2011-2013 Cycle include a number of amendments to various IFRSs, of which the relevant ones are summarised below: The IFRS 13 amendments 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 accordan(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 application of these amendments have not had any impact on the disclosures or the amounts recognised in these financial statements.

ii) New and amended standards and interpretations in issue but not yet effective in the year ended 31 December 2015.

New and Amendments to standards	*Effective for annual periods beginning on or after*
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from contracts with customers*	1 January 2018
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to IFRS 11 *(Accounting for Acquisitions of Interests in Joint Operations)*	1 January 2016
Amendments to IAS 16 and IAS 38 (*Clarification of Acceptable Methods of Depreciation and Amortisation*)	1 January 2016
Amendments to IAS 16 and IAS 41 *(Agriculture: Bearer Plants)*	1 January 2016
Amendments to IAS 27 (*Equity Method in Separate Financial Statements)*	1 January 2016
Amendments to IFRS 10 and IAS 28 *(Sale or Contribution of Assets between an Investor and its Associate or Joint Venture)*	1 January 2016
Annual Improvements 2012-2014 Cycle	1 July 2016
Amendments to IAS 1 *(Disclosure Initiative)*	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 *(Investment Entities: Applying the Consolidation Exception)*	1 January 2016

iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2015

IFRS 9, Financial Instruments

The replacement project on financial instruments consists of the following three phases:

- Phase 1: Classification and measurement of financial assets and financial liabilities;
- Phase 2: Impairment methodology; and
- Phase 3: Hedge accounting.

In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which will supersede IAS 39 *Financial Instruments: Recognition and Measurement* in its entirety upon the former's effective date.

Compared to IFRS 9 (as revised in 2013), the 2014 version includes limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. It also adds the impairment requirements relating to the accounting for an entity's expected credit losses on its financial assets and commitments to extend credit.

2 ACCOUNTING POLICIES (CONTINUED)

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2015 (Continued)

IFRS 9, Financial Instruments (Continued)

The completed IFRS 9 (as revised in 2014) contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting.

The directors anticipate that IFRS 9 will be adopted in the company's financial statements for the annual period beginning 1 January 2018. The directors are evaluating the impact the IFRS will have upon adoption to the financial statements of the group.

IFRS 15, Revenue from Contracts with Customers

In May 2014, 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.

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

IFRS 16 Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring lesses to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

Lessors continue to classify leases as operating or finance lease, with IFRS 16, approach to lessor accounting unchanged from its predecessor, IAS 17.

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019.

The directors anticipate that the adoption of IFRS 16 will not have a significant impact on the group's financial statements.

2 ACCOUNTING POLICIES

Application of new and revised International Financial Reporting Standards (IFRS) (Continued)

iii) Relevant new and revised IFRSs in issue but not yet effective for the year ended 31 December 2015 (Continued)

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 company uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

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

Annual Improvements 2012 – 2014 cycle

The Annual Improvements to IFRSs 2012-2014 Cycle include a number of amendments to various IFRSs, which are summarised below:

The amendments to IFRS 5 introduces specific guidance in IFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa). The amendment clarifies that such a change is considered as a continuation of the original plan of disposal and accordingly an entity should not apply paragraphs 27-29 of IFRS 5 regarding changes to a plan of sale in those situations.

The amendments to IFRS 7 provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets. Also, the amendment clarifies that the offsetting disclosures are not specifically required for all interim periods. However, the disclosures may need to be included in the condensed interim financial statements to satisfy the requirements in IAS 34 *Interim Financial Reporting.*

The amendments to IAS 19 clarifies that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The basis for conclusions to the amendment also clarifies that the depth of the market for high quality corporate bonds should be assessed at a currency level which is consistent with the currency in which the benefits are to be paid. For currencies for which there is no deep market in such high quality bonds, the market yields (at the end of the reporting period) on government bonds denominated in that currency should be used.

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 the period.

2 ACCOUNTING POLICIES (Continued)

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis of accounting as modified by the revaluation of certain assets and financial instruments which are accounted for at fair value.

Basis of consolidation

(a) Subsidiaries

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

The group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date. Any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiaries acquired in the case of a bargain purchase, the difference is recognised directly through profit or loss.

Inter-company transactions, balances and recognised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

The consolidated financial statements incorporate the financial statements of the bank and its subsidiaries, ABC Capital Limited, ABC Insurance Brokers Limited and ABC Capital Bank Uganda Limited all having financial year end of 31 December 2015.

(b) 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.

2 ACCOUNTING POLICIES (Continued)

Basis of consolidation (Continued)

(c) Loss of control 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 recognized 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 recognized 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 recognized in other comprehensive income are reclassified to profit or loss.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

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

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the fair value of the group's share of the net assets of the acquired subsidiaries as at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to the cash generating units expected to benefit from the synergies of the combination. Cash generating units to which goodwill has been allocated are tested for impairment annually. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of the goodwill allocated to the unit. An impairment loss recognised for goodwill is not reversed in a subsequent periods.

Revenue recognition

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 at fair value through profit and loss, are recognized within interest income and interest expense in 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.

2 ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Interest income and expense (Continued)

Interest income includes interest on loans and receivables, 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 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.

Statutory reserve

IAS 39 requires the Group to recognise an impairment loss when there is objective evidence that loans and receivables are impaired. However, Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines require the Group to set aside amounts for impairment losses on loans and receivables 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 and equipment

Property and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure directly attributable to the acquisition of the asset (costs of bringing the assets to its location and working condition).

Depreciation is calculated on a pro-rata basis at the following annual rates estimated to write off the cost of property and equipment over their expected useful lives, on the following bases:

	Rate	Basis
Buildings	2%	Straight line basis
Office renovations	Over the lease period of the building	Straight line basis
Motor vehicles	20%	Straight line basis
Furniture and equipment	12.5%	Reducing balance basis
Computers, copiers and faxes	30%	Reducing balance basis

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to rise from the continued use of the asset. The gain or loss arising on the disposal or retirement of property and equipment is determined as the difference between sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Intangible assets

Costs incurred on computer software are initially accounted for at cost as intangible assets and subsequently at cost less accumulated amortisation and accumulated impairment losses. Amortisation is calculated on a straight line basis over the estimated useful lives not exceeding 10 years.

2 ACCOUNTING POLICIES (Continued)

Other investments

The investment in the Nairobi Securities Exchange is classified as available for sale and initially recognised at cost. After initial recognition, the investment is carried at fair value. Gains and losses arising from changes in the fair value of the investments are recognised in other comprehensive income and accumulated in the fair value reserve. The fair value is based on the market price at year end.

Impairment of tangible and intangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Offsetting

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 offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statement of profit or loss and other 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 group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

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 are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will 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.

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 that have been 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 Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax for the year

Current and deferred taxes 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 taxes are also recognised in other comprehensive income.

2 ACCOUNTING POLICIES (Continued)

Foreign currencies

Assets and liabilities in foreign currencies are expressed in Kenya shillings at the rates of exchange ruling at the end of the reporting period. Transactions in foreign currency during the period are translated at the rates of exchange ruling at the dates of the transactions. The resulting gains or losses are dealt with in profit or loss.

Employee entitlements

Entitlements to annual leave are recognised when they accrue to employees. Provision is made for the estimated liability in respect of annual leave accrued at the end of the reporting period.

Retirement benefits

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

In Kenya the Group operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the employer. The Group also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute.

In Uganda, the Group contributes to the statutory National Social Security Fund (NSSF) on behalf of its employees. This is a defined contribution scheme registered under the NSSF Act. The institution's obligations under the scheme are specific contributions legislated from time to time and are currently limited to 10% of the respective employees' salaries. The institution's contributions are charged to profit or loss in the year in which they relate.

Financial instruments

Financial assets

Classification

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

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

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

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading.

(ii) Loans and receivables

Loans 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 receivables are recognised when cash is advanced to borrowers. They are categorised as originated loans and carried at amortised cost.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(iii) 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.

(iv) 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 are classified as available-for-sale.

Recognition and derecognition of financial assets

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.

Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans, advances and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of "financial assets at fair value through profit or loss" are included in profit or loss in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in other comprehensive income, until the financial asset is derecognised or impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is transferred to retained earnings through profit or loss. Dividends on available-for-sale equity instruments are recognised in 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.

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 amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts 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.

2 ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment and uncollectability of financial assets (Continued)

Identified provisions are recognised for loans and receivables that are individually significant. Unidentified provision is measured and recognised on a portfolio basis where there is objective evidence that probable losses are present in components of the loan portfolio at the end of the reporting period. This is estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and reflecting the current economic climate in which the borrowers operate.

When a loan is deemed uncollectible, it is written off against the related provision for impairment losses. Subsequent recoveries are credited to the profit or loss for the year.

If the amount of the impairment subsequently decreases due to an event occurring after the write-down, the release of the provision is credited to the profit or loss for the year.

Financial liabilities

After initial recognition, the Group measures all financial liabilities including customer deposits 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.

Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given.

Leases

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the date of acquisition. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to profit or loss over the term of the relevant lease so as to produce a constant periodic rate of charge on the remaining balance of the obligations for each accounting period.

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

2 ACCOUNTING POLICIES (Continued)

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 transactions off the statement of financial position and disclosed as contingent liabilities.

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.

Comparatives

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

3 FINANCIAL RISK MANAGEMENT

Introduction and overview

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

- Credit risk
- Liquidity risk
- Market risk

Risk management framework

The Board Risk and Compliance and the Board Audit Committees are 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. These Committees are assisted in these functions by the Risk and Compliance and Internal Audit units. The units undertake both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board Risk and Compliance and the Board Audit Committees.

All Board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Group's risk management policies are established to identify and 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.

a) 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 receivables to customers and other banks and investment securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

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

3 FINANCIAL RISK MANAGEMENT (Continued)

Management of credit risk

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

- *Formulating credit policies* in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- *Establishing the authorisation structure* for the approval and renewal of credit facilities. Authorisation limits are allocated to business unit Credit Officers. Larger facilities require approval by Head of Credit, Credit Committee or the Board of Directors as appropriate.
- *Reviewing and assessing credit risk.* Credit assesses all credit exposures in excess of designated limits, prior to facilities being committed to customers by the business unit concerned. Renewals and reviews of facilities are subject to the same review process.
- *Limiting concentrations of exposure* to counterparties, geographies and industries (for loans and receivables), and by issuer, credit rating band, market liquidity and country (for investment securities).
- *Developing and maintaining the Group's risk grading* in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the final approving executive / committee as appropriate. Risk grades are subject to regular reviews by Group credit committee.
- *Reviewing compliance* of business units with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Credit 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 bank in the management of credit risk.

Maximum exposure to credit risk before collateral held

The group is exposed to credit risk arising on other financial assets as included in the statement of financial position. As part of the credit risk management system, the Group's management reviews information on significant amounts.

The group's management assesses the credit quality of each counterparty, taking into account its financial position, past experience and other factors.

The credit risk on amounts due from banking institutions, corporate bonds, government securities and balances with Central Bank of Kenya and Bank of Uganda is limited because the counterparties are banks, the governments and corporations with high credit ratings.

The amount that best represents the Group's such exposure to credit risk, at the end of the reporting period is made up as follows:

	2015 Sh'000	2014 Sh'000
Cash and balances with Central Banks	1,230,902	1,209,272
Deposits due from banking institutions	442,652	223,303
Government securities	4,060,586	5,200,769
Corporate bonds	157,115	234,677
Loans and receivables	15,292,071	13,679,881
	21,183,326	20,547,902

3 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Credit risk on financial assets other than loans (Continued)

Classification of loans and receivables

Loans and receivables to customers	Gross amounts Shs'000	Impairment allowances Shs'000	Net amounts Shs'000	%
31 December 2015				
Neither past due nor impaired	12,084,310	-	12,084,310	79
Past due but not impaired	1,290,714	-	1,290,714	8
Impaired	2,170,650	253,602	1,917,048	13
Total	15,545,673	253,602	15,292,071	100
31 December 2014				
Neither past due nor impaired	10,499,474	-	10,499,474	77
Past due but not impaired	2,635,844	-	2,635,844	19
Impaired	829,726	285,163	544,563	4
Total	13,965,044	285,163	13,679,881	100

Neither past due nor impaired

The Group classifies loans and receivables under this category if they are up to date and in line with their contractual agreements. Such loans would have demonstrated the meeting of their financial and non-financial conditions and the borrowers would have proven capacity to repay the loans. These exposures will normally be maintained largely within approved facility programs and with no depiction of impairment or distress signs. These exposures are categorised as normal accounts (category 1) in accordance with the Central Bank of Kenya Prudential Guidelines and per Bank of Uganda guidelines. A collective provision on the total outstanding balances is made and appropriated from revenue reserves to statutory reserves.

Past due but not impaired loans

Loans and securities 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. These loans are categorised as watch (category 2) in accordance with the Central Bank of Kenya Prudential Guidelines and Bank of Uganda guidelines and per the Bank of Uganda guidelines.

Impaired loans and securities

Impaired loans and securities are loans and securities 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, 4 and 5 in accordance with the Central Bank of Kenya Prudential Guidelines and non – perfoming loans per Bank of Uganda guidelines.

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured under these terms, it remains in this category for six months after which the category is reviewed. However the amounts involved are insignificant.

3 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (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 exposures classified as nonperforming, and a collective loan loss allowance established for Groups of homogeneous assets in respect of losses inherent in the performing portfolio.

Write-off policy

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

Collateral held

The Group holds collateral against loans and receivables to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of restructuring or downgrading of the account, and generally are not updated except when a loan is individually assessed as impaired or where there is a market for the security. Collateral is generally not held over loans and receivables to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral is usually not held against government securities, and no such collateral was held at 31 December 2015 (2014: Nil).

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

Loans and receivables to customers:

	2015 Shs'000	2014 Shs'000
Against individually impaired		
Property	4,862,964	470,735
Other	96,620	968,642
Against collectively impaired		
Property	170,636	701,050
Other	-	154,109
Against past due but not impaired		
Property	1,051,769	1,664,425
Other	109,978	61,501
Against neither past due nor impaired		
Property	9,510,983	8,977,120
Other	1,903,964	2,280,382
Total	17,706,914	15,277,964

3 FINANCIAL RISK MANAGEMENT (Continued)

a) Credit risk (Continued)

Concentrations of risk

The Group monitors concentrations of credit risk by sector. Details of significant concentrations of the bank's assets, liabilities and items off the statement of financial position by industry Groups are as detailed below:

(i) Advances to customers

	2015 Sh'000	2015 %	2014 Sh'000	2014 %
Manufacturing	560,667	4%	353,497	3%
Wholesale, retail trade and hotels	4,010,855	26%	4,353,663	32%
Transport and communications	659,135	4%	778,994	6%
Agriculture	517,168	3%	359,026	3%
Business service	2,291,608	15%	1,943,059	14%
Building, constructions and real estate	3,585,039	23%	1,885,128	13%
Social, community and personal service	509,523	3%	331,586	2%
Foreign trade	566,397	4%	198,504	1%
organisations and others	2,591,679	17%	3,476,424	26%
	15,292,071	100%	13,679,881	100%

(ii) Customer deposits

	2015 Sh'000	2015 %	2014 Sh'000	2014 %
Non-profit institutions and individuals	9,421,855	58%	9,475,233	58%
Private enterprises	5,128,776	32%	4,554,649	28%
Insurance companies	1,374,142	8%	1,246,831	8%
Others	375,700	2%	1,113,855	7%
	16,300,473	100%	16,390,568	100%

(iii) Off balance sheet items

	2015 Sh'000	2015 %	2014 Sh'000	2014 %
Manufacturing	37,561	2%	84,618	2%
Wholesale, retail trade and hotels	173,525	8%	830,635	18%
Transport and communications	121,575	6%	5,050	-
Agriculture	-	-	26,407	1%
Business service	166,100	8%	81,539	2%
Building, constructions and real estate	340,319	16%	466,243	10%
Financial service	1,266,852	59%	2,688,593	60%
Foreign trade	29,956	1%	253,249	6%
organisations and others	6,200	-	64,544	1%
	2,142,088	100%	4,500,878	100%

b) Liquidity risk

The Group is exposed to the risk that the Group will encounter difficulty in raising funds to meet commitments associated with customer requirements as and when they fall due.

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 receivables to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Group as a whole.

3 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

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 with the minimum ratio required by the regulator being 20%. For this purpose net liquid assets are considered as including cash and cash equivalents and investment grade debt securities for which there is an active and liquid market less any deposits from banks, debt securities issued, other borrowings and commitments maturing within the next month. Details of the reported Group ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period were as follows:

	2015	2014
At 31 December	21.4%	30.6%
Average for the period	29.4%	38.6%
Maximum for the period	35.8%	46.1%
Minimum for the period	16.5%	30.6%

Residual contractual maturities of financial liabilities

The table below analyses the Group's financial assets and financial liabilities into the relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The Group manages the inherent liquidity risk based on expected undiscounted cash flows.

	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
At 31 December 2015						
FINANCIAL ASSETS						
Cash and balances with Central Banks	1,229,880	1,022	-	-	-	1,230,902
Deposits and balance due from banking institutions	318,580	124,072	-	-	-	442,652
Government securities	58,369	58,150	114,960	497,794	3,331,312	4,060,586
Corporate bonds	-	-	-	65,165	91,950	157,115
Loans and receivables to Customers	3,329,583	515,452	2,459,240	5,528,509	3,459,287	15,292,071
Total financial assets	4,936,412	698,696	2,574,200	6,091,468	6,882,549	21,183,326
FINANCIAL LIABILITIES						
Balances due to central banks	1,098,624	-	-	-	-	1,098,624
Deposits and balance due to banking institutions	133,309	236,920	-	-	-	370,229
Customer deposits	3,960,966	8,523,285	3,764,629	51,594	-	16,300,473
Long term debt	91,985	-	150,163	142,353	-	384,501
Corporate bond issued	-	-	20,077	1,000,000	-	1,020,077
Total financial liabilities	5,284,884	8,760,205	3,934,869	1,193,947	-	19,173,904
Net liquidity gap	(348,472)	(8,061,509)	(1,360,669)	4,897,521	6,882,549	2,009,422
At 31 December 2014						
Total financial assets	4,817,536	1,668,198	4,374,159	2,779,638	6,908,371	20,547,902
Total financial liabilities	5,736,432	1,844,934	4,841,337	6,207,873	105,781	18,736,357
Net liquidity gap	(918,896)	(176,736)	(467,178)	(3,428,235)	8,011,789	1,811,472

3 FINANCIAL RISK MANAGEMENT (Continued)

b) Liquidity risk (Continued)

Experience indicates that customer deposits are maintained for longer periods than the contractual maturity dates. The deposit base is therefore considered to be of a stable and long term nature.

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.

c) Market risk

The objective of market risk management process is to manage and control market risk exposures in order to optimise return on risk while maintaining a market profile as a provider of financial products and services. Market risk is the risk that movement in market factors, including interest rates and foreign currency exchange rates, will reduce income or value of portfolio.

Overall responsibility for management of market risk rests with ALCO. The Group's Risk and Compliance 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.

i. 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 or the treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the end of the reporting period. Included in the table are the Group's financial instruments at carrying amounts, categorized by the earlier of contractual repricing or maturity dates.

	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	Non interest bearing Sh'000	Total Sh'000
At 31 December 2015							
FINANCIAL ASSETS							
Cash and balances with Central Banks	-	-	-	-	-	1,230,902	1,230,902
Deposits and balance due from banking institutions	266,148	124,072	-	-	-	52,432	442,652
Government securities	58,369	58,150	114,960	497,794	3,331,312	-	4,060,586
Corporate bonds	-	-	-	65,165	91,950		157,115
Loans and receivables to customers	3,329,583	515,452	2,459,240	5,528,509	3,459,287	-	15,292,071
Total financial assets	3,654,100	697,674	2,574,200	6,091,468	6,882,549	1,283,334	21,183,326

3 FINANCIAL RISK MANAGEMENT (Continued)

c) Market risk (Continued)

i. Interest rate risk (Continued)

	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	Non interest bearing Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Balances due to Central Bank	1,098,624	-	-	-	-	-	1,098,624
Deposits and balance due to banking institutions	199,639	170,590	-	-	-		370,229
Customer deposits	3,739,663	8,523,285	3,764,629	51,594	-	110,651	16,300,473
Longterm debt	-	-	20,077	1,000,000	-	-	1,020,077
Corporate bond issued	91,985	-	150,163	142,353	-	-	384,501
Total financial liabilities	5,240,562	8,693,875	3,934,869	1,193,947	-	110,651	19,173,904
Interest sensitivity gap	(1,586,461)	(7,996,201)	(1,360,669)	4,897,521	6,882,549	1,172,662	2,009,422
At 31 December 2014							
Total financial assets	3,609,171	1,667,291	4,374,159	2,779,638	6,908,371	1,209,272	20,547,902
Total financial liabilities	3,730,771	2,641,322	4,841,337	6,207,873	105,781	1,209,272	18,736,356
Interest sensitivity gap	(121,601)	(974,031)	(467,178)	(3,428,235)	6,802,590	-	1,811,545

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 10% 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 modelling 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 10% parallel fall or rise in all yield curves at the beginning of each quarter during the 12 months from 1 January 2015.

	Amount Sh'000 31 December 2015	Scenario 1 10% Increase in net interest margin	Scenario 2 10% Decrease in net interest margin
Profit before taxation	388,399	508,627	268,171
Adjusted Core Capital	2,180,988	2,265,148	2,096,828
Adjusted Total Capital	3,011,806	3,095,966	2,927,646
Risk Weighted Assets (RWA)	18,304,295	18,304,295	18,304,295
Adjusted Core Capital to RWA	11.92%	12.37%	11.46%
Adjusted total Capital to RWA	16.45%	16.91%	15.99%

Assuming no management actions, a series of such rises/falls would increase/decrease net interest income for 2015 by Sh 120 million.

Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 12.37% and 16.91% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 11.46% and 15.99% respectively. Both the revised capital ratios are well above the minimum capital requirement of 10.50% and 14.50% respectively.

3 FINANCIAL RISK MANAGEMENT (Continued)

ii. Foreign exchange risk

The Group operates in Kenya and Uganda and its assets and liabilities are carried in Kenya shilling and Uganda shilling. The Group maintains trade with correspondent banks and takes deposits and lends in foreign currencies. The Group's currency position and exposure are managed within the exposure guideline of 20% of the core capital as stipulated by the Central Bank of Kenya. This position is reviewed on a daily basis by the management.

The table below summarises the Group's exposure to foreign exchange rate risk as at 31 December. Included in the table are the Group's financial instruments at carrying amounts categorised by currency.

Concentrations of currency risk on financial instruments on and off the statement of financial position:

	KES Sh'000	USD Sh'000	GBP Sh'000	EURO Sh'000	OTHERS Sh'000	TOTAL Sh'000
At 31 December 2015						
FINANCIAL ASSETS						
Cash and balance with Central Banks	1,008,216	141,219	2,375	9,387	69,705	1,230,902
Government securities	3,741,070	-	-	-	319,516	4,060,586
Deposit and balances due from banking institutions	74,996	199,185	1,811	5,644	161,016	442,652
Loans and receivables to customers	12,754,819	2,110,465	5,068	-	421,719	15,292,071
Corporate bonds	157,115	-	-	-	-	157,115
Total financial assets	17,736,216	2,450,869	9,254	15,031	971,956	21,183,326
FINANCIAL LIABILITIES						
Balances due to Central bank (REPO)	1,098,624	-	-	-	-	1,098,624
Customer deposits	14,520,466	1,252,482	210,912	94,797	221,816	16,300,473
Deposit due to banking institutions	233,570	136,659	-	-	-	370,229
Long term debt financing	298,827	85,674	-	-	-	384,501
Corporate bond issued	1,020,077	-	-	-	-	1,020,077
Total financial liabilities	17,171,564	1,474,815	210,912	94,797	221,816	19,173,904
Net on statement of financial position	564,652	976,054	(201,658)	(79,766)	750,140	2,009,422
Off balance sheet position	902,841	1,132,392	23,206	58,126	250,467	2,367,032
At 31 December 2014						
Total financial assets	16,622,506	2,700,538	15,662	19,396	1,189,800	20,547,902
Total financial liabilities	16,592,149	1,461,099	248,643	62,961	369,500	18,734,352
Net on statement of financial Position	(21,142)	1,217,376	(232,981)	(43,565)	(820,294)	1,740,308
Off balance sheet position	2,688,800	1,449,835	239,644	121,229	1,370	4,500,878

3 FINANCIAL RISK MANAGEMENT (Continued)

ii. Foreign exchange risk (Continued)

Foreign exchange risk – Appreciation/Depreciation of KSh 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 rises and falls would impact the future earnings and capital as illustrated in the table below;

	31 December 2015 Amount Sh' 000	Scenario 1 10% appreciation Sh' 000	Scenario 2 10% depreciation Sh' 000
Profit before taxation	388,399	436,042	340,756
Adjusted Core Capital	2,180,988	2,214,338	2,147,638
Adjusted Total Capital	3,011,806	3,045,156	2,978,456
Risk Weighted Assets (RWA)	18,304,295	18,304,295	18,304,295
Adjusted Core Capital to RWA	11.92%	12.10%	11.73%
Adjusted total Capital to RWA	16.45%	16.64%	16.27%

Assuming no management actions, a series of such appreciation would increase earnings for 2015 by Sh 48 million, while a series of such falls would decrease earning for 2015 by Sh 48 million.
Also a series of such rises would increase the adjusted core capital to RWA and Adjusted total capital to RWA to 12.10% and 16.64% respectively, while a series of such falls would decrease the adjusted core capital to RWA and Adjusted total capital to RWA to 11.73% and 16.27% respectively. Both the revised capital ratios are well above the minimum capital requirement of 10.50% and 14.50% respectively.

iii. Price risk

The Group is exposed to equity securities price risk as a result of its holdings. Equity investments held are listed and traded on the Nairobi Securities Exchange. Exposure to equity price risk in aggregate is monitored in order to ensure compliance with the relevant regulatory limits for solvency purposes.

The Group has a defined investment policy which sets limits on its exposure to equities both in aggregate terms and by industry. This policy of diversification is used to manage the Group's price risk arising from its investments in equity securities.

If equity market indices had increased/decreased by 10%, with all other variables held constant, and all the Group's equity investments moving according to the historical correlation with the index, the profit before tax for the year would increase/decrease by Sh Nil (2014: Sh Nil). The net assets for the year would increase/decrease by Sh Nil (2014: Sh Nil).

3 FINANCIAL RISK MANAGEMENT (Continued)

iv. Fair value of financial assets and liabilities

Financial instruments measured at fair value

Determination of fair value and fair values hierarchy

IFRS 13 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 bank'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 bank considers relevant and observable market prices in its valuations where possible.

This note provides information about how the Group determines fair values of various financial assets.

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurrent basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	**Fair value as at** 2015 Sh'000	2014 Sh'000	**Fair value hierarchy**	**Valuation technique (s) and key inputs**	**Significant unobservable inputs**	**Relationship of unobservable inputs to fair value**
Treasury bonds available for sale (note 17)	874,267	926,927	Level 1	Quoted prices in an active market	N/A	N/A
Investment in Nairobi Securities Excahnge (note 22(c))	129,938	107,625	Level 1	Quoted prices in an active market	N/A	N/A

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

At 31 December 2015

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
Treasury bonds available for sale (note 17)	874,267	-	-	874,267
Investment in Nairobi Securities Exchange (note 22(c))	129,938	-	-	129,938
Total	1,004,205	-	-	1,004,205

3 FINANCIAL RISK MANAGEMENT (Continued)

iv. Fair value of financial assets and liabilities (Continued)

	Level 1 Sh'000	Level 2 Sh'000	Level 3 Sh'000	Total Sh'000
At 31 December 2014				
Treasury bonds available for sale (note 17)	926,927	-	-	926,927
Investment in Nairobi Securities Exchange (note 22(c))	107,625	-	-	107,625
Total	1,034,552	-	-	1,034,552

There were no transfers between levels 1, 2 and 3 in the year ended 31 December 2015. During the year ended 31 December 2014, Nairobi Securities Exchange was listed and therefore investment in Nairobi Securities Exchange moved from Level 3 to Level 1.

Fair value of financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the financial statements approximate their fair values.

4 CAPITAL MANAGEMENT

The Group's objectives when managing capital are:

- To safeguard the Group's ability to continue as a going concern in order to provide acceptable returns to the shareholders and benefits for other stakeholders while maintaining an optimal capital structure.
- To comply with capital requirements set by our regulators within the markets that the Group operates in.
- To maintain a strong capital base to support continued business development.
- To create an acceptable buffer catering for unexpected losses that the Group may incur in adverse market scenarios during the course of its business

Regulatory capital

The Group's objective when managing regulatory capital is broadly covered as follows:

Banking

In line with our industry, the broader concept of capital and its adequacy is based on guidelines developed by the Basel Committee's Accords and implemented for supervisory purposes by the Central Bank of Kenya (CBK) and the Bank of Uganda (BOU).

Both CBK and BOU largely segregate the total regulatory capital into two tiers;

- Tier 1 Capital (Core Capital), means permanent shareholders equity in the form of issued and fully paid-up shares plus all disclosed reserves, less goodwill or any intangible assets. It includes ordinary share capital, share premium and retained earnings.

- Tier 2 Capital (Supplementary Capital) includes among others, property revaluation reserves (up to a certain level subject to regulatory approval) and collective impairment allowances.

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

Kenya

Various limits are applied to elements of the capital base. The amount of innovative tier 1 securities cannot exceed 15 percent of total tier 1 capital; qualifying tier 2 capital cannot exceed tier 1 capital; and qualifying term subordinated loan capital may not exceed 50 percent of tier 1 capital. There also are restrictions on the amount of collective impairment allowances that may be included as part of tier 2 capital. Other deductions from capital include the carrying amounts of investments in subsidiaries that are not included in the regulatory consolidation, investments in the capital of banks and certain other regulatory items.

Banking operations are categorised as either trading book or banking book, and risk-weighted assets are determined according to specified requirements that seek to reflect the varying levels of risk attached to assets and off-statement of financial position exposures.

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.

In implementing current capital requirements, the Central Bank of Kenya requires each bank to maintain;

- A minimum level of regulatory capital of Shs 1 billion.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-statement of financial position assets at or above the required minimum of 10.50%.
- Core capital of not less than 8% of total deposit liabilities.
- Supplementary capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-statement of financial position items.

The bank has complied with all externally imposed capital requirements throughout the period.

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:

As per Central Bank of Kenya:

	2015 Shs'000	2014 Shs'000
Tier 1 capital		
Ordinary share capital	1,050,000	1,050,000
Retained earnings	1,733,365	1,480,589
Investment in ABC Capital Bank Uganda Limited (note 23)	(602,377)	(602,377)
Total	2,180,988	1,928,212
Tier 2 capital		
Collective allowances for impairment	114,151	100,209
Amortised corporate bond	716,667	916,667
Total	830,818	1,016,876
Total regulatory capital	3,011,806	2,945,088

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

	2015 Shs'000	2014 Shs'000
Risk-weighted assets (page 41)		
On balance sheet items	14,711,184	13,324,285
Off balance sheet items	357,479	746,381
Market risk	355,316	429,329
Operational risk	2,880,316	2,595,618
Total Risk-weighted assets	18,304,295	17,095,613
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets (Minimum requirement 14.50%)	16.45%	17.23%
Total tier 1 capital expressed as a percentage of risk-weighted assets (Minimum requirement 10.5 %)	11.92%	11.28%

Uganda

The bank monitors the adequacy of its capital using ratios established by the Bank of Uganda, which are in line with those established by the Bank for International Settlements (BIS). These ratios measure capital adequacy by comparing the bank's eligible capital with its balance sheet assets, off-balance sheet commitments, market and other risk positions at a weighted amount to reflect their relative risk. The market risk approach covers the general market risk and the risk of open positions in currencies, debt and equity securities. Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them.

Four categories of risk weights (0%, 20%, 50%, and 100%) are applied; for example cash and money instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to at least 12% of the carrying amount. Other asset categories have intermediate weightings.

Off-balance sheet related commitments are taken into account by applying different categories of credit conversion factors, designed to convert these items into balance sheet equivalents. The resulting credit equivalent amounts are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital (core capital) consists of shareholders' equity. Tier 2 capital includes the bank's general provisions.

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

The Bank of Uganda requires each bank to: (a) hold the minimum level of regulatory capital of Ushs 10 billion (Kshs 329,896,000) as at 31 December 2015; (b) maintain core capital of not less than 8% of risk weighted assets and off balance sheet items; and (c) maintain total capital of not less than 12% of risk weighted assets plus risk-weighted off balance sheet items.

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

As per Bank of Uganda:

Tier 1 capital	2015 Shs'000	2014 Shs'000
Share capital fully paid up	774,092	817,667
Prior year retained earnings/(accumulated losses)	52,975	46,025
Shareholders capital deposit	-	17,566
Net after tax profits (50%)	33,658	11,740
Deferred income tax asset	(4,647)	(1,716)
Deficiencies in provision for losses	(2,450)	(5,307)
Intangible assets	(292)	(500)
	935,497	885,475
Supplementary Capital Tier 2		
Regulatory reserve	4,611	10,780
Total Supplementary Capital Tier 2	4,611	10,780
On balance sheet items	1,347,959	1,337,387
Off balance sheet items	224,944	242,555
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	100.00%	134.23%
Tier 1 capital expressed as a percentage of total risk-weighted assets (Minimum requirement 12%)	100.54%	135.23%

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (Continued)

The risk weighted assets are as follows:

	2015			2014		
ON – BALANCE SHEET ASSETS	Amount (Shs'000)	Weight	Risk Weighted (Shs'000)	Amount (Shs'000)	Weight	Risk Weighted (Shs'000)
Cash (including foreign notes and coins)	181,083	0	0	168,556	0	-
Balances with Central Bank of Kenya	903,947	0	0	941,488	0	-
Treasury bills		0	0	359,964	0	-
Kenya treasury bonds	3,741,051	0	0	4,345,514	0	-
Deposits and balances due from local institutions	94,784	0.2	18,357	46,564	0.2	9,313
Deposits and balances due from foreign institutions	31,481	0.2	6,296	44,107	0.2	8,821
Lending fully secured by cash	1,321,136	0	0	1,140,960	0	-
Loans and receivables Secured by residential property	997,815	0.5	498,908	966,095	0.5	483,048
Other loans and receivables (net of provisions)	12,666,686	1	12,666,686	11,255,250	1	11,255,250
Investment in subsidiaries	-	1	-	-	1	-
Investment in associate	-	1	-	-	1	-
Fixed Assets (net of depreciation)	631,132	1	631,132	679,672	1	679,671
Amounts due from Group companies	21,542	1	21,542	19,252	1	19,252
Other assets	868,263	1	868,263	1,471,307	1	1,471,307
TOTAL	21,455,920		14,711,184	21,438,729		13,926,662
OFF BALANCE SHEET ASSETS						
Local banks	42,433	0.2	8,487	93,334	0.2	18,667
Foreign banks and foreign government	19,442	0.2	3,888	19,203	0.2	3,841
Others	345,104	1	345,104	723,873	1	723,873
Total	406,979		357,479	836,410		746,381

4 CAPITAL MANAGEMENT (Continued)

Regulatory capital (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 Risk and Compliance and Credit, and is subject to review by the Credit 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. Account also is taken of 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. The bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Brokerage

Stock brokerage entities in Kenya are governed by the Capital Markets Act and as such are subject to solvency regulations which specify the minimum amount and type of capital that must be held. The company manages capital in accordance with these rules. The Capital Markets (Licensing Requirements) (General) Regulations, 2002 contains the following regulations relevant to ABC Capital Limited:

- The level of paid-up share capital for a stockbroker shall not be below Shs 50,000,000 at any time during the license period. The company maintained capital well above the minimum requirement.
- The minimum paid up share capital shall always be unimpaired and shall not be advanced to the directors or associates of the stockbroker. No such advances were issued and neither did the share capital suffer any impairment.
- The working capital shall not be below twenty percent of the prescribed minimum shareholders' funds or three times the average monthly operating costs whichever is higher. This was fully complied with in the period.
- Unsecured advances, loans and other amounts to directors or associates shall in aggregate not exceed ten percent of the prescribed minimum shareholders funds at any time provided that such loans are with respect to any amount in excess of the minimum paid up capital. No such advances were issued.
- The ratio of the stockbroker's bank overdraft to the paid-up capital shall not exceed twenty percent at any time. The company does not have any bank overdrafts.

	2015	2014
	Sh'000	Sh'000
Minimum prescribed capital	50,000	50,000
Shareholders' funds		
Share capital	135,000	135,000
Share premium	100	100
Revaluation reserve	79,938	57,625
Capital reserve	15,000	15,000
Accumulated deficit	(64,209)	(52,632)
	165,829	155,093

4 CAPITAL MANAGEMENT (Continued)

	2015 Sh'000	2014 Sh'000
Brokerage (Continued)		
Working capital		
Current assets	64,021	83,455
Current liabilities	36,191	43,834
	27,830	39,621
Total expenses	27,035	28,736
Average monthly expenses	2,252	2,395
20% of minimum shareholders' funds	10,000	10,000

5 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINITY

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. These are dealt with below:

(i) Critical accounting judgements in applying the Group's accounting policies

Impairment losses on loans and receivables

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

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.

Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made

(ii) Key sources of estimation uncertainty

Property, plant and equipment

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

		2015 Shs'000	2014 Shs'000
6	INTEREST INCOME		
	Loans and advances to customers	2,396,824	2,108,120
	Government securities – held to maturity	449,345	397,804
	Government securities – available for sale	77,703	152,369
	Corporate bonds – held to maturity	25,699	32,203
	Deposits and placements with banking institutions	25,030	40,995
		2,974,601	2,731,491
7	INTEREST EXPENSE		
	Customer deposits	1,344,269	1,177,227
	Deposits and placements from banking institutions	94,399	39,853
	Interest on long term loan	37,705	51,816
	Interest on bond financing	126,346	82,731
		1,602,719	1,351,627
8	OTHER OPERATING INCOME		
	Loss on disposal of Government securities	-	(7,932)
	Realised gain on sale of available for sale investments (note 17)	-	27,858
	Cumulative gain reclassified from equity on disposal of available for sale investments (note 17)	-	33
	Rental income	5,078	1,571
	Dividend income	1,995	1,900
	Miscellaneous income	13,035	19,145
	Gain on disposal of property	1,630	654
	Bad debts recovered	21,342	4,005
		43,080	47,234
9	OPERATING EXPENSES		
	Staff costs (note 10)	685,057	715,581
	Depreciation of property and equipment (note 21)	68,272	55,754
	Amortisation of intangible assets (note 22)	16,647	11,625
	Auditors' remuneration – parent	4,068	3,651
	- subsidiaries	3,262	2,892
	Contribution to deposit protection fund	24,018	22,765
	Directors' emoluments – fees	8,769	5,935
	- other	51,908	55,158
	Operating lease rentals	114,632	102,060
	Advertising costs	34,144	64,851
	Communication	37,722	42,652
	Printing and stationery	12,666	20,719
	Computer and software maintenance	5,178	2,998
	Travelling and vehicle running expenses	23,294	42,970
	Legal and professional fees	29,346	16,326
	Loss on revaluation of equity investments	17,016	-
	Security	25,692	24,478
	Insurance	25,388	20,422
	Bank charges	7,348	7,547
	Office expenses	63,598	79,958
	Agency intergration charges	-	3,704
	Other expenses	100,292	111,993
		1,358,317	1,414,039

	2015 Shs'000	2014 Shs'000
10 STAFF COSTS		
Salaries and allowances	579,719	559,019
Staff training	6,773	9,759
NSSF contribution	764	775
Pension contribution – defined contribution	20,832	18,337
Leave pay (write back)/provision	(6,068)	13,741
Medical expense	21,180	26,807
Other	61,857	87,143
	685,057	715,581

11 TAXATION

	2015 Shs'000	2014 Shs'000
(a) Taxation expense:		
Income tax based on taxable profit for the year at 30%	88,621	92,882
Taxation assessed on separate income	780	427
	89,401	93,309
Deferred tax charge/(credit) (note 29)	2,847	(23,322)
Prior year underprovision – current tax	1,830	(116)
Deferred tax not realized (note 29)	4,402	(2,339)
	98,480	67,532
(b) Reconciliation of tax expense to the expected tax based on accounting profit:		
Accounting profit before taxation	388,399	336,879
Tax at 30%	116,520	101,065
Tax effect of expenses not deductible for tax	16,427	19,481
Tax effect of income not subject to tax	(41,479)	(50,986)
Prior year under provision current tax	1,830	(116)
Income assessed separately for tax	780	427
Deferred tax asset not recognised	4,402	(2,339)
Taxation expense	98,480	67,532

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(c) Corporate tax recoverable				
At 1 January	(96,130)	(27,131)	(80,302)	(12,295)
Current tax charge for the year	88,621	92,882	80,817	85,944
Paid in the year	(24,167)	(155,657)	(23,000)	(153,951)
Prior year tax adjustment	1,830	-	1,830	-
Tax assessed on separate income	780	427	-	-
Translation adjustment	(4,412)	(5,797)	-	-
At 31 December	(35,038)	(96,130)	(20,655)	(80,302)

11 TAXATION (Continued)

(c) Corporate tax recoverable (Continued)	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
Comprising:				
Income tax recoverable	(35,038)	(96,130)	(20,655)	(80,302)
Income tax payable	-	-	-	-
At 31 December	(35,038)	(96,130)	(20,655)	(80,302)

The balances receivable and payable have not been offset in the statement of financial position as the Group does not have a legal right of offset.

12 PROFIT FOR THE YEAR

A profit after taxation of Sh 266,718,000 (2014: Sh 258,145,000) has been dealt with in the separate financial statements of the parent company, African Banking Corporation Limited.

13 DIVIDENDS

No dividend payments have been declared for 2015. An interim and final dividend of Sh 0.80 per share on 105,000,000 shares, was paid in 2014amounting to Sh 84,000,000.

14 EARNINGS PER SHARE

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

	2015	2014
Earnings		
Earnings for purposes of basic and diluted earnings per share (Sh'000)	279,562	264,367
Number of shares		
Weighted average number of ordinary shares (thousands)	105,000	105,000
Earnings per share		
Basic and diluted (Sh)	2.66	2.52

The diluted earnings per share is the same as the basic earnings per share as there were no potentially dilutive shares as at 31 December 2015 or 31 December 2014.

15 CASH AND BALANCES WITH CENTRAL BANKS

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
Cash in hand	224,333	203,006	181,082	168,557
Balances with Central Banks				
- Cash reserve ratio requirement	974,254	968,508	871,633	903,736
- Other – available for use by the bank	32,315	37,758	32,315	37,751
	1,230,902	1,209,272	1,085,030	1,110,044

15 CASH AND BALANCES WITH CENTRAL BANK OF KENYA (Continued)

The cash reserve ratio requirement is non interest bearing and is based on the customer deposits with the bank as adjusted by the Central Bank of Kenya and Bank of Uganda requirements. At 31 December 2015 the cash reserve ratio requirement for Kenya was 5.25% (2014: 5.25%) while that of Uganda was 8% (2014: 8%) of all customer deposits. These funds are not available for the day to day operations of the Group.

16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
Deposits with banking institutions	305,501	122,140	91,781	46,565
Balances with banking institutions	137,151	101,163	31,484	44,106
	442,652	223,303	123,265	90,671

The weighted average effective interest rate at 31 December 2015 for deposits due from banking institutions in Kenya was 3.6% (2014 – 8.54%) and 1.8% for deposits due from banking institutions outside Kenya (2014 – 2.27 %).

17 GOVERNMENT SECURITIES

(i) HELD TO MATURITY

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
(a) Treasure bills at amortised cost -				
Maturing within 90 days of the end of the reporting period				
Face value	201,294	607,406	-	370,000
Less: unearned discount	-	(10,036)	-	(10,036)
	201,294	597,370	-	359,964
(b) Treasury bonds at amortised cost				
Maturing within 1 year	-	139,655	-	139,655
Maturing after 1 year but within 5 years	628,241	1,144,322	510,000	886,437
Maturing after 5 years	2,356,784	2,392,495	2,356,784	2,392,495
	2,985,025	3,676,472	2,866,784	3,418,587

17 GOVERNMENT SECURITIES (Continued)

(ii) AVAILABLE FOR SALE – GROUP AND BANK

Treasury bonds available for sale

	2015 Sh'000	2014 Sh'000
At 1 January	926,927	819,593
Purchases	-	1,219,000
Disposals	-	(1,110,131)
Fair value loss (note 22 (d))	(52,660)	(1,535)
At 31 December	874,267	926,927

The movement of the disposal during the year was as follows:

	2015 Sh'000	2014 Sh'000
Cost	-	1,350,000
Proceeds	-	1,377,891
Gain on disposal of available for sale treasury bonds	-	27,891
Cumulative gain reclassified from fair value reserve on disposal (now 50ealized)	-	33
Profit during the year (note 8)	-	27,858

The total investment in government securities at the end of the reporting period was as follows:

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
Treasury bills at amortised cost	201,294	597,370	-	359,964
Treasury bonds at amortised cost	2,985,025	3,676,472	2,866,784	3,418,587
Treasury bonds available for sale	874,267	926,927	874,267	926,927
	4,060,586	5,200,769	3,741,051	4,705,478

Treasury bills and bonds are debt securities issued by the Governments of Kenya and Uganda and are classified as held to maturity and available for sale. The weighted average effective interest rate on treasury bills at 31 December 2015 was 9.28% (2014 – 8.57%) and the rate for the treasury bonds was 10.56% (2014 – 11.17%).

18 CORPORATE BONDS – HELD TO MATURITY

GROUP AND BANK

	2015 Sh'000	2014 Sh'000
Maturing after 1 year but within 5 years	157,115	-
Maturing after 5 years – At amortised cost	-	234,677
	157,115	234,677

The weighted average effective interest rate on the corporate bond as at 31 December 2015 was 12.50% (2014 – 16.20%).

19 LOANS AND RECEIVABLES

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
(a) Loans and receivables	11,614,742	10,016,195	11,370,134	9,578,068
Bills discounted	278,353	549,328	278,353	549,328
Overdrafts	3,652,578	3,399,521	3,428,856	3,281,834
	15,545,673	13,965,044	15,077,343	13,409,230
Provision for impaired loans and receivables (note 19(d))	(253,602)	(285,163)	(248,821)	(281,602)
	15,292,071	13,679,881	14,828,522	13,127,628

The weighted average effective interest rate on loans and receivables to customers as at 31 December 2015 was 19.97% (2014 – 15.99%). The weighted average effective interest rate on overdrafts as at 31 December 2015 was 23.17% (2014 – 15.86 %). The weighted average effective interest rate on bills discounted at 31 December 2015 was 14.36% (2014 – 9.48%).

The interest rate on loans and receivables to customers are either pegged to the bank's base lending rate or the treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. Included in net advances of Sh 15,292,071,000 (2014 – Sh 13,679,881,000) are loans and receivables amounting to Sh 1,917,048,000 (2014 – Sh 544,563,000) net of specific provisions, which have been classified as non-performing.

(c) Analysis of gross advances by maturity:

	2015 Shs'000	2014 Shs'000
Maturing within one month	3,392,676	3,840,678
Maturing within 90 days	501,862	2,230,771
Maturing after 90 days and within one year	2,333,944	439,777
Maturing after one to five years	5,496,162	4,507,904
Over five years	3,567,427	2,660,751
	15,292,071	13,679,881

The related party transactions and balances are covered under note 36 and concentrations of advances to customers are covered under Financial Risk Management Objectives and Policies in note 3.

19 LOANS AND RECEIVABLES TO CUSTOMERS –GROUP AND BANK (Continued)

(d) Provisions for impaired loans and receivables:

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	285,163	182,883	281,602	163,598
Provisions in the year	88,088	161,948	77,699	131,635
Written off	(119,649)	(59,668)	(110,480)	(13,631)
At 31 December	253,602	285,163	248,821	281,602

20 (a) OTHER ASSETS

Prepayments	97,915	100,886	91,059	93,490
ATM deposits	3,279	3,279	3,279	3,279
Trade receivables	14,284	34,199	-	-
Sundry	458,226	422,797	444,802	377,330
	573,704	561,161	539,140	474,099

(b) DUE FROM RELATED PARTIES

ABC Capital Kenya Limited	-	-	10,063	8,936
ABC Capital Bank Uganda Limited	-	-	11,479	10,316
	-	-	21,542	19,252

(c) DUE TO RELATED PARTIES

ABC Capital Kenya Limited	-	-	38,146	51,487
ABC Insurance Brokers Limited	-	-	28,946	20,627
ABC Capital Bank Uganda Limited	-	-	19,291	2,229
	-	-	86,383	74,343

21 (a) PROPERTY AND EQUIPMENT – GROUP

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST							
At 1 January 2014	259,886	20,732	229,998	15,819	229,369	232,104	987,908
Additions	1,819	3,804	13,008	269	26,584	40,742	86,226
Disposals	-	-	-	(1,954)	(139)	-	(2,093)
Translation adjustment	(2,896)	-	(456)	(1,145)	4,173	(250)	(574)
Transfer from WIP	15,515	102,129	3,503	-	38,195	(159,342)	-
Transfer to intangible assets (note 22)	-	-	-	-	-	(91,648)	(91,648)
At 31 December 2014	276,350	126,665	246,602	15,016	293,580	21,606	979,819
At 1 January 2015	276,350	126,665	246,602	15,016	293,580	21,606	979,819
Additions	-	3,143	7,929	1,547	3,519	12,550	28,688
Disposals	(1,013)	-	(87)	(4,000)	(1,067)	-	(6,168)
Translation adjustment	(2,040)	-	(3,572)	(2,198)	1,134		(6,676)
Transfer from WIP	-	1,002	-	-	989	(1,991)	-
Transfer to intangible assets (note 22)	-	-	-	-	-	(1,263)	(1,263)
At 31 December 2015	273,297	130,810	250,872	10,365	298,155	30,902	994,400
DEPRECIATION							
At 1 January 2014	24,110	17,286	148,326	8,470	144,354	-	342,546
Charge for the year	6,379	4,550	24,163	2,234	18,428	-	55,754
Translation adjustment	(260)	-	(4)	(526)	(239)	-	(1,029)
At 31 December 2014	30,229	21,836	172,485	10,178	162,543	-	397,271
At 1 January 2015	30,229	21,836	172,485	10,178	162,543	-	397,271
Charge for the year	5,039	13,314	20,554	2,130	27,235	-	68,272
Eliminated on disposal	(430)	-	(87)	(3,480)	(1,215)	-	(5,212)
Translation adjustment	1,674	-	(9)	(1)	(11)	-	1,653
At 31 December 2015	36,512	35,150	192,944	8,827	188,552	30,902	460,332
NET BOOK VALUE							
At 31 December 2015	236,785	95,660	57,928	1,538	109,603	30,902	532,416
At 31 December 2014	244,095	104,829	73,568	2,811	135,639	21,606	582,548

The capital work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of new branches. Transfer from work in progress related to renovation of head office in Westlands.

21 (b) PROPERTY AND EQUIPMENT – BANK

	Buildings Sh'000	Office renovations Sh'000	Computers, copiers and faxes Sh'000	Motor vehicles Sh'000	Furniture and equipment Sh'000	Capital work in progress Sh'000	Total Sh'000
COST							
At 1 January 2014	251,961	20,732	210,373	11,605	206,302	216,339	917,312
Additions	-	1,854	9,426	99	6,976	47,170	65,525
Disposals	-	-	-	(1,700)	-	-	(1,700)
Transfer from WIP	-	104,079	3,503	-	42,673	(150,255)	-
Transfer to intangible assets (note 22)	-	-	-	-	-	(91,648)	(91,648)
At 31 December 2014	251,961	126,665	223,302	10,004	255,951	21,606	889,491
At 1 January 2015	251,961	126,665	223,302	10,004	255,951	21,606	889,491
Additions	-	3,143	3,122	-	3,519	12,550	22,334
Disposals	-	-	-	(3,020)	(14)		(3,034)
Transfer from WIP	-	1,002	-	-	989	(1,991)	-
Transfer to intangible assets (note 22)	-	-	-	-	-	(1,263)	(1,263)
At 31 December 2015	251,961	130,810	226,424	6,984	260,447	30,902	907,528
DEPRECIATION							
At 1 January 2014	19,689	17,286	130,279	6,966	127,478	-	301,698
Charge for the year	5,039	4,550	22,816	1,843	14,373	-	48,621
Disposals	-	-	-	(935)	-		(935)
At 31 December 2014	24,728	21,836	153,095	7,874	141,851	-	349,554
At 1 January 2015	24,728	21,836	153,095	7,874	141,851	-	349,554
Charge for the year	5,039	13,314	18,799	1,569	23,293	-	62,014
Disposals	-	-	-	(2,810)	-	-	(2,810)
At 31 December 2015	29,767	35,150	171,894	6,803	165,144	-	408,758
NET BOOK VALUE							
At 31 December 2015	222,194	95,660	54,530	181	95,303	30,902	498,770
At 31 December 2014	227,233	104,829	70,039	2,130	114,100	21,606	539,937

The capital work in progress comprises costs incurred up to the end of the reporting period towards partitioning and renovation of branches. Transfer from work on progress comprises cost of renovation of the head office building in Westlands.

22 (a) INTANGIBLE ASSETS – GROUP

	Software development costs Sh'000 2015	Software development costs Sh'000 2014
COST		
At 1 January	220,055	120,500
Additions	7,921	8,363
Translation adjustment	(220)	(456)
Transfers from WIP– Note 21 (a)	1,263	91,648
At 31 December	229,019	220,055
AMORTISATION/IMPAIRMENT		
At 1 January	79,818	69,467
Charge for the year	16,647	11,625
Translation adjustment	(165)	(425)
Assets write off	-	(849)
At 31 December	96,300	79,818
NET BOOK VALUE		
At 31 December	132,719	140,237

22 (b) INTANGIBLE ASSETS – BANK

	2015 Sh'000	2014 Sh'000
COST		
At 1 January	206,835	106,824
Additions	7,621	8,363
Transfers from work in progress (note 21(b)	1,263	91,648
At 31 December	215,719	206,835
AMORTISATION		
At 1 January	67,099	57,444
Charge for the year	16,258	10,505
Assets write off	-	(850)
At 31 December	83,357	67,099
NET BOOK VALUE		
At 31 December	132,362	139,735

22 (c) INVESTMENT IN NAIROBI SECURITIES EXCHANGE LIMITED – GROUP

AVAILABLE FOR SALE

	2015 Sh'000	2014 Sh'000
At 1 January	107,625	211,200
Fair value gain/(loss)	22,313	(103,575)
At 31 December	129,938	107,625

In 2014, the NSE became a listed company at the Nairobi Securities Exchange. Consequently, shares at the NSE are shown at fair value using the market price basis which has resulted in a fair value gain of Sh 22,313,000 (2014: fair value loss of Sh 103,575,000). The fair value gain/(loss) has been accounted for through other comprehensive income (see note 22(d)).

(d) FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2015 Sh'000	2014 Sh'000
Fair value gain/(loss) on investment in Nairobi Securities Exchange (note 22(c))	22,313	(103,575)
Fair value loss on Government Securities (note 17)	(52,660)	(1,535)
Net fair value loss	(30,347)	(105,110)

23 INVESTMENT IN SUBSIDIARIES

Unquoted investment at cost:

	2015 Sh'000	2014 Sh'000
ABC Capital Uganda Limited	602,377	602,377
ABC Financial Services Limited	263,028	263,028
ABC Insurance Brokers Limited	20,000	20,000
	885,405	885,405

ABC Financial Services Limited is a wholly owned subsidiaries of African Banking Corporation Limited and has a 93.09% (2014: 93.09%) holding in its subsidiary, ABC Capital Limited, a stock brokerage company incorporated in Kenya. Below are the details of the subsidiaries:

Name of subsidiaries	Place of incorporation and place of business	Nature of business	Proportion of ordinary shares held by group (%) As at 31 December		Proportion of ordinary shares held by non-controlling interests (%) As at 31 December	
			2015	2014	2015	2014
ABC Capital Limited	Nairobi, Kenya	Provision of stock brokerage	93.09	93.09	6.91	6.91
ABC Capital Bank Uganda Limited	Kampala, Uganda	Provision of banking and related services	69.14	68.48	30.86	31.52
ABC Insurance Brokers Limited	Nairobi, Kenya	Provision of insurance brokerage	51.00	51.00	49.00	49.00

23 INVESTMENT IN SUBSIDIARIES (Continued)

All subsidiaries undertakings are included in the consolidation. The proportion of the voting rights in the subsidiaries undertakings held directly by the parent company do not differ from the proportion of ordinary shares held. The parent company further does not have any shareholdings in the preference shares of subsidiaries undertakings included in the group. Therefore, the directors of the Group concluded that the Group has control over ABC Capital Uganda Limited and ABC Capital Limited both of which have been consolidated in these financial statements.

The movement in investment during the year were as follows:

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2015	2014	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January	20,000	-	602,377	583,330	263,028	238,028
Additional investment	-	20,000	-	19,047	-	25,000
At 31 December	20,000	20,000	602,377	602,377	263,028	263,028

Summarised financial information on subsidiaries with material non- controlling interests

The total non-controlling interest for the year is Sh 284,254,000 (2014: Sh 296,518,000).

Set out below are the summarised financial information for the subsidiaries.

Summarised statement of financial position

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2015	2014	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Current						
Assets	31,568	30,166	1,465,349	1,411,194	64,021	83,455
Liabilities	(23,907)	(22,541)	(630,012)	(502,875)	(36,191)	(43,834)
Total current net assets	7,661	7,624	835,337	908,319	27,830	39,621
Non-current						
Assets	2,067	1,150	35,380	162,808	137,998	115,472
Liabilities	145	(302)	-	-	-	-
Total non-current assets	2,212	848	35,380	162,808	137,998	115,472
Net assets	9,973	8,472	870,717	1,071,127	165,828	155,093

23 INVESTMENT IN SUBSIDIARIES (Continued)

Summarised statement of profit or loss and other comprehensive income

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2015	2014	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Revenue	1,175	14,556	191,581	207,713	10,005	13,541
Profit before income tax	1,802	1,133	41,968	18,350	(10,797)	(5,048)
Income tax credit/(expense)	(690)	(632)	(8,302)	7,148	(780)	(485)
Total comprehensive income	1,112	502	33,666	(92,373)	22	(109,108)
Total comprehensive income allocated to non- controlling interests	545	245	10,612	(2,081)	2	(7,539)

Summarised cash flows

	ABC Insurance Brokers Limited		ABC Capital Uganda Limited		ABC Capital Limited	
	2015	2014	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Net cash from operating activities	6,692	(13,880)	351,033	(154,024)	(12,436)	(12,450)
Net cash from investing activities	(15)	1,054	94,831	(141,550)	1,538	1,436
Net cash from financing activities	-	-	-	24,661	-	24,823
Net decrease in cash and cash equivalents	6,677	(12,826)	445,864	(270,913)	(10,898)	13,809
Cash and cash equivalents at 1 January	20,634	33,459	210,716	576,675	57,865	44,057
Cash and cash equivalents at 31 December	27,311	20,633	656,580	305,762	46,967	57,866

24 GOODWILL

	2015 Sh'000	2014 Sh'000
At cost	660	660

The directors assessed the recoverable amount of goodwill and have determined that the goodwill is not impaired.

25 OPERATING LEASE PREPAYMENT – GROUP

	2015 Sh'000	2014 Sh'000
COST		
At 1 January	-	2,029
Write off	-	(1,846)
Translation adjustment	-	183
At 31 December	-	-
AMORTISATION		
At 1 January	-	89
Charge for the year	-	(89)
At 31 December	-	-
NET BOOK VALUE		
At 31 December	-	-

26 DEPOSITS AND BALANCES DUE TO BANKING INSTITUTIONS

The weighted average effective interest rate at 31 December 2015 for balances due to banking institutions locally was 12.88% (2014: 10.5%) while that due to banking institutions abroad was 3.47% (2014: 2.2%).

	GROUP		BANK	
	2015 Shs'000	2014 Shs'000	2015 Shs'000	2014 Shs'000
Amounts due to Central Bank:				
In Kshs	1,098,624	-	1,098,624	-
Amounts due to banking institutions:				
In Kshs	349,787	469,771	349,787	469,771
In foreign currency	20,442	326,617	204,655	326,611
	370,229	796,388	554,442	796,382

27 CUSTOMER DEPOSITS

	GROUP		BANK	
	2015	2014	2015	2014
	Shs'000	Shs'000	Shs'000	Shs'000
Current accounts	2,280,424	3,045,208	2,280,424	3,045,208
Savings accounts	1,078,526	1,222,177	1,021,236	1,161,992
Call deposits	227,185	301,043	189,052	250,311
Fixed deposits	11,904,807	11,052,776	11,780,759	10,955,503
Other	502,187	520,414	109,267	314,046
	15,993,129	16,141,618	15,380,738	15,727,060
Accrued interest	307,344	248,950	307,344	248,950
	16,300,473	16,390,568	15,688,082	15,976,010

Analysis of customer deposits by maturity:

	GROUP		BANK	
	2015	2014	2015	2014
	Shs'000	Shs'000	Shs'000	Shs'000
Payable up to one month	3,648,007	4,720,268	3,590,717	4,623,069
Payable within 90 days	8,471,957	7,340,441	8,433,824	7,228,376
Payable after 90 days but within one year	4,132,976	4,290,021	3,616,008	4,085,729
Payable after one year but within five years	47,533	39,838	47,533	38,836
	16,300,473	16,390,568	15,688,082	15,976,010

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2015 denominated in local and foreign currencies was 8.47% and 1.76% (2014 – 6.81% and 1.85%) respectively.

The related party transactions and balances are covered under note 36 and concentrations of customer deposits are covered under Financial Risk Management Objectives and Policies in note 3.

28 OTHER LIABILITIES

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
Bills payable	17,250	16,880	17,250	16,880
Provision for leave pay	12,642	23,291	12,642	23,292
Trade payables	74,398	58,177	25,376	20,699
Other payables and accruals	309,164	390,687	334,312	359,172
	413,454	489,035	389,580	420,043

29 DEFERRED TAX LIABILITY

The deferred tax (asset)/liability is attributable to the following items:

	GROUP		BANK	
	2015	2014	2015	2014
	Sh'000	Sh'000	Sh'000	Sh'000
(a) Deferred tax asset:				
Leave pay provision	(3,793)	(6,987)	(3,793)	(6,987)
Other provisions	(7,234)	(4,248)	(13,695)	(4,248)
	(11,027)	(11,235)	(17,488)	(11,235)
(b) Deferred tax liability:				
Excess capital allowances over depreciation	40,970	48,095	42,928	42,736
Net deferred asset	29,943	36,860	25,440	31,501
(c) Net deferred tax asset is made up as follows				
Deferred tax asset	30,088	37,162	25,440	31,501
Deferred tax liability	(145)	(302)	-	-
Net deferred asset	29,943	36,860	25,440	31,501
(d) Movement in deferred tax asset is as follows:				
At 1 January	36,860	7,324	31,501	5,941
(Charge)/credit to profit or loss (note 11)	(2,847)	23,322	(6,061)	25,444
Prior year underprovision	(1,830)	116	-	116
Deferred tax asset not recognised	(4,402)	2,339	-	-
Translation adjustment	2,162	3,759	-	-
At 31 December	29,943	36,860	25,440	31,501

30 LONG TERM LOAN – GROUP AND COMPANY

	2015	2014
European Investment Bank (EIB)	Sh'000	Sh'000
At 1 January	529,670	678,967
Received during the year	-	-
Repaid in the year	(145,169)	(149,297)
At 31 December	384,501	529,670

The bank entered into a loan agreement with EIB where the bank lends to specific sectors of the economy as specified in the agreement with EIB. The bank on periodic intervals sends a claim to EIB to be reimbursed and this forms part of the loan due to EIB. The loan disbursement is received in foreign currency but the agreement provides for repayment in both foreign currency and local currency. As at the year end, the balance outstanding for both Kenya Shillings and US Dollar were Sh 298,826,737 and US$ 838,298 respectively.

30 LONG TERM LOAN – GROUP AND COMPANY (Continued)

The interest rates for the Kenya Shilling and foreign currency are predetermined based on certain economic indicators. The average interest rates for the Kenya shilling was 10.62% while for the US$ was 4.66%. The loan is repayable in semi annual instalments for both principal and interest with the first instalment due in January 2015.

31 CORPORATE BOND ISSUED

	2015 Sh'000	2014 Sh'000
1 January	1,019,731	-
Issued in the year	-	1,000,000
Interest paid	(126,000)	(63,000)
Accrued interest	126,346	82,731
At 31 December	1,020,077	1,019,731
Maturity analysis:		
On demand or within one year	20,077	19,731
Over 1year	1,000,000	1,000,000
	1,020,077	1,019,731

A bond of sh 1,000,000,000 was issued on May 7th 2014 to 31st July 2019 to increase ABC's capital for capital adequacy purposes per the new CBK prudential guidelines. The bond was issued on a fully paid basis as par at a fixed interest rate of 12.6% per annum. Interest is to be paid semi annually in arrears commencing 6 months after the issue date, with the first payment made on 6 Novemeber 2015.

32 (a) SHARE CAPITAL – GROUP AND BANK

	2015 Sh'000	2014 Sh'000
Authorised:		
210,000,000 ordinary shares of Sh 10 each (2014:210,000,000)	2,100,000	2,100,000
Issued and fully paid		
105,000,000 ordinary shares of Sh 10 each (2014:105,000,000)	1,050,000	1,050,000

32 (b) STATUTORY RESERVE

	GROUP		BANK	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
At 1 January	108,557	107,039	100,209	99,334
Transfer from retained earnings	12,400	1,518	13,942	875
At 31 December	120,957	108,557	114,151	100,209

Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines requires the bank to make an appropriation to a statutory reserve for unforeseeable risks and future losses. The amount transferred is the excess of loan impairment provision computed in accordance with the Central Bank of Kenya prudential guidelines and Bank of Uganda guidelines over the provision for impairment of loan and advances arrived at in accordance with IAS 39 on financial instruments.

33 NON-CONTROLLING INTERESTS – GROUP

	2015 Ownership %	2015 Amount Shs'000	2014 Ownership %	2014 Amount Shs'000
ABC Capital Uganda Limited	31.52	265,386	31.52	278,937
ABC Capital Limited	6.91	18,078	6.91	17,336
ABC Insurance Brokers Limited	49.00	790	49.00	245
At 31 December		284,254		296,518

	2015 Sh'000	2014 Sh'000
a) ABC Capital Uganda Limited		
At 1 January	278,937	279,728
Share of profit for the year	10,612	5,117
Share of other comprehensive loss for the year	(24,244)	(5,908)
Impact of dilution of non controlling interests	81	-
At December	265,386	278,937
b) ABC Capital Limited		
At 1 January	17,336	24,875
Share of loss	(800)	(382)
Share of other comprehensive income	1,542	(7,157)
At December	18,078	17,336
c) ABC Insurance Brokers Limited		
At 1 January	245	-
Share of profit	545	245
Share of other comprehensive loss	-	-
At December	790	245

34 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

		2015 Sh'000	2014 Sh'000
(a)	**Reconciliation of profit before taxation to cash generated used in operations**		
	Profit before taxation	388,399	336,879
	Adjustments for:		
	Depreciation on property and equipment	68,272	55,754
	Amortisation of intangible assets	16,647	11,625
	Accrued interest on treasury bonds	(115,735)	(92,565)
	Gain on disposal	(1,630)	(654)
	Profit before working capital changes	355,578	311,039
	Movements in:		
	Balances with Central Bank of Kenya (cash reserve ratio)	(5,746)	89,480
	Treasury bonds	(52,660)	(79,057)
	Corporate bonds	77,562	46,936
	Loans and advances to customers	(1,612,190)	(2,188,736)
	Other assets	(12,543)	(214,793)
	Customer deposits	(90,095)	(88,122)
	Other liabilities	(75,581)	150,310
	Related party balances		-
	Long term loan	(145,169)	149,297
	Cash used in from operations	(1,560,844)	(1,823,646)

		2015 Sh'000	2014 Sh'000
(b)	**Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes**		
	Cash on hand	224,333	203,007
	Balance with Central Bank of Kenya - other	32,315	941,488
	Balances with Bank of Uganda – other	145,851	64,782
	Treasury bills	201,294	597,370
	Deposits and balances due from banking institutions	442,673	223,303
	Deposits and balances due to banking institutions	(370,229)	(796,388)
	Balances due to Central Bank of Kenya	(1,098,624)	-
		(422,387)	1,233,562

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.

35 CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK

(a) Contingent liabilities

	2015 Sh'000	2014 Sh'000
Letters of credit	76,319	360,864
Letters of guarantee	744,501	1,623,468
Acceptances	49,723	203,759
Bills in course of collection	2,044	50,038
Others	32,000	12,000
	904,587	2,250,129

An acceptance is an undertaking by a bank to pay a bill of exchange drawn on a customer. The bank expects most acceptances to be presented and reimbursement by the customer is normally immediate. Letters of credit commit the Group to make payments to third parties on production of documents. The amounts are subsequently reimbursed by customers.

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

(b) Capital commitments

	2015 Sh'000	2014 Sh'000
Authorised but not contracted for	93,646	209,260
Authorised and contracted for	51,138	40,030
	144,784	249,290

(c) Commitments to extend credit

Commitments to lend are agreements to lend to a customer in future subject to certain conditions. Such commitments are normally made for a fixed period. The Group may withdraw from its contractual obligation for the undrawn portion of agreed overdraft limits by giving reasonable notice to the customer.

(d) Operating lease arrangements

The Group as a lessor

Rental income earned during the year was Sh 5,398,000 (2014 – Sh 1,571,000). 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	468	468
In the second to fifth year inclusive	1,404	937
	1,872	1,405

35 CONTINGENCIES AND COMMITMENTS INCLUDING OFF STATEMENT OF FINANCIAL POSITION ITEMS - GROUP AND BANK (Continued)

(d) Operating lease arrangements (Continued)

Leases are negotiated for an average term of 5 years and rentals are reviewed every two years. The leases are cancellable with a penalty when the tenants do not give three months' notice to vacate the premises.

The Group as a lessee

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

	2015 Sh'000	2014 Sh'000
Within 1 year	86,074	65,107
In the second to fifth year inclusive	230,570	252,183
After 5 years	89,019	72,582
	405,663	389,872

The directors are of the view that future net revenues and funding will be sufficient to cover these commitments.

36 RELATED PARTY TRANSACTIONS -GROUP AND BANK

Included in loans and receivables are amounts advanced to certain directors and to companies in which directors are involved either as shareholders or directors (related companies). In addition, contingent liabilities include guarantees and letters of credit which have been issued to associated companies. The following transactions were carried out with related parties:

	Directors		Related companies	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
a) Outstanding loans and receivables				
At 1 January	22,275	23,518	183,919	200,679
Advanced during the year	21,386	-	-	-
Interest charged	2,502	1,853	33,753	35,023
Repayments during the year	(3,751)	(3,096)	(55,454)	(51,783)
At 31 December	42,412	22,275	162,218	183,919
Interest earned	2,502	1,853	33,753	35,023
b) Deposits				
At 1 January	37,172	54,029	97,298	97,760
At 31 December	48,713	37,172	106,833	97,298
Interest paid	1,089	1,719	3,856	2,981
c) Contingent liabilities	-	-	-	3,000

36 RELATED PARTY TRANSACTIONS -GROUP AND BANK (Continued)

d) Loans and receivables to management staff

As at 31 December 2015 loans and receivables to management staff amounted to Sh 149,498,105 (2014 – Sh 76,035,000) and the interest earned thereon was Sh 13,207,459 (2014 – Sh 6,386,000).

The loans and receivables to related parties are performing and are fully secured. No provisions have been recognized in respect of the loans and receivables to directors, related parties or staff.

(e) Key management compensation

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

	2015	2014
	Sh'000	Sh'000
(i) Key management		
Salaries and other short-term employment benefits	117,908	124,263
	=======	=======
(ii) Directors' remuneration		
Fees for services as directors	6,280	5,775
Other emoluments	51,908	55,158
	58,188	60,933
	=======	======

37 ASSETS PLEDGED AS SECURITY - GROUP AND BANK

At 31 December 2015, no treasury bonds (2014 – Sh 80,000,000) were pledged to secure a letter of credit opening facility with a correspondent bank as there were no liabilities outstanding in respect of those assets.

38 COUNTRY OF INCORPORATION

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

39 CURRENCY

The financial statements are presented to the nearest Kenya Shillings thousands (Sh'000).

40 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES

a) Strategic risk

Strategic risk is the potential for loss arising from ineffective business strategies, improper implementation of strategies, sudden unexpected changes in the Group's environment, or from lack of adequate responsiveness to changes in the business environment.

The Group faces several strategic risks from its environment which include:

- Macro-economic changes.
- Competition from the financial industry and organisations providing similar services.
- Technological changes.
- Key legislative and regulatory changes.
- Major political events.
- Human capital or social/demographic trends and changes.

Who manages strategic risk

The Board of Directors is responsible for the overall generation and implementation of the Group's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Group Managing Director, the Group Chief Executive Officer and the Senior Management team who execute strategy.

The Board of Directors, with support from the Group Managing Director, the Group Chief Executive Officer and Senior Management, has developed a five year strategy that is implemented and reviewed in annual strategic cycles to take advantage of emerging opportunities and cater for the changes in the environment that pose risk..

How we manage strategic risk

The Group Managing Director supported by the Group Chief Executive Officer and Senior Management executes the approved strategic objectives on a day to day basis and actively monitors business performance against these objectives through periodic reviews. The business carries out business performance reviews periodically but at a minimum on a monthly basis against pre-determined milestones and key performance indicators. The reviews are reported to the Board of Directors for information and advice, or action where significant deviations occur. These reports include identifying the key risks faced by the Group and how they are being managed.

The Group Managing Director co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions, and key business risks. The frequency of strategic business reviews depends on the risk profile and size of the business / function.

Each business unit head is responsible for directing strategies in their respective units and ensure such strategies are aligned to the overall strategy of the Group. They are also responsible for monitoring, managing and reporting on the effectiveness and risks of their business' strategic objectives, and the progress they have made towards achieving these. They oversee the direction and trends of significant current and emerging risks related to their business units and that mitigating actions are taken where appropriate.

The Group's financial and non-financial performance, including its key risks, are reported to the Board of Directors on a quarterly basis for review and action, where necessary.

40 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES

b) Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties.

The major operational risks faced by the Group include:

- People and related issues such as staff retention, frauds, amongst others.
- Systems and processes changes related to the drive to meet our clients' needs.
- Infrastructure related issues such as premises availability, location and structure

Who manages operational risk

The Operations Committee is tasked with the responsibility designing and maintaining a formal Group-wide operational risk framework that emphasises a strong risk management and internal control culture throughout the Group. The committee meets monthly with a key deliverable of assessing the continued applicability of policies and programs in place to identify, assess, report, monitor, control or mitigate operational risks. This committee reports to the Executive Committee and is assisted by the Management committee [Manco] executing its functions.

The Group structure is designed with operational risk in mind. As an example, the group maintains specialised functions that manage business continuity, human resources, compliance, administration and procurement, security services and organisational change management. Senior Management in turn reports to the risk Management Committee on all the key risks detailing corrective action initiatives to address the risks.

How we manage operational risk

Our operational risk management framework is designed to ensure key risk exposures are proactively managed within acceptable levels. It incorporates best practice and meets regulatory guidelines through:

i) Governance and Policy: Management as well as Committee reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk and Compliance Committee and Senior Management's expectations are set out via enterprise-wide policies.

ii) Risk and Control Self Assessment: Through quarterly comprehensive assessments of our key operational risk exposures and internal control environments, Senior Management is able to evaluate its effectiveness and implement appropriate additional corrective actions where needed, to offset or reduce unacceptable risks.

iii) Operational Risk Event Monitoring: Our policies require that internal and industry-wide operational risk events are identified, tracked, and reported to the right levels to ensure they are analysed appropriately and corrective action taken in a timely manner.

iv) Risk Reporting: Significant operational risk issues together with measures to address them are tracked, assessed and reported to Senior Management and the Board of Directors to ensure accountability is maintained over current and emerging risks.

v) Insurance: 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. This includes identifying opportunities for transferring our risks to third parties where appropriate.

40 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES

b) Operational risk (Continued)

How we manage operational risk (Continued)

vi) Technology and Information: The key risks here revolve around our reliance on technology and information and their impact on operational availability, integrity and security of our information data and systems/infrastructure. Our risk framework and programs use best practice and include robust threat and vulnerability assessments, as well as security and change management practices.

vii) Business Continuity Management: Business Continuity Management supports the ability of Senior Management to continue to operate their businesses, and provide customer access to products and services in times of disruptions. This program includes formal crisis management protocols and continuity strategies. All key functions of the Group are regularly tested to confirm their contingency plan designs are able to respond to a broad range of potentially disruptive scenarios.

viii) Outsourcing Management: While the benefits of outsourcing arrangements are immense (ie. access to leading technology, specialised expertise, economies of scale, operational efficiencies, etc.), we note the need to manage the associated risks. This is done through programs that guide outsourcing activities and ensure the level of risk management and Senior Management oversight is appropriate to the size and complexity of the outsourcing arrangements and that the arrangements meet the minimum standards set by the regulator.

ix) Project Management: We have a disciplined project management program to ensure projects are implemented successfully in a planned and systematic manner and are monitored by Senior Management. The Projects Management Office runs this program and the Human Resources Department maintains standards that meet best practice to identify and guide change.

x) Financial Crime: Safeguarding our customers, employees, assets, information, and preventing plus detecting fraud as well as other forms of financial crime is done through extensive security systems, protocols and practices. This is led by our Security department that carries out regular employee training to ensure compliance with crime prevention policies and practices.

a) Compliance (policy/legal/regulatory) risk:

Compliance risk refers to the potential of loss arising from non-compliance with laws, rules, regulations, obligatory practices / standards, contractual agreements, or other legal requirements including the effectiveness of preventing and handling litigation. It is not actively or deliberately pursued in the expectation of a return but occurs in the normal course of our business operations.

The Group meets high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions. As a result of high financial business regulation we are exposed to regulatory and legal risks in virtually all our activities including those from our three main regulators (Central Bank of Kenya/Bank of Uganda and Capital Markets Authority). Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks. Financial penalties and costs related to litigation may also substantially erode the Group's earnings.

c) Compliance (policy/legal/regulatory) risk:

Business unit heads have the responsibility and accountability of managing regulatory and legal risks relating to their units on a day to day basis with assistance / advice and oversight from Risk and Compliance Departments. The Risk and Compliance Department, assisted by the Legal Unit, identifies and monitors the key risks and is responsible for ensuring that the day to day business controls comply with applicable legislation and are in line with best practice. Internal and external legal counsel work closely with business units to identify areas of existing and potential regulatory/legal risks and actively manage them to reduce the Group's exposures.

Senior Management and the Board Risk and Compliance Committee receive the Risk and Compliance Department's reports on the strength of the Group's Compliance Risk Framework to enable them to determine whether it is under control and where not, tracks significant corrective actions to finality. Additionally, significant exposures under "for or against" litigation are reviewed periodically.

41 NON-FINANCIAL RISK MANAGEMENT DISCLOSURES

How we manage operational risk (Continued)

c) Compliance (policy/legal/regulatory) risk (Continued)

The Board of Directors and Senior Management through the Group's Code of Conduct sets the "tone at the top" for a culture of integrity beginning with concern for what is right (including compliance to policy and the law) in all our business considerations, decisions and actions. All employees are required to attest to this Code when they join the Group and thereafter periodically, indicating that they have understood it and that they have complied with its provisions.

Business unit heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal & Compliance departments assist them by:

i) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.
ii) Implementing or assisting with reviews of policies, procedures and training. They do this by independently monitoring and testing for adherence to certain regulatory and legal requirements, as well as the effectiveness of associated key internal controls.
iii) Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.
iv) Liaising with regulators, as appropriate, regarding new or revised legislation, regulatory guidelines or regulatory examinations.

We have developed robust policies, programs and systems designed to manage the Know Your Customer (KYC) and Anti-Money Laundering (AML) risks as envisaged in the Proceeds of Crime & Anti-Money Laundering Act and Regulation (CBK/BOU/CMA). We have upgraded account opening requirements and customer transaction screening procedures to meet the stringent requirements stipulated therein. Reporting of suspicious and other transactions is done as required by the law and policy standards. We carry out appropriate periodic due diligence on correspondent banking counterparties, and meet KYC / AML obligations to them continuously. All staff are trained when they join the Group and periodically certified as such in line with the law.

d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Group's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised.

The Group's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Group's good reputation is always maintained or enhanced.

e) Who manages reputational risk

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Group's reputational risk as part of their regular mandate. They are assisted in this aspect by the Marketing and Corporate Communications Department. Their purpose is to ensure that all products, services, and activities meet the Group's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Group has a responsibility to contribute positively to our reputation.

Senior Management and the Board of Directors receive periodic reports on the assessment of the Group's reputational risk exposures that arise from its business (including sales and service) activities so as to form a view on associated risks and implement corrective actions.

f) How we manage reputational risk

Every employee and representative of the Group has a responsibility to contribute in a positive way towards our reputation. This is through ensuring ethical practices are always adhered to, interactions with all stakeholders are positive, and we comply with applicable policies, legislation, and regulations. Reputational risk is most effectively managed when every individual works continuously to protect and enhance our reputation.

AFRICAN BANKING CORPORATION LIMITED

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

	2015 Sh'000	2014 Sh'000
INCOME		
Interest on loans and receivables	2,287,672	1,970,644
Interest on Government securities	470,251	505,225
Interest on placements	3,706	18,610
Other interest income	25,699	32,072
	2,787,328	2,526,551
INTEREST EXPENSE		
Interest on deposits	1,323,055	1,152,671
Interest on money markets	97,941	39,652
Interest on long term loan	37,705	51,816
Interest on bond financing	126,346	82,731
	1,585,047	1,326,870
NET INTEREST INCOME	1,202,281	1,199,681
FEES AND COMMISSIONS	321,395	306,703
FOREIGN EXCHANGE TRADING INCOME	60,245	133,086
OTHER OPERATING INCOME (APPENDIX II)	8,781	27,138
OPERATING EXPENSES (APPENDIX II)	(1,159,577)	(1,216,444)
IMPAIRMENT LOSS ON LOANS AND RECEIVABLES	(77,699)	(131,635)
PROFIT BEFORE TAXATION	355,426	318,529
TAXATION CHARGE	(88,708)	(60,384)
PROFIT FOR THE YEAR	266,718	258,145

AFRICAN BANKING CORPORATION LIMITED

BANK STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2015

	2015 Sh'000	2014 Sh'000
OTHER OPERATING INCOME		
Rental income	5,398	1,424
Miscellaneous income	1,114	1,096
Gain on disposal of government bonds	-	19,959
Gain on disposal of property and equipment	1,290	654
Bad debts recovered	979	4,005
	8,781	27,138
OPERATING EXPENSES		
Staff costs – see below	585,803	616,927
Depreciation of property and equipment	62,018	48,621
Amortisation of intangible assets	16,258	10,505
Auditors' remuneration	5,120	3,600
Contribution to deposit protection fund	24,018	22,765
Directors' emoluments - fees	6,280	5,775
- other	51,908	52,947
Operating lease rentals	69,172	62,829
Advertising costs	27,409	61,752
Communication	54,854	60,953
Printing and stationery	8,081	15,513
Computer and software maintenance	33,980	38,428
Travelling and vehicle running expenses	18,916	33,968
Legal and professional fees	27,915	17,219
Loss on disposal of government bonds	17,016	-
Security	32,002	26,385
Insurance	14,500	9,594
Bank charges	6,739	10,001
Office expenses	54,732	55,140
Agency intergration fees	-	3,704
Other expenses	42,856	59,818
	1,159,577	1,216,444
STAFF COSTS		
Salaries and allowances	495,726	474,193
Staff training	6,727	9,581
NSSF contribution	735	730
Pension contribution	20,832	18,337
Leave pay (write back)/provision	(6,068)	14,009
Medical expense	18,447	26,090
Other	49,404	73,987
	585,803	616,927