ANNUAL REPORT & FINANCIAL STATEMENTS 2015

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CONTENTS

CORPORATE INFORMATION

REPORT OF THE DIRECTORS

REPORT OF THE INDEPENDENT AUDITOR

FINANCIAL STATEMENTS

NOTICE OF THE AGM

CORPORATE INFORMATION

CORPORATE INFORMATION

DIRECTORS

EXECUTIVE

Titus Karanja	Managing Director -Appointed July 1, 2015
Albert Ruturi	Retired December 31, 2015

NON-EXECUTIVE

James Mworia	(Chairman)
Tom Kariuki	
Mary Ann Musangi	
Kimanthi Mutua	
Catherine Mturi-Wairi	
Donald B Kipkorir	
Polycarp Kamau Igathe	Appointed February 19, 2015

BOARD COMMITTEES

AUDIT AND RISK COMMITTEE

Catherine Mturi-Wairi	Chairperson
Donald B Kipkorir	
Kimanthi Mutua	
Tom Kariuki	
Polycarp Kamau Igathe	Appointed February 19, 2015

ASSET AND LIABILITY COMMITEE

Kimanthi Mutua	Chairperson
Tom Kariuki	
Catherine Mturi-Wairi	
Titus Karanja	Appointed July 1, 2015
Albert Ruturi	Retired December 31, 2015

CREDIT COMMITTEE

Tom Kariuki	Chairperson
Kimanthi Mutua	
Donald B Kipkorir	
Titus Karanja	Appointed July 1, 2015
Albert Ruturi	Retired December 31, 2015

CORPORATE INFORMATION

NOMINATIONS AND GOVERNANCE COMMITTEE

Donald B Kipkorir	Chairperson
Mary Ann Musangi	
Polycarp Kamau Igathe	Appointed February 19, 2015
Titus Karanja	Appointed July 1, 2015
Albert Ruturi	Retired December 31, 2015

BRAND COMMITTEE

Mary Ann Musangi	Chairperson
Donald B Kipkorir	
Catherine Mturi-Wairi	
Polycarp Kamau Igathe	Appointed February 19, 2015
Titus Karanja	Appointed July 1, 2015
Albert Ruturi	Retired December 31, 2015

ICT AND OPERATIONS COMMITTEE

Mary Ann Musangi	Chairperson
Tom Kariuki	
Kimanthi Mutua	
Titus Karanja	Appointed July 1, 2015
Albert Ruturi	Retired December 31, 2015

SECRETARY

Daisy Ajima
R/CPS 2003
Certified Public Secretary
P. O. Box 57962 - 00200
Nairobi

REGISTERED OFFICE

K-Rep Centre
Wood Avenue, Kilimani
P. O. Box 25363 - 00603
Nairobi

AUDITOR

PricewaterhouseCoopers
PwC Tower, Waiyaki Way / Chiromo Road, Westlands
P. O. Box 43963 - 00100
Nairobi

LEGAL ADVISERS

Mohammed Muigai & Co. Advocates
K-Rep Centre, 4th floor,
Wood Avenue, Off Lenana Road,
Kilimani.
P. O. Box 61323 – 00200, Nairobi

Munyao Muthama & Kashindi Co. Advocates,
ACK Cathedral Complex, Office No. 14
Ist Floor, Cathedral Road, Off Nkrumah Road
P. O. Box 2419 - 80100
Mombasa

BOARD OF DIRECTORS

1. James Mworia

(Chairman)

Mr. Mworia is a non – Executive Director of Sidian Bank since November 2014.

With over 10 years work experience including Investment Management at Trans-century and Centum, Mr. Mworia is a CFA Charter holder, Certified Public Accountant, holds a Bachelor of Law Degree from the University of Nairobi and an Advocate of the High Court of Kenya. He is also a member of LSK and CIMA.

His other Directorships include: Centum Investments Company Limited, Nairobi Bottlers Limited, Mount Kenya Bottlers Limited, General Motors East Africa Limited and NAS Airport Services Limited and SIA (K) Holdings Limited and several others.

2. Titus Karanja

(MD and CEO)

Mr. Karanja holds a Bachelor of Commerce (Finance). He is a qualified accountant, with ACCA certification and holds a Diploma in Computer Science (IDPM) among other professional qualifications.

He possesses over 15 years banking and leadership experience and a stellar reputation of improving financial services and operational efficiency in banking having served in various capacities as Director, Co-operatives Banking Division and Head of Merchant and Investment Banking at the Co-operative Bank, Head of African Alliance Kenya Securities for the African Alliance Investment Bank and Chief Executive Officer at Mayfair Securities, among others.

He is a member of Business Conduct Committee of the Central Depository & Settlement Corporation (CDSC) and a Board Member at Children of God Relief Institute-Nyumbani Children's Home.

3. Catherine Mturi-Wairi

Mrs. Wairi is a finance professional who has served in various roles over the last 23 years at the Kenya Ports Authority (KPA) and currently the Acting Managing Director.

She holds an MBA in Strategic Management BSc. in Finance and Accounting from USIU and various professional qualifications including (CPA K), (CPS K), and is a Certified SAP Consultant. She is a member of Institute of Directors of Kenya (IOD), ICPAK, ICPSK, KIM, KNLS, WOMESA, AWAK and the Trustee KPA Staff Pension Scheme and Nyali schools board.

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BOARD OF DIRECTORS

4. Kimanthi Mutua

Mr. Kimanthi Mutua is currently the Executive Director of The K-Rep Group. He is the founder of K-Rep Bank limited (now Sidian Bank Limited) the first NGO micro-finance institution in Africa to transform into a regulated commercial bank specializing in micro-finance and served as its founding Managing Director from 1999 to March 2010.

Currently, Kimanthi serves as a board member and Chair of Commercial Banks and organizations that focus on Financial Inclusion and micro-finance. These include Centenary Bank (Uganda), the K-Rep Group (Kenya), PAMIGA Association (France), ECLOF International (Geneva), to name but a few. Mr. Mutua has devoted over three decades to diverse issues and initiatives on Micro-finance and Financial Inclusion and currently involved in advising Regulatory & Supervision bodies, as well as Micro-finance Institutions.

He has hands on and practical experience in leadership, governance, transformation, policy formulation, and funding strategies that have made him a widely sought after public speaker, resource person, adviser of several national and international organizations.

5. Mary-Ann Musangi

Mrs. Musangi holds an MSc in Management from University of Surrey, UK as well as a BA in International Business Administration. She has over 15 years of experience in Brand Management having worked for the Coca-Cola Company, Kenya Commercial Bank, GlaxoSmithKline and Ogilvy Mather.

She is a board member of Haco Tiger Brands, UAP Investments Limited, International House Limited, Woof Advertising & Marketing, Croyden Limited, Sheraton Rongai and Betting Control and Licensing Board (BCLB).

6. Donald Kipkorir

Mr. Kipkorir is an LLB. Holder with a diploma in Law and over 23 years of Legal experience. He is currently the Managing Partner, KTK Advocates, a Corporate & Commercial law Practice Advocate, Commissioner for Oaths, Notary Public, Patent Agent and a Gazetted Special Public Prosecutor.

He is a member of LSK, International Trademarks Association (INTA), International Bar Association (IBA), East Africa Law Society (EALS) and Commonwealth Bar Association (CBA) and a Platinum Member of American Chamber of Commerce.

His other directorships include: Kenya Post Office Savings Bank (Postbank) (2001 – 2003) Stonyridge Developments Limited, LK40Limited, Dal Mare Limited, FIG Ventures Limited, he is the current Chairman of Government of Kenya Task Force on Administration of Foreign Employment & Management of Labour Migration and Football Kenya Federation Election Board.

7. Tom Kariuki

With over 15 years of experience as a career banker, Mr. Kariuki has previously worked at CBA and Co-operative Bank in various capacities before voluntarily retiring early from Co-operative Bank to pursue other business interests.

He is currently a Director at Zohari Leasing, Togen Holdings and a senior advisor at Khweza Consulting. He holds an MBA in Finance and a degree in International Business Administration (Finance and Strategy) from USIU as well as an ACI Dealing Certificate.

CHAIRMAN'S STATEMENT

Dear Shareholder,

On behalf of the Board of Directors, I take this opportunity to present to you the Bank's Annual Report and Financial Statements for the year ended 31st December 2015. It is my pleasure to present the first year report of our strategic period 2015-2019.

2015/19 Strategic Focus

The Financial Year 2015 represents the first year of our current strategy vision to grow Sidian Bank to a top Tier II Bank in the region. During this year, the Bank undertook a rebranding exercise that presaged the transition from K-rep Bank to Sidian Bank. Sidian is derived from the word Obsidian, which is a volcanic rock that was considered valuable and used as currency in ancient times. It is in this spirit, that as a Bank we intend to deliver on our vision to become a Bank of entrepreneurs for entrepreneurs.

Our Key themes for this strategic period are:

- Sustainable Growth: To grow Sidian Bank's Total Asset to Ksh. 125 Billion by 2019 and hold a Deposit and Loan book of Ksh. 100 Billion and 85 Billion respectively. This shall translate into Total Revenue of Ksh. 13.2 Billion.
- Brand and Customer Service: Brand for us means delivering our promise to our customers. We intend to transform our customers' lives through exemplary customer service, delivering superior products targeting entrepreneurs who are the cornerstone of the economy.
- Business Re-engineering: During this strategic period, Sidian Bank completed phase 1 of server and telecommunication upgrades at a cost of Ksh. 150 Million. In the same year, the Bank also rolled out a new mobile banking and agency banking platform designed to give a seamless experience across channels. The coming year, will see a further Ksh. 400 Million investment in IT and branch infrastructure. In addition, the Bank shall realign existing products to new business segments focusing on Wholesale Banking, Enterprise banking and Specialty banking, in order to unlock growth in various market segments.

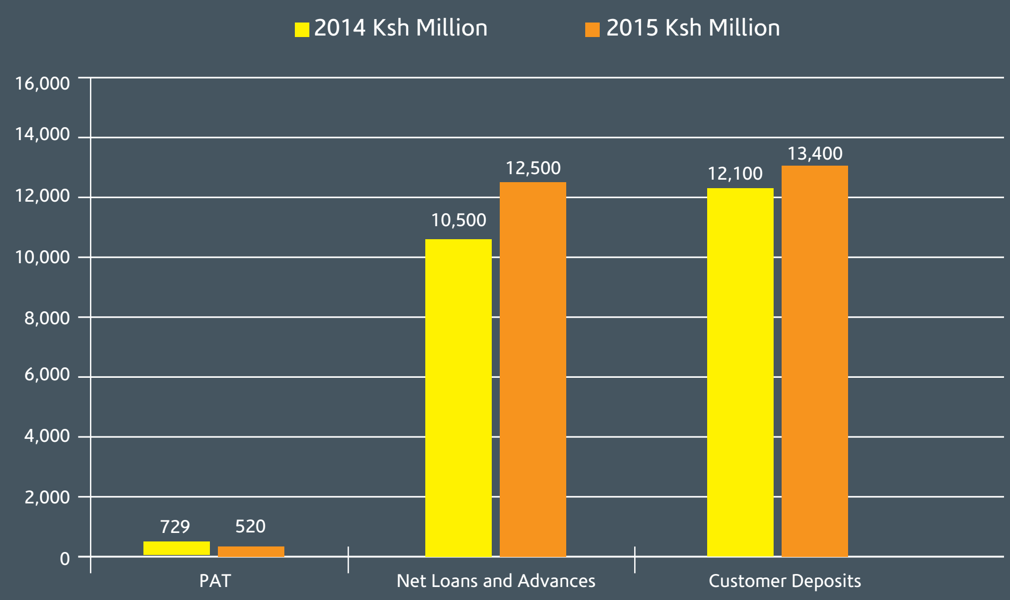
Our Performance In The Operating Enviroment

Kenya's economy has recorded increased activity in the agricultural, manufacturing and construction sectors. This increased activity translated to an economic growth of 5.6% in 2015 compared to 5.4% in 2014. The resilience of the Kenyan economy is expected to continue in 2016, with an estimated growth of 6.6%. The economy is expected to grow even faster due to investments in large infrastructural projects currently being undertaken including the LAPPSET, Standard Gauge Railway, the Port expansion and power generation projects.

The financial sector grew by 8.7%, reflecting gains from the economic expansion through a significant increase in credit advances by commercial banks and cooperative societies to the agricultural, manufacturing and construction sector. The momentum of growth is expected to be sustained in the medium turn through a stable macroeconomic policy environment.

In addition to the macroeconomic environment, the banking industry has also faced a shift in the regulatory scope. 2015 was a year of mixed fortunes for Banks and their customers. The positives were that bank Customers continued to show high appetite for electronic channels which are registering robust growth and consumer demand was stable across most sectors from basic commodities to luxury goods and services – perhaps boosted by lower inflation on reduced fuel prices and stability of the shilling. The negatives were that there was a slowdown in loan repayment performance during the Second half of 2015, in line with delays in honoring of outstanding payables by various large players in the economy and increased volatility in Quarter 4 of 2015 that led to a steep increase in short term deposit rates which impacted on cost of funds.

CHAIRMAN'S STATEMENT (CONTINUED)



The above notwithstanding, in 2015, the Bank grew its gross loans and advances by 20%, outperforming the industry's growth in loans and advances by 7%. This translated to a 13% growth in interest income. However, the Bank's funding costs rose by 42% in tandem with the high interest rate regime during the Second half of 2015. This coupled with a 20% increase in operating costs that were attributable to transformation investments in technological platforms like e-channels, loan origination software as well as staff capacity building led to a decrease in profitability. Sidian Bank recorded a Profit Before Tax of Ksh. 520 Million, a 29% decrease compared Ksh. 729 Million made in the year 2014.

In addition, the Bank had a rights issue in December 2015, in which Centum Investments Limited injected Ksh. 1.03 Billion and offered to take up the additional rights in the event that existing shareholders did not exercise their rights. This signaled the confidence the majority shareholder has in the growth potential of the Bank. The proceeds of the rights issue increased the Bank's core capital to accommodate the expected growth projections and expansion into other lines of business and allowed the Bank to increase the borrowing limit of a single client from Ksh. 600 Million to Ksh. 1 Billion.

Appreciation

I would like to express my sincerest gratitude to our Customers for their continued support and loyalty to the Bank. I would also wish to thank all the Staff and the Management whose noteworthy contribution has seen the Bank come this far. I believe that they are committed to the attainable strategic journey ahead of us. I also extend my appreciation to our Shareholders for committing to walk this journey with us. Finally, I would like to recognize my fellow Board Members efforts, insights and direction that have significantly contributed to the overall advancement of the Bank.
God bless you all.

James Mworia.
Chairman

MANAGING DIRECTOR'S STATEMENT

Dear Esteemed Shareholder,

I am pleased to present you with Sidian Bank's performance results for the year ended 31st December 2015. In the last quarter of 2014, Sidian Bank embarked on a transformational journey by developing an ambitious five year strategic plan. Several initiatives have since been launched since commencing this journey, a major one being the rebranding from K-rep Bank to Sidian Bank. This rebrand is important in reaffirming our promise to current and potential customers even as we set our sight towards becoming a Tier II Bank in the region by the year 2019.

2015 Strategic Focus

Led by our vision to become a top Tier II Bank in the region and guided by our values, we continued to implement our strategy as highlighted in the summary below.

Infrastructure and ICT Transformation

In 2015, the Bank was laying down the proper ICT foundation and infrastructural investment for the Bank to leverage its future growth on. The main investments that were undertaken during this period were aimed at enhancing the core banking system stability and branch network connectivity. The Bank invested Ksh. 150 Million in the first phase of a server and telecommunication upgrade. In 2016 the Bank shall invest a further Ksh. 400 Million in ICT and branch infrastructure.

Channels upgrade and Products Revamp

The traditional approach to accessing the customer in banking is fast changing across the globe.Customers want convenient and quick access to banking services without having to visit banking halls. It is in this regard that the Bank rolled out a new mobile banking and agency banking platform designed to give a seamless experience across all channels to our customers.

In addition, the Bank reviewed its product portfolio features and pricing to be better aligned with customers' needs in the different market segments.

Streamlining of Processes

We completed a total review of credit approval and account opening processes to improve customer experience. This review resulted in the reduction of credit approval and account opening turn-around time to improve efficiency. In 2016, more processes shall be streamlined with the aim of delivering a superior customer experience.

Sidian Bank's Performance

The Bank aims to achieve; Total Assets of Ksh. 125 Billion, Total Deposits Ksh.100 Billion and total loans of Ksh.85 Billion. In addition, Sidian Bank intends to generate revenue of Ksh. 13.2 Billion, cost income ratio of 50% and Profit Before Tax of Ksh. 6 Billion by the year ending 31 st December 2019.

Financial Year 2014 versus Financial Year 2015

In 2015, Interest income increased by 13%, underpinned by growth in the loan portfolio attributed to our increased customer base. The Bank's funding costs rose by 42% in tandem with the high interest rate regime during the second half of 2015. Liquidity was king and we opted to pay to preserve it. This impacted on our net interest margin, as will be seen from the numbers. Management is happy that interest expense has now normalized in Quarter 1 2016.

Operating expenses went up by 20% in 2015 attributed to transformational investments in technological platforms like e-channels, loan origination software as well as staff capacity building. In the year 2015, we returned a Profit Before Tax of Ksh. 520 Million compared to Ksh. 729 Million in the year 2014.

MANAGING DIRECTOR'S STATEMENT (CONTINUED)

Amount in Kenya Shillings - Billions

Net loans and advances increased by 20% as the Bank expanded its lending to productive sectors of the economy with the main focus being on SMEs, while Customer Deposits increased by 11% to Ksh. 13.38 Billion. Gross non-performing loans and advances went up by 107% to Ksh. 1.6 Billion. In a year characterized by delayed payments by various large players in the economy, the Bank took a conservative view of credit quality and tightened loan classification and took on extra provisions.

Centum Investment Company Limited injected an additional Ksh. 1.2 Billion, in share capital towards the end of the year 2015, improving the capital ratio to 24%.

2015 mainly reflected laying the groundwork to our strategic journey to transform Sidian Bank to the Bank of choice for all customers.

Despite the drop in profits in the year 2015, the changes and investments made in the year are signaling a growth trajectory for the Bank. I am confident that we are on a steady growth path.

Our path to Value; 2016 and beyond

The focus for 2016 will be to deliver a stronger and better brand promise to the market and to leverage on our investments in IT transformation. We also intend to launch a highly diversified set of channel offerings in partnership with players in various sectors of the economy.

As we pursue our mission and vision, we are confident that the strategic direction we have chosen is comprehensive.

In conclusion, I thank you shareholder for your confidence in Sidian Bank's board and management and for the unwavering support you have continued to give us.

I would also like to thank our Board, Sidian Bank management and the entire Sidian Bank family for their dedication, support and commitment to our vision.

Titus Karanja
Chief Executive Officer

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SENIOR MANAGEMENT

1. Titus Karanja

(MD and CEO)

Mr. Karanja possesses notable experience, wide industry knowledge and a stellar reputation of improving financial services and operational efficiency in banking having served in various capacities as Director, Co-operatives Banking Division and as Head of Merchant and Investment Banking at the Co-operative Bank; Head of African Alliance Kenya Securities for the African Alliance Investment Bank and Chief Executive Officer at Mayfair Securities, among others. He holds a Bachelor of Commerce (Finance) and various professional qualifications including ACCA and Diploma in Computer Science (IDPM).

2. Jeanne Waluchio

(Head of Human Resources)

Jeanne holds a Bachelor of Commerce – Account Option and a Higher National Diploma in Human Resource. She has a wide range of experience in managing and administration of a full spectrum of Human Resources programs having represented various countries in the Africa continent.

She has supported various HR functions which include recruitment, staffing, talent management, training and development, performance monitoring and employee counseling among others. She Joined the Bank in 2015.

3. Anne Makau

(Head of Credit)

Anne is a holder of B. Com (Marketing and Accounting) from the University of Nairobi and is currently pursuing an MBA (Finance & Strategic Management) from the University of Nairobi.

She has 10 years banking experience holding various positions with the most recent role as Head of Credit at Equatorial Commercial Bank.

4. Philemon Wachara

(Head of Finance)

Philemon is a Bachelor of Commerce (Accounting) Degree holder with Masters in Business Administration (Finance) from The University of Nairobi. He is a Certified Public Accountant CPA(K) as well as a Certified Public Secretary (CPS).

His banking career spans over 13 years in the fields of accounting, financial management, and microfinance. He joined Sidian Bank from Housing Finance Bank.

SENIOR MANAGEMENT

5. Theo Joseph Osogo

(Head of Treasury)

Theo Osogo is a Bachelor of Science graduate in International Business Administration (Management) He also holds a Master's Degree in Banking and Finance (Financial Markets) with over 13 years banking experience in various Treasury roles.

He has extensive regional experience gained working within East Africa, specifically South Sudan and Rwanda and consulting in Tanzania and Uganda. Over years he has gained a wealth of experience working with Transnational Bank, Equity Bank and Co-operative Bank. He joined the Bank in February 2015.

6. Daisy Ajima

(Head of Legal Affairs and Company Secretary)

Daisy holds a Bachelor of Law (LLB) and Masters LLM (International Trade and Investment Law) degrees from University of Nairobi. She has a Diploma in law (KSL), CPA (Part II) and CPS (K). She is an advocate of the High Court of Kenya, Commissioner for Oaths, Notary Public, Registered CPS and a Certified Governance Auditor. She is a member of LSK and ICPSK. She joined the bank in June 2013. She has 11 years of legal, banking and Credit experience, having previously worked at DTB and CBA.

7. Peter Karichu

(Head of Audit)

Peter holds a Bachelor of Commerce (Finance) and is pursuing a Master's degree in Finance from Strathmore University.

He is a Chartered Certified Accountant CPA (K) with other professional qualifications including ACCA (I, II, III), CIA (I, II, III), CISA and CISM. Peter's banking career spans over 10 years.

8. Catherine Muraga

(Head of Information Technology & Operations)

Catherine has extensive experience having managed various functions in IT. She has worked in different industry sectors; East Africa Breweries, Kenya Airways and with her most recent role as the Head of IT Operations at CfC Stanbic Bank.

Catherine holds a Bachelor of Science degree in Computer Science from Africa Nazarene University. She joined the bank in November 2015

REPORT OF THE DIRECTORS

The directors submit their report together with the audited financial statements for the year ended 31 December 2015 in accordance with Section 22 of the Banking Act and Section 157 of the Kenyan Companies Act which disclose the state of affairs of Sidian Bank Limited (the "Bank").

1. CHANGE NAME

The Company changed its name from K-Rep Bank Limited to Sidian Bank Limited (the company) with effect from April 4, 2016, vide Gazette Notice dated April 4, 2016.

2. PRINCIPAL ACTIVITIES

The Bank is engaged in the business of banking and the provision of related services.

3. RESULTS AND DIVIDEND

The profit for the year of Shs 372,320,000 (2014: 514,044,000) has been added to retained earnings. The directors do not recommend payment of any dividend for the year (2014: Nil)

4. DIRECTORS

The directors who served during the year and to the date of this report are shown on page 1.

5. AUDITOR

PricewaterhouseCoopers have expressed their willingness to continue in office in accordance with section 159(2) of the Repealed Kenyan Companies Act and subject to section 24(1) of the Banking Act (Cap 488 Laws of Kenya).

By Order Of the Board

Daisy Ajima
Company Secretary

Nairobi

14th March 2016

STATEMENT ON CORPORATE GOVERNANCE

COMPLIANCE WITH SOUND CORPORATE GOVERNANCE

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

Sidian Bank is committed and adheres to the principles of corporate governance and in so doing ensures observance set by the Central Bank of Kenya in its Prudential Guidelines and set by itself in accordance with international best practices. The Bank has adopted the highest standards of integrity and ethics in all the Bank's undertakings. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to ensure performance of the Bank enhanced targets and regulatory compliance as required by the Central Bank of Kenya, the Companies Act, 2015 and the Banking Act of Kenya.

The Bank ensures that there is adequate accountability in its actions and openness in relation with Stakeholders, Shareholders and the general public.

Board of Directors

The Board of Directors (the "Board") is responsible for the governance and strategic direction of the Bank. The Board seeks to ensure profitable growth of the Bank while guaranteeing complete compliance to the legal framework and corporate governance guidelines. The Bank's Board consists of eight members currently chaired by Mr. James Mworia. It consists of seven non-executive directors and one executive director. The Board collectively pools together vast experience in various relevant fields inter alia, banking, finance, law and marketing. And with this, it is able to effectively ensure that the Bank establishes and maintains internal controls that observe profitability and sustainable growth. The Board delegates its authority to Board Committees, which meet quarterly or whenever need arises. The authority for the day to day running of the Bank is delegated to the Managing Director.

Appointment of New Directors and Tenure

The Board of Directors were appointed through a formal selection process by agreement between the shareholders. In April 2014 and on the heel of the increase of the shareholding in the Bank by Centum Investment Company Limited, (through Bakki Holdco Limited), the Board of Directors resolved to seek a new Chief Executive Officer and Managing Director, to take over from Albert Ruturi who was the Managing Director for 5 years. Mr. Ruturi's role was crucial in transforming the Bank to achieve profitability in 2014. A consultant was appointed to seek a new CEO and Mr. Titus Karanja, a seasoned Banker was appointed through this process. Mr. Ruturi thereafter, took the role of a consultant to guide the Bank from July 1, 2015, until December 31, 2015, when he officially retired.

Corporate Planning

The Board is responsible for formulating the strategic plan of the Bank. The Board has been instrumental in formulating sustainable policies and strategies to ensure that the Bank stays profitable. The Board holds an annual strategic planning workshop with the senior management at which the projections and targets are reviewed and amended as circumstances dictate.

Board Effectiveness

The Board of Directors appointed in the year 2014/2015 is composed of seven non-executive directors and one executive Director, the Managing Director. This arrangement initiates the significance of impartiality in matters of corporate governance. It also ensures that the Board is free from undue influence on matters affecting the day to day running of the Bank. Generally, the conduct of the Board in particularly the non- executive directors, are regulated by the Bank's Memorandum and Articles of Association as well as a Board Charter, Terms of Reference and Directors' Code of Board Principles and Conduct. Management also ensures that the Board is well informed on the operations of the Bank at all times.

Executive Management Committee

The role of implementation of the Bank strategic decision is handled by the Executive committee which is chaired by the Managing Director. The Committee meets weekly to review the Bank performance, control overall direction of business and make strategic decisions. The committee is composed of departmental heads of human resources, finance, credit, treasury, marketing and legal. The heads of enterprise risk and audit are invited to give an overview.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Committees

The Board has established Board Committees to assist in discharging its duties and responsibilities. The Board committees have formally determined terms of reference, which define their role, function, reporting procedures and scope of authority. The existing committees are Audit and Risk Committee, Asset and Liability Committee, Credit Committee, Brand Committee, Nominations and Governance Committee, ICT and Operations Committee. The Board also ensures that effective communication with shareholders is upheld. This is done through holding of the Annual General Meeting and also provision of annual report and financial statements in full compliance with the requirements of the Kenyan Companies Act and the International Financial Reporting Standards (IFRSs).

Audit and Risk Committee

This committee consists of non – executive directors who check on the quality of financial reporting, selectiveness of internal and external auditing functions, advise the board on best practises, provide oversight on risk management and compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies together with the bank's laid down policies and procedures. The committee further defines the scope of risk management work, ensure that adequate risk policies and strategies are in place to identify, monitor and effectively mitigate the various risk issues the bank is exposed to in the day to day activities. The committee yearly reviews the proposed work plans for the internal audit function. The committee is also responsible for ensuring that the Bank operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame.

Asset and Liability Committee (ALCO)

The ALCO committee is set up is to derive the most appropriate strategy for the Bank by optimising returns while prudently managing and observing the assets and liabilities. It also considers the potential consequences of interest rate movements, market risk, liquidity constraints, and foreign exchange exposure and capital adequacy. The committee ensures compliance with the Bank's strategies on statutory requirements on liquidity, foreign exchange exposure and cash ratio.

Brand Committee

The committee oversees the development of the brand of the Banks products and in particular policy making and advisory duties on brand managements and product strategy. This is all done in line with an aim to create a niche for the Bank in the market.

Nominations and Governance Committee

The purpose of the Nominations and Governance Committee is to ensure that the Board fulfils its legal, ethical and functional responsibilities through adequate governance policy development, recruitment strategies, training programs, monitoring of Board activities, and evaluation of Board members' performance.

Credit Committee

The Credit committee oversees the establishing and implementing of the credit and lending policies of the Bank. It is responsible for the sanction of credit proposals in line with the Bank's Credit Policy and effective follow up of all credit-related matters. The Committee is also responsible for formulating the credit policies of the Bank.

ICT and Operations Committee

This committee was newly formed in Quarter 4 of 2014 to look at the overall ICT and operations strategy of the Bank, in line with the Bank strategy to grow in ICT delivery channels. The committee oversees the Bank ICT stabilization and growth strategy and aligns ICT investment in line with budget and policy. The committee also oversees banking operations of the Bank. The committee ensures that all the operations procedures including alternative delivery channels adhere to AML/CFT Guidelines.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Board Meetings

The Board scheduled six Board meetings during the year and two Special Board meetings.
Board meeting membership and attendance for the year ended 31 December 2015

	January	February	March	May	June	August	October	December	Percentage attendance
James Mworia	√	√	√	√	√	√	√	√	100%
Polycarp Igathe*	N/A	X	X	X	X	√	√	√	43%
Mary Ann Musangi	√	√	x	√	√	√	√	√	87.5%
Kimanthi Mutua	√	√	√	√	x	√	√	√	87.5%
Tom Kariuki	√	√	√	√	√	√	√	√	100%
Donald B Kipkorir	√	√	X	√	√	√	√	√	87.5%
Catherine Mturi-Wairi	√	√	X	X	√	√	√	√	75%
Titus Karanja**	N/A	N/A	N/A	N/A	N/A	√	√	√	100%
Albert Ruturi***	√	√	√	√	√	N/A	N/A	N/A	100%
Average									**86.72%**

* Appointed on 19 February 2015
** Appointed on 1st July 2015
*** Retired on 31st December 2015

Board Evaluation

In line with the requirements of the Bank's Corporate Governance Policy and the relevant prudential guideline issued by the CBK, each member of the Board (including the Chairman) conducts a peer as well as self-evaluation of the Board and the returns made to the CBK. In 2015, the board conducted Board evaluation and results discussed with the board. Management was also involved in evaluating Directors performance.

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 in its commitment to best practice. Additionally, the Bank prepares its financial statements in accordance with International Financial Reporting Standards (IFRS).

SHAREHOLDERS

Rights Issue

The Annual General meeting held in 2015 approved injection of an additional Ksh..1,700,000,000/= by way of rights issue to shareholders. The Board ALCO committee approved allotment of 975,765 shares to the shareholders. The request to take up the shares was forwarded to shareholders with a payment period of one year from the date of the AGM. Two shareholders (Centum Investment Company Limited and Bakki Holdco Limited) have taken up and paid up in full the rights issue.

STATEMENT ON CORPORATE GOVERNANCE (CONTINUED)

Shareholding structure post right issue

No.	Name and postal address	Number of shares held	% shareholding	Comments *
1.	Bakki HoldCo Limited. P.O Box 10518-00100 Nairobi	2,144,497	65.9%	Allotted 642,867 on 2nd October 2015. **All paid for**
2.	K-Rep Group Limited P.O. Box 39312 – 00623 Nairobi	716,099	22%	Allotted 214,669 on 2nd October 2015. All unpaid for
3.	KWA Multipurpose Corporation P.O. Box 39312 – 00623 Nairobi	204,757	6.3%	Allotted 61,381 on 2nd October 2015. All unpaid for
4.	Centum Investment Company Limited P.O Box 10518-00100 Nairobi	53,984	1.7%	Allotted 16,183 on 2nd October 2015. **All paid for**
5.	Bethuel Kiplagat** P.O Box 76621-00508 Nairobi	11,770	0.4%	Allotted 3,529 on 2nd October 2015. **Not taken up**
6.	Kimanthi Mutua *** P.O Box 15333-00599 Nairobi	30,047	0.9%	Allotted 9,008 on 2nd October 2015. All unpaid for
7.	Mwenda Thiribi P.O Box 51270-00200 Nairobi	11,769	0.4%	Allotted 3,528 on 2nd October 2015. All unpaid for
8.	Aleke Dondo P.O Box 15140-00509	9,276	0.3%	Allotted 2,781 on 2nd October 2015. All unpaid for
9.	Francis Kihiko P.O Box 55738-00200 Nairobi	12,669	0.4%	Allotted 3,798 on 2nd October 2015. All unpaid for
10.	Anthony Kamau Wainaina P.O Box 47973 Nairobi	12,692	0.4%	Allotted 3,805 on 2nd October 2015. All unpaid for
11.	Judith Mbula P.O Box 39312-00603 Nairobi	7,133	0.2%	Allotted 2,138 on 2nd October 2015. All unpaid for
12.	Kabiru Kinyanjui P.O Box 30197 Nairobi	17,454	0.5%	Allotted 5,232 on 2nd October 2015. All unpaid for
13.	Sara Talaso Bonaya P.O Box 41842-00100 Nairobi	22,129	0.7%	Allotted 6,634 on 2nd October 2015. All unpaid for
14	Francis Munyao Kinyumu P.O Box 8672-00100	714	0.0%	Allotted 214 on 2nd October 2015. All unpaid for
	Total	**3, 254, 990**	**100%**	

* All the rights issue shares were allotted to the shareholders, with a payment period of one year from the date of the AGM, after which the rights will be forfeited.
** Shareholder has declined to take up the allotted shares
*** Director interest

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 as at the end of the financial year and of the Bank's profit or loss for that year. It also requires the directors to ensure that the Bank maintains proper accounting records that disclose, with reasonable accuracy, the financial position of the Bank. The directors are also responsible for safeguarding the assets of the Bank.

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

i. Designing, implementing and maintaining internal control as they determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
ii. Selecting and applying appropriate accounting policies;
iii. Making accounting estimates and judgments that are reasonable in the circumstances.

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

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

Approved by the Board of directors on 14th March 2016 and signed on its behalf by:

--	---
Director	Director

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF SIDIAN BANK LIMITED

pwc

Report on the financial statements

We have audited the accompanying financial statements of Sidian Bank Limited (the "Bank") set out on pages 21 to 64. These financial statements comprise the statement of financial position at 31 December 2015, and the statements of comprehensive income, changes in equity and 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 and fair presentation of these financial statements in accordance with International Financial Reporting Standards and with the requirements of the Kenyan Companies Act and for such internal control, as the directors determine necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

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

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
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T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke
Partners: A Eriksson K Muchiru M Mugasa F Muriu P Ngahu A Murage S N Ochieng' R Njoroge B Okundi K Saiti R Shah

Report on other legal requirements

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

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

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge – P/No 1244.

Certified Public Accountants
Nairobi

31 March 2016


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Status
Check only one box.
Exemptions
6a
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FINANCIAL STATEMENTS

STATEMENT OF COMPREHENSIVE INCOME

	Notes	2015 Shs'000	2014 Shs'000
Interest income	5	2,726,530	2,413,764
Interest expense	6	(1,069,641)	(753,312)
Net interest income		1,656,889	1,660,452
Credit impairment charge	12	(188,901)	(93,480)
Net interest income after credit impairment charge		1,467,988	1,566,972
Net fees and commission income	7	560,913	554,667
Gains on foreign exchange dealings	8	52,363	27,477
Other income	9	2,784	3,956
Non funded income		616,060	586,100
Net operating income		2,084,048	2,153,072
Operating expenses	10	(1,564,315)	(1,424,011)
Profit before income tax		519,733	729,061
Income tax expense	13	(147,413)	(215,017)
Profit for the year		372,320	514,044
Other comprehensive income			
Items that will not be subsequently reclassified to profit or loss			
Revaluation surplus on property, net of deferred income tax	28	-	50,039
Other comprehensive income		-	50,039
Total comprehensive income		372,320	564,083
Earnings per share			
Basic and diluted	14	159.52	225.56

The notes on pages 25 to 64 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	2015 Shs'000	2014 Shs'000
Cash and balances with Central Bank of Kenya	15	1,469,805	1,720,273
Deposits and balances due from banking institutions	16	1,509,158	948,550
Investments	17	2,361,914	1,868,105
Loans and advances to customers	18(a)	12,519,387	10,453,714
Other assets	19	426,859	295,143
Current income tax	13 (a)	90,367	-
Property and equipment	20	373,669	364,540
Intangible assets	21	295,333	106,466
Deferred income tax	22	60,064	44,648
Total Assets		19,106,556	15,801,439
EQUITY AND LIABILITIES			
Liabilities			
Customer deposits	23 (a)	13,379,556	12,065,178
Deposits due to banking Institutions	23 (b)	831,411	-
Borrowings	24	642,123	992,207
Other liabilities	25	415,981	277,449
Current income tax	13 (a)	-	34,830
		15,269,071	13,369,664
EQUITY			
Share capital	26	1,469,137	1,139,612
Share Premium		703,865	-
Retained earnings	27	1,582,617	1,197,733
Revaluation reserve	28	69,338	70,613
Regulatory reserve	29	12,528	23,817
Total Equity		3,837,485	2,431,775
TOTAL EQUITY AND LIABILITIES		19,106,556	15,801,439

The financial statements were approved by the Board of Directors on 14th March 2016 and were signed on its behalf by:

………………………………… Director ………………………………….. Director

………………………………….. Director ……………………………….Secretary

STATEMENT OF CHANGES IN EQUITY

	Notes	capital Shs'000	Share premium Shs'000	Revaluation reserve Shs'000	Retained earnings Shs'000	Regulatory reserve Shs'000	Total Shs'000
Year ended 31 December 2014							
At start of year		1,139,612	-	20,807	678,309	28,864	1,867,592
Total comprehensive income for the year:							
Profit for the year		-	-	-	514,044	-	514,044
Other comprehensive income		-	-	50,039	-	-	50,039
		-	-	50,039	514,044	-	564,083
Transfer of excess depreciation		-	-	(333)	333	-	-
Deferred tax on transfer of excess depreciation		-	-	100	-	-	100
Transfer to regulatory reserve	29	-	-	-	5,047	(5,047)	-
At end of year		1,139,612	-	70,613	1,197,733	23,817	2,431,775
Year ended 31 December 2015							
At start of year		1,139,612	-	70,613	1,197,733	23,817	2,431,775
Additional share capital		329,525	703,865				1,033,390
Total comprehensive income for the year:							
Profit for the year		-	-	-	372,320	-	372,320
Other comprehensive income		-	-	-	-	-	-
		-	-	-	372,320	-	372,320
Transfer of excess depreciation		-	-	(1,821)	1,821	-	-
Deferred tax on transfer of excess depreciation		-	-	546	(546)	-	-
Transfer to regulatory reserve	29	-	-	-	11,289	(11,289)	-
At end of year		1,469,137	703,865	69,338	1,582,617	12,528	3,837,485

The notes on pages 25 to 64 are an integral part of these financial statements

STATEMENT OF CASH FLOW

	Notes	2015 Shs'000	2014 Shs'000
OPERATING ACTIVITIES			
Cash generated from operating activities	30 (a)	800,150	1,576,815
Tax paid		(288,026)	(295,506)
Net cash flows from operating activities		512,124	1,281,309
INVESTING ACTIVITIES			
Purchase of investments	17	(1,830,166)	-
Proceeds on disposal of investments	17	1,385,755	303,619
Purchase of property and equipment	20(a)	(118,118)	(33,032)
Purchase of intangible assets	21	(237,911)	(45,437)
Net cash flows (used in) / generated from investing activities		(800,440)	225,150
FINANCING ACTIVITIES			
Loan received		-	300,000
Loan repaid		(434,933)	(469,063)
Proceeds from issue of additional capital		1,033,390	-
Net cash generated from / (used in) financing activities		598,457	(169,063)
Net increase in cash and cash equivalents		310,140	1,337,396
Cash and cash equivalents at start of year		2,668,823	1,331,427
Cash and cash equivalents at end of year	30 (b)	2,978,963	2,668,823

The notes on pages 25 to 64 are an integral part of these financial statements.

NOTES
1. CORPORATE INFORMATION

1. CORPORATE INFORMATION

Sidian Bank Limited formerly K-Rep Bank (the "Bank") is incorporated and domiciled in Kenya. The address of the Bank's registered office is:

K-Rep Centre,
Wood Avenue, Kilimani
P O Box 25363 - 00603
Nairobi.

The Bank is licensed under the Kenyan Banking Act (Chapter 488), and continues to offer retail banking and related services with focus on micro, small and medium enterprises.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

(a) Basis of measurement

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

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

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

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

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

NOTES (CONTINUED)
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

(c) Changes in accounting policies and disclosures

New standards, amendments and interpretations adopted by the Bank

A number of amendments to standards arising from the annual improvement to IFRSs became effective for the first time in the financial year commencing 1 January 2015 and none of them had an impact on the Bank's financial statements.

IFRS 13 confirms that short-term receivables and payables can continue to be measured at invoice amounts if the impact of discounting is immaterial.

IFRS 13 – clarifies that the portfolio exception in IFRS 13 (measuring the fair value of a group of financial assets and financial liabilities on a net basis) applies to all contracts within the scope of IAS 39 or IFRS 9

IAS 16 and IAS 38 – clarifies how the gross carrying amount and accumulated depreciation are treated where an entity measures its assets at revalued amounts

Amendments to IAS 19,'Defined Benefit Plans: Employee Contributions'. Effective 1 July 2014. The amendments clarify the accounting for defined benefit plans that require employees or third parties to contribute towards the cost of the benefits. Under the previous version of IAS 19, most entities deducted the contributions from the cost of the benefits earned in the year the contributions were paid. However, the treatment under the 2011 revised standard was not so clear. It could be quite complex to apply, as it requires an estimation of the future contributions receivable and an allocation over future service periods. To provide relief, changes were made to IAS 19. These allow contributions that are linked to service, but that do not vary with the length of employee service (e.g. a fixed % of salary), to be deducted from the cost of benefits earned in the period that the service is provided. Therefore many entities will be able to (but not be required) continue accounting for employee contributions using their existing accounting policy

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2015 are not material to the Bank.

New and revised standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these financial statements. None of these is expected to a significant effect on the financial statements of the Bank, except the following

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued on July 2014. It replaces the guidance in IAS 30 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurements model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through profit or loss. The basis of classification depends on the entity's model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39.

For financial liabilities there were no changes to the classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management

New and revised standards and interpretations not yet adopted (continued)

purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is yet to assess the full impact of IFRS 9.

IFRS 15, 'Revenue from contracts with customers', deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard is effective for annual periods beginning on or after 1 January 2017, and replaces IAS 11 and IAS 18.The Bank is yet to assess the full impact of IFRS 15.

IAS 1, 'Presentation of financial statements' These amendments are as part of the IASB initiative to improve presentation and disclosure in financial reports. Effective for annual periods beginning on or after 1 January 2016.
Annual improvements 2014. These set of amendments, effective 1 January 2016, impacts 4 standards:

» IFRS 5, 'Non-current assets held for sale and discontinued operations' regarding methods of disposal.
» IFRS 7, 'Financial instruments: Disclosures', (with consequential amendments to IFRS 1) regarding servicing contracts.
» IAS 19, 'Employee benefits' regarding discount rates.
» IAS 34, 'Interim financial reporting' regarding disclosure of information

IFRS 16, 'Leases'. After ten years of joint drafting by the IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. In response to concerns expressed about the cost and complexity to apply the requirements to large volumes of small assets, the IASB decided not to require a lessee to recognise assets and liabilities for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. One of the implications of the new standard is that there will be a change to key financial ratios derived from a lessee's assets and liabilities (for example, leverage and performance ratios).IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Foreign currency translation

(a) Functional and presentation currency

The accounting records are maintained in the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya Shillings, which is the Bank's presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand.

(b) Transactions and balances

Transactions in foreign currencies during the year are translated into the functional currency using the exchange rates prevailing at the dates of the transaction or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated at the closing rate as at the reporting date.

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

NOTES (CONTINUED)
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Foreign currency translation (continued)

(b) Transactions and balances (continued)

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

2.3 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are classified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in amounts due to Central Bank of Kenya, due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate.

Securities purchased from Central Bank of Kenya under agreements to resell ('reverse repos') are disclosed separately as they are purchased and are not negotiable/discounted during their tenure. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets and liabilities

2.4.1 Financial assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables, held to maturity and available for sale financial assets. The directors determine the classification of its financial assets at initial recognition. The Bank uses trade date accounting for regular way contracts and when recording financial asset transactions.

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.
A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

» the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
» the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
» the financial assets consists of debt host and embedded derivatives that must be separated.

Financial assets at fair value through profit or loss are carried at fair value. Purchases and sales of financial assets at fair value through profit or loss are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset. Fair value changes relating to financial assets designated at fair value through profit or loss are recognized in the statement of profit or loss in the year in which they arise.

The Bank did not have any financial assets in this class at 31 December 2015 (2014: Nil).

(b) Loans and receivables

Loans and receivables are non – derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

» those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; or
» those that the Bank upon initial recognition designates as available–for–sale; or

2.4 Financial assets and liabilities (Continued)

2.4.1 Financial assets (Continued)

(b) Loans and receivables (Continued)

- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

(c) Held to maturity investments

Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors may have positive intention and ability to hold to maturity, other than:

- those that the Bank upon initial recognition designates as at fair value through profit or loss;
- those that the Bank designates as available for sale; and
- those that meet the definition of loans and receivables.

Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

(d) Available for sale financial assets

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

Available for sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in other comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income is recognised in the statement of profit or loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognised in the statement of profit or loss.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities represents mainly deposits from banks and customers and other liabilities. Such financial liabilities are initially recognized at fair value and subsequently measured at amortised costs.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes from Bloomberg and Reuters.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indicators that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants.

The Bank uses widely recognised valuation models for determining fair values of government securities. For these financial instruments, inputs into models are generally market-observable.

NOTES (CONTINUED)
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Financial assets and liabilities (Continued)

2.4.3 Determination of fair value (Continued)

The fair values of the Bank's financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual re-pricing or maturity dates. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the company at the reporting date.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair values of contingent liabilities correspond to their carrying amounts.

2.4.4 Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4.5 Classes of financial instruments

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

Category (as defined by IAS 39)	Class (as determined by the Bank)			Subclasses
Financial assets and liabilities	Loans and receivables	Deposits and balances due from banking institutions		
		Loans and advances to customers	Loans to individuals retail – micro and	Overdrafts
				Term loans
			Loans to corporate customers	Large corporate customers
				Others
		Items in the course of collection		
	Held to maturity investments	Investments	Government securities	Treasury bills
				Treasury bonds
	Financial liabilities at amortised cost	Deposits and balances due to banking institutions		
		Deposits from customers	Individual (retail – micro and SME)	
			Corporate customers	
		Items in the course of collection		
Off- balance sheet financial Instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

NOTES (CONTINUED)
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

» significant financial difficulty of the issuer or obligor;
» a breach of contract, such as a default or delinquency in interest or principal payments;
» the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
» it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
» the disappearance of an active market for that financial asset because of financial difficulties; or
» observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

i. adverse changes in the payment status of borrowers in the portfolio; and
ii. national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between 1 and 6 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instrument's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Bank may measure impairment on the basis of an instrument's fair value using an observable market price.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable

NOTES (CONTINUED)
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Impairment of financial assets (Continued)

(a) Assets carried at amortised cost (Continued)

data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to customers are included in credit impairment charges. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the statement of profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of profit or loss.

(b) Assets classified as available for sale

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of profit or loss. Impairment losses recognised in the statement of profit or loss on equity instruments are not reversed through the statement of profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of profit or loss.

2.6 Offsetting of financial instruments

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

2.7 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less, including: cash and non-restricted balances with the Central Bank of Kenya, Treasury and other eligible bills, and amounts due from other banks. Cash and cash equivalents excludes the cash reserve requirement held with the Central Bank of Kenya.

2.8 Property and equipment

Property and equipment are stated at historical cost less depreciation.

Depreciation is calculated on the straight line basis to allocate their cost less their residual values over their estimated useful lives, as follows:

• Office premises	50 years
• Office improvements	8 years
• Furniture, fittings and equipment	8 years
• Motor vehicles	4 years
• Computer equipment	3-5 years

Freehold land is not depreciated

NOTES (CONTINUED)
2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Property and equipment (Continued)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

2.9 Intangible assets - software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years.

Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

2.10 Impairment of non – financial assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably.

Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

2.11 Employee benefits

(a) Retirement benefit obligations

The Bank and all its employees contribute to the National Social Security Fund, which is a defined contribution scheme. A defined contribution plan is a retirement benefit plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The Bank's contribution to the defined contribution scheme is charged to profit or loss in the year in which it falls due. The Bank has no further obligations once the contribution is paid.

2.12 Income tax

(a) Current income tax

Income tax expense is the aggregate of the charge to the income statement in respect of current income tax and deferred income tax. Tax is recognised in the income statement unless it relates to items recognised directly in equity, in which case it is also recognised directly in equity.

Current income tax is the amount of income tax payable on the taxable profit for the year determined in accordance with the Kenyan Income Tax Act.

(b) Deferred income tax

Deferred income tax is recognised, using the liability method, for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. However, the deferred income tax is not accounted for if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

NOTES (CONTINUED)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared. Proposed dividends are shown as a separate component of equity until declared.

2.14 Share capital

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

2.15 Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in profit or loss using the effective interest method.
The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.16 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for advances are credited to income upon first utilisation of the facility and are charged on an annual basis.

2.17 Dividend income

Dividends are recognised in profit or loss when the Bank's right to receive payment is established.

2.18 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

2.19 Derivative financial instruments

Derivatives, which comprise solely forward foreign exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and are subsequently measured at fair value. The fair value is determined using forward exchange market rates at the balance sheet date or appropriate pricing models. The derivatives do not qualify for hedge accounting. Changes in the fair value of derivatives are recognised immediately in the statement of profit or loss.

NOTES (CONTINUED)
3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

3 SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities at the date of the financial statements and the income and expenses during the reporting period. Although these estimates are based on the directors' best knowledge of current events and actions, actual results ultimately may differ from those estimates. Estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Estimates and assumptions:

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Property and equipment

Directors make estimates in determining the useful lives and residual values of property and equipment and intangible assets. The depreciation rates used are set out in the accounting policy for property and equipment (note 2.8). These estimates 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 prevailing circumstances.

The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

Judgements:

In the process of applying the Bank's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment losses on loans and advances

The Bank reviews its loans and advances at each reporting date to assess whether an allowance for impairment should be recognised in profit or loss. In particular, judgement by the directors is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on the assumptions about a number of factors and may result to future changes in impairment charge.

In addition to specific allowances against individual significant loans and advances, the bank makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This takes into consideration such factors as any deterioration in industry, technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

Impairment of non-financial assets

The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Indefinite life intangibles are tested for impairment annually and at other times when such indicators exist. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre–tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

4 FINANCIAL RISK MANAGEMENT

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

a) Credit risk
b) Liquidity risk
c) Market risk

RISK MANAGEMENT POLICIES

Risk is an integral part of the banking business and the Bank aims at the delivery of superior shareholder value by achieving an appropriate trade-off between risk and returns. The Bank's risk management strategy is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the industry best practices. The risk management function at the Bank is supported by a Board Audit and Risk Committee using a comprehensive range of quantitative tools. The Board Audit and Risk Committee is responsible for the assessment, management and mitigation of risk in the Bank. This committee is accountable to the Board of directors. The Internal Audit department independently reviews the risk on a Periodic basis and reports to the Board of Directors.

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

Risk management is carried out by the compliance department under policies approved by the Board of Directors. The compliance department identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk and derivative and non-derivative financial instruments.

a) Credit risk

Credit risk is the risk that a borrower is unable to meet its financial obligations to the lender, leading to the lender's financial loss. The Bank measures, monitors and manages credit risk for each borrower and also at the portfolio level. The Bank has a standardised credit approval process, which includes a well-established procedure of comprehensive credit appraisal and rating. The Bank has developed internal credit rating methodologies for rating obligors as well as for products and facilities. The credit risk attached to every borrower is reviewed at least annually and for higher risk credits and large exposures at shorter intervals.

Sector knowledge has been institutionalised across the Bank through the availability of sector-specific information from the various publications of the Central Bank of Kenya and of the Ministry of Finance and is included in the Credit Risk Policy. Industry knowledge is constantly updated through field visits, interactions with clients, regulatory bodies and industry experts. In respect of the retail credit business, the Bank has a system of centralised approval of all products and policies and monitoring of the retail portfolio.

The Bank's credit risk is primarily attributable to its loans and advances. The Bank structures the level of credit risk it undertakes by placing limits on amounts of risk accepted in relation to one borrower or a group of borrowers. Such risks are monitored on a revolving basis and are subject to annual or more frequent review. Limits on the level of credit risk by product, industry sector and by region are approved quarterly by the Board of directors.

The financial risk management objectives and policies are as outlined below:

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate guarantees. Credit risks are spread over a diversity of microfinance, personal and commercial customers. However, a significant portion of the loans and advances are under microfinance where group guarantees are applicable.

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

an important risk for the Bank's business. Management therefore carefully manages the exposure to credit risk. Credit exposures arise principally in lending and investment activities. There is also credit risk in financial instruments not recognised in the statement of financial position, such as loan commitments and letters of credit.

The exposure to any one borrower is further restricted by sub-limits covering exposures recognised and not recognised in the statement of financial position.

Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit, which represent irrevocable assurance that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risks as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions are collateralised by cash collateral and the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitment to extend credit represents unused portions of authorisation to extend credit in the form of loans guarantees or letters of credit. With respect to credit risk on commitments to extend credit the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The Bank monitors the term to maturity of credit commitment because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Maximum exposure to credit risk before collateral held

	Notes	2015 Shs'000	%	2014 Shs'000	%
Credit exposures					
Items recognised in the statement of financial position					
Balances with Central Bank of Kenya	15	954,029	5	1,198,909	8
Other assets	19	426,859	2	295,143	2
Placements with other banks	16	1,509,158	8	948,550	6
Loans and advances to customers	18(a)	12,519,387	67	10,453,714	71
Investments held to maturity	17	2,361,914	13	1,868,105	12
		17,771,347		14,764,421	
Items not recognised in the statement of financial position:					
Letters of credit, guarantees and performance bonds		345,324	1	138,707	1
Foreign currency swaps		742,246	4	-	
		18,858,917	100	14,903,128	100

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2015 and 31 December 2014 without taking account of any collateral held or other credit enhancement attached. For assets recognised in the statement of financial position, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 67% of the total maximum exposure is derived from loans and advances to customers (2014: 71%). 8% represents placement with other banks (2014: 6%), while investments in debt securities was at 13% (2014: 12%).

Loans and advances to customers are secured by collateral in the form of charges over cash, land and building and/or plant and machinery or corporate guarantees.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities.

The Bank's internal risk ratings scale is as follows:

Grade 1 - Normal
Grade 2 - Watch
Grade 3 - Sub-standard
Grade 4 - Doubtful
Grade 5 - Loss

Impairment and provisioning policies

The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loans and advances portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. The second component is in respect of losses that have been incurred but have not been identified in relation to the loans and advances portfolio that is not specifically impaired. The impairment provision shown in the statement of financial position at year-end is derived from each of the five internal rating grades. However, the impairment provision is composed largely of the bottom three grades.

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

The table below summarise the Bank's loans and advances and the associated impairment provision:

	2015 Shs'000	2014 Shs'000
Grade 1- Normal	10,800,621	10,043,646
Grade 2- Watch	1,026,813	324,881
Grade 3- Substandard	510,389	116,582
Grade 4- Doubtful	694,362	153,835
Grade 5- Loss	402,879	506,006
	13,435,064	11,144,950
Less: allowance for impairment	(915,677)	(691,236)
Net	12,519,387	10,453,714

Grade 1 - Normal

All loans are performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by the current sound net worth and paying capacity of the borrower.

Grade 2 - Watch

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. The gross amounts of loans and advances that were past due but not impaired were as follows:

	2015 Shs'000	2014 Shs'000
Past due up to 30 days	535,313	141,541
Past due 31- 60 days	223,184	95,716
Past due 61 - 90 days	182,050	84,654
Renegotiated 1 - 90 days	86,266	2,970
	1,026,813	324,881

Impaired-Grade 3, 4 & 5-Substandard, Doubtful risk and loss

	2015 Shs'000	2014 Shs'000
Grade 3 - Substandard	510,389	116,582
Grade 4 - Doubtful	694,362	153,835
Grade 5 - Loss	402,879	506,006
Total	1,607,630	776,423

Individually assessed impaired loans and advances

	2015 Shs'000	2014 Shs'000
Micro	327,888	183,976
SME	1,279,742	592,447
	1,607,630	776,423
Fair value of collateral held	1,956,583	325,224

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

a) Credit risk (continued)

Collateral on Loans and Advances

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

Analysis of gross loans and advances by performance

	2015 Shs '000	2014 Shs '000
Land and Building	9,111,623	5,787,586
Cash and other pledges	1,565,572	1,633,253
Motor Vehicle	1,469,987	465,662
Debenture and Guarantees	602,876	578,759
Other Chattels	1,411,826	829,894
Sub total	14,161,884	9,295,154

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired or when a borrower has cleared a loan and would like to obtain another facility at the time when the validity of the valuation has since expired.

Analysis of gross loans and advances by performance

	2015 Shs '000	2014 Shs '000
Current	10,800,621	10,043,646
1-30 days	535,313	141,541
31-60 days	223,184	95,716
61-90 days	182,050	84,654
91-180 days	162,041	113,705
181-360 days	677,191	134,914
Over 360 days	309,987	396,380
Sub total	12,890,387	11,010,556
Renegotiated/ rescheduled loans		
1-90 days	86,266	2,970
Over 90 days	458,411	131,424
Sub total	544,677	134,394
Grand total (note 18 (b))	13,435,064	11,144,950

According to Central Bank of Kenya prudential guidelines, loans and advances overdue by above 90 days are considered non-performing.

The provisions made amount to 6.8% (2014: 6.3%) of gross advances. These provisions are considered adequate in view of the realizable value of securities held.

Renegotiated/rescheduled loans are tracked and monitored the same way classified loans are, whether they are performing normally or not.

b) Liquidity risk

The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments as they fall due and to replace funds when they are withdrawn. Liquidity risk is addressed through the following measures:

» The Bank enters into lending contracts subject to availability of funds.
» The Bank has an aggressive strategy aimed at increasing the customer deposit base.
» The Bank borrows from the market through interbank transactions with other banks for short term liquidity requirements.
» The Bank invests in short term liquid instruments, which can easily be sold in the market when the need arises.

The Asset and Liability Committee (ALCO) role in liquidity is to manage the day to day treasury operations, ascertain adequacy of funds to meet the bank's obligations, advises on pricing of assets and liabilities, prepares cash flow projections to ensure the bank's liquidity is within set limits by CBK, monitors maturities of assets and liabilities and finally advises on placements and liquidations as appropriate. The bank also ensures the CBK cash and liquidity ratios are maintained. The table below represents cash flows payable by the bank under non-derivative financial liabilities by remaining periods to maturity at the reporting date.

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

b) Liquidity risk (Continued)

Expected maturity dates	1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2015								
Financial assets								
Cash and balances with Central Bank of Kenya	1,469,805	-	-	-	-	-	-	1,469,805
Investments	499,583	6,165	18,374	6,376	19,127	306,289	1,506,000	2,361,914
Deposits and balances due from banking institutions	1,509,158	-	-		-	-	--	1,509,158
Loans and advances to customers	816,646	1,514,990	201,654	3,051,547	1,946,521	4,342,931	645,098	12,519,387
Other assets	66,099	35,024	94,510	66,673	76,016	21,949	66,588	426,859
Total financial assets	4,361,291	1,556,179	314,538	3,124,596	2,041,664	4,671,169	2,217,686	18,287,123
Financial liabilities								
Customer deposits	4,858,963	5,517,047	688,814	122,035	56,671	2,133,186	2,840	13,379,556
Deposits due to banks	831,411							831,411
Borrowings	-	-	164,682	106,859	370,582	-	-	642,123
Other liabilities	108,829	93,039	34,877	73,433	105,803	-	-	415,981
Total financial liabilities	5,799,203	5,610,086	888,373	302,327	533,056	2,133,186	2,840	15,269,071
Net liquidity gap	(1,437,912)	(4,053,907)	(573,835)	2,822,269	1,508,608	2,537,983	2,214,846	3,018,052
Financial guarantees	-	16,554	168,587	160,083	100	-	-	345,324
Foreign currency swaps	428,696	207,200	106,350	-	-	-	-	742,246

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b) Liquidity risk (Continued)

Expected maturity dates	1 month Shs'000	1 - 3 months Shs'000	3 – 6 months Shs'000	6 - 12 months Shs'000	1 - 3 years Shs'000	3 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2014								
Financial assets								
Cash and balances with Central Bank of Kenya	1,720,273	-	-	-	-	-	-	1,720,273
Investments	-	-	-	-	-	300,000	1,568,105	1,868,105
Deposits and balances due from banking institutions	948,550	-	-		-	-	-	948,550
Loans and advances to customers	902,840	144,736	332,341	1,226,273	3,833,992	2,822,074	1,191,458	10,453,714
Other assets	2,002	27,874	72,208	66,673	76,016	21,949	28,421	295,143
Total financial assets	3,573,665	172,610	404,549	1,292,946	3,910,008	3,144,023	2,787,984	15,285,785
Financial liabilities								
Customer deposits	4,648,507	3,257,369	903,466	491,493	635,876	2,127,585	882	12,065,178
Borrowings	-	-	100,604	264,601	627,002	-	-	992,207
Other liabilities	26,017	93,039	26,626	16,737	115,030	-	-	277,449
Total financial liabilities	4,674,524	3,350,408	1,030,696	772,831	1,377,908	2,127,585	882	13,334,834
Net liquidity gap	(1,100,859)	(3,177,798)	(626,147)	520,115	2,532,100	1,016,438	2,787,102	1,950,951
Financial guarantees	3,986	29,881	32,180	72,660	-	-	-	138,707

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk

The objective of the Bank's market risk management is to manage and control market risk exposures in order to optimize return on risk while maintaining a market profile consistent with the bank's mission.

Market risk is the risk that movements in market risk factors, including foreign exchange rates and interest rates will reduce the Bank's income or capital. A principal part of the Bank's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling) and the sensitivity of future earnings and capital to varying foreign exchange rates. The Bank aims, through its management of market risk, to mitigate the impact of prospective interest rate movements and foreign exchange fluctuations which could reduce future earnings and capital. The Bank monitors foreign exposure positions, ensures there is adequate foreign currency to meet obligations as well as takes corrective action if the exposure exceeds the set limits.

For simulation modelling, the Bank uses a combination of scenarios relevant to local businesses and local markets. These scenarios are used to illustrate the effect on the Bank's earnings and capital. The overall responsibility for managing market risk rests with the Asset and Liability Committee (ALCO). The compliance department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO).

The major market risk sensitivity analysis measurements techniques used to measure and control market risks are outlined below:

i) Currency risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Bank participates in the foreign currency market as a market maker and a market user.

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (Continued)

i) Currency risk (Continued)

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2015 and 31 December 2014.

At 31 December 2015	USD balances Shs'000	Euro balances Shs'000	GBP balances Shs'000	UGX balances Shs'000	Total balances Shs'000
Financial assets					
Cash and balances with CBK	63,378	4,384	3,284	70	71,116
Deposits and balances due from banking institutions	929,390	3,136	131,412	-	1,065,935
	992,768	7,520	134,696	70	1,135,054
Financial liabilities					
Customers deposits	284,910	6,172	13,035	-	304,117
	284,910	6,172	13,035	-	304,117
Net exposure	707,858	1,348	121,661	70	830,967
As at 31 December 2014					
Financial assets					
Cash and balances with CBK	13,478	1,015	2,796	23	17,312
Deposits and balances due from banking institutions	270,577	942	16,263	-	287,782
	284,055	1,957	19,059	23	305,094
Financial liabilities					
Customers deposits	299,443	273	8,916	-	308,632
	299,443	273	8,916	-	308,632
Net exposure	(15,388)	1,684	10,143	23	(3,538)

The bank has assets and liabilities in three major currencies. The most significant exposure arises from assets denominated in US dollar and the EURO. The following table demonstrates the sensitivity to reasonably possible change in the KShs/US dollar and KShs / Euro, with all other variables held constant, of the banks profit before tax.

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (Continued)

i) Currency risk (Continued)

	2015 Shs'000	2014 Shs'000
Shs/ US dollar		
Effect on profit before tax of a +/-5% change in exchange rates	35,393	769
Effect on equity of a +/-5% change in exchange rates	24,775	538
Shs / Euro		
Effect on profit before tax of a +/-5% change in exchange rates	67	84
Effect on equity of a +/-5% change in exchange rates	47	59

ii) Interest rate risk

The Bank is exposed to the risk that the value of a financial instrument will fluctuate due to changes in market interest rate. Interest rates on advances are either pegged to the Bank's base lending rate or Treasury bill rate. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed and variable interest rate instruments issued by the Central Bank of Kenya. Interest rates on customer deposits are negotiated between the Bank and the customer. The Bank has the discretion to change the rates in line with changes in market trends.

These measures minimise the Bank's exposure to interest rate risk.

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 projections make other assumptions including that all positions run to maturity.

Sensitivity Analysis

The sensitivity analysis on the income statement is the effect of the assumed changes in interest rates on loans and advances on the Bank's profit before income tax and for the year and equity.

	2015 Shs'000	2014 Shs'000
Effect on profit before tax of a +/-2% change in interest rates	33,138	33,209
Effect on profit before tax (%)	+/- 6.4%	+/- 4.71%
Effect on equity of a +/-2% change in interest rates	23,197	23,246
Effect on equity	+/- 0.6%	+/- 1.04%

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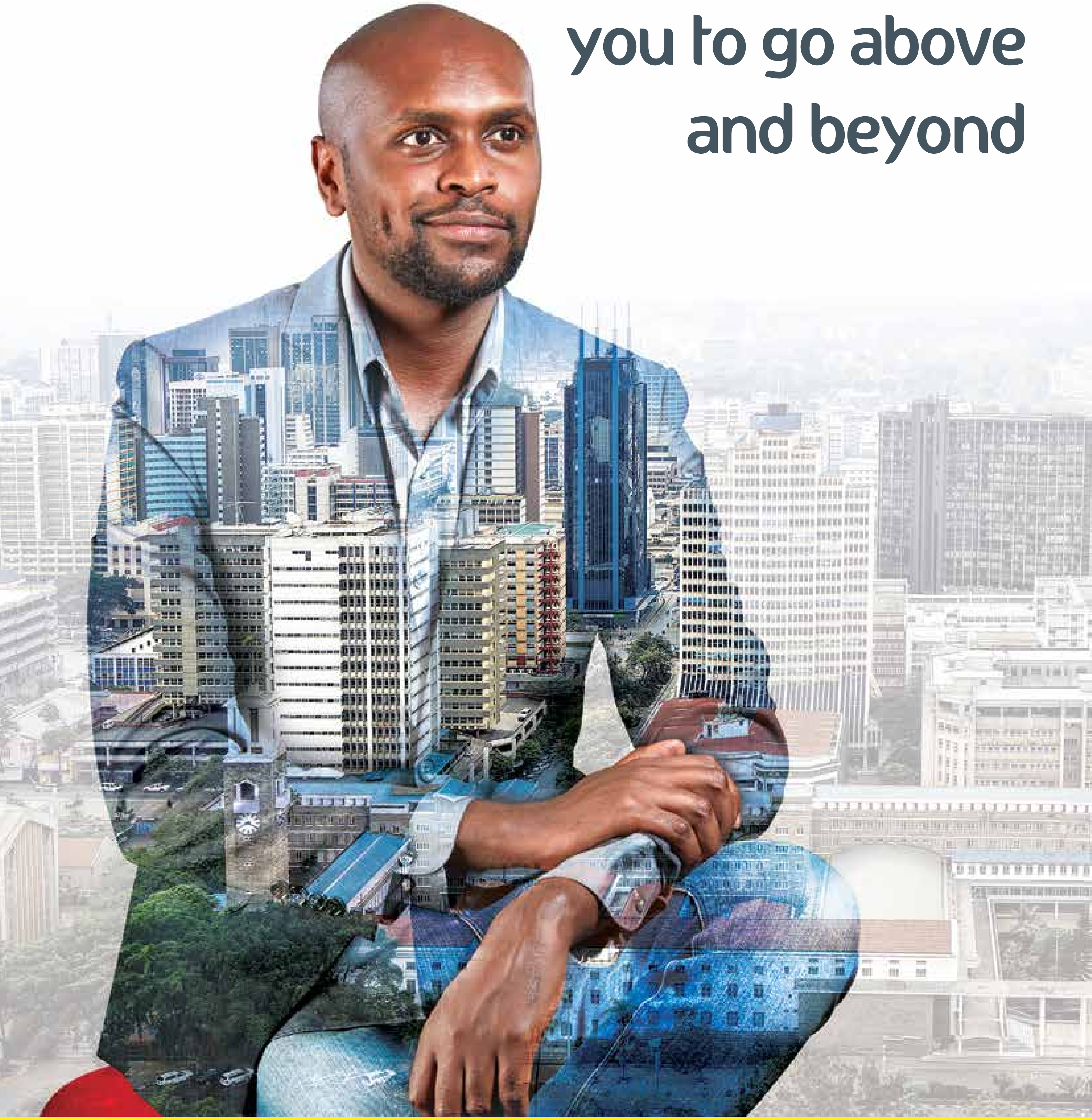


NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

c) Market risk (Continued)

ii) Interest rate risk (Continued)

The table below analysis the Bank's interest rate risk exposure on non-trading financial assets and liabilities. The bank's assets and liabilities are included at carrying amount categorised by the earlier of contractual re-pricing or maturity dates. The sensitivity computations assume that the financial assets maintain a constant rate of return from one year to the next. The bank bases its sensitivity analysis on the interest sensitivity gap.

2015	Up to 1 month Shs'000	1-3 months Shs'000	3-6 months Shs'000	6-12 months Shs'000	1-3 Years Shs'000	3-5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:									
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	-	-	1,469,805	1,469,805
Government securities	499,583	6,165	18,374	6,376	19,127	306,289	1,506,000		2,361,914
Deposits and balances due from banking institutions	375,000	-	-	-	-	-	-	1,134,158	1,509,158
Loans advances to customers	-	12,519,387	-	-	-	-	-	-	12,519,387
	874,583	12,525,552	18,374	6,376	19,127	306,289	1,506,000	2,603,963	17,860,264
Financial liabilities:									
Customer deposits	1,276,388	5,517,047	688,814	122,035	56,671	2,133,186	2,840	3,582,575	13,379,556
Deposits due to banks	831,411								831,411
Borrowings	-	-	164,682	106,859	370,582	-	-	-	642,123
	2,107,799	5,517,047	853,496	228,894	427,253	2,133,186	2,840	3,582,575	14,853,090
Total interest sensitivity gap	(1,233,216)	7,008,505	(835,122)	(222,518)	(408,126)	(1,826,897)	1,503,160	(978,612)	3,007,174

c) Market risk (Continued)

ii) Interest rate risk (Continued)

2014	Up to 1 month Shs'000	1-3 months Shs'000	3-6 months Shs'000	6-12 months Shs'000	1-3 Years Shs'000	3-5 years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:									
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	-	-	1,720,273	1,720,273
Government securities	-	-	-	-	-	300,000	1,568,105		1,868,105
Deposits and balances due from banking institutions	826,500	-	-	-	-	-	-	122,050	948,550
Loans advances to customers	-	10,453,714	-	-	-	-	-	-	10,453,714
	826,500	10,453,714	-	-	-	300,000	1,568,105	1,842,323	14,990,642
Financial liabilities:									
Customer deposits	2,087,662	3,257,369	903,466	491,493	635,876	2,127,585	882	2,560,845	12,065,178
Borrowings	-	-	100,604	264,601	627,002	-	-	-	992,207
	2,087,662	3,257,369	1,004,070	756,094	1,262,878	2,127,585	882	2,560,845	13,057,385
Total interest sensitivity gap	(1,261,162)	7,196,345	(1,004,070)	(756,094)	(1,262,878)	(1,827,585)	1,567,223	(718,522)	1,933,257

NOTES (CONTINUED)
4. FINANCIAL RISK MANAGEMENT (CONTINUED)

d) Capital Adequacy and Management

The Bank monitors the adequacy of its capital using ratios established by the Central Bank of Kenya. The ratios measure capital adequacy by comparing the bank's eligible capital with its assets in the statement of financial position, commitments not recognised in the statement of financial position, market and other risk positions at a weighted amount to reflect their relative risk.

The Bank manages its capital to ensure that it is a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance. The capital structure of the bank consists of debt which includes the borrowings, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

The Bank's Enterprise Risk Management committee reviews the capital structure on a semi-annual basis. As part of this review, the committee considers the cost of capital and the risks associated with each class of capital. Based on recommendations of the committee, the bank will balance its overall capital structure.

The Bank has 3 main capital objectives:

» To comply with the capital requirements set by the Central Bank of Kenya
» To safeguard the bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits of other stakeholders
» Maintain a strong capital base to support the developments of the business

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

The Central Bank of Kenya requires each bank to do the following:

» Hold the minimum level of regulatory capital of Shs 1Billion
» Maintain a ratio of total regulatory capital to the risk weighted assets plus risk weighted assets not recognized in the statement of financial position at or above the required minimum of 8%.
» Maintain core capital of not less than 10.5% (2014: 10.5%) of total deposit liabilities
» Maintain total capital of not less than 14.5% (2014: 14.5%) of risk-weighted assets plus risk-weighted items not recognised in the statement of financial position.

The Bank's total regulatory capital is divided into two tiers:

» Tier 1 capital (core capital): Share capital, share premium, plus retained earnings
» Tier 2 capital (supplementary capital): 25% (subject to prior approval) of revaluation reserves, subordinated debt not exceeding 50% of Tier 1 capital and hybrid capital instruments. Qualifying Tier 2 is limited to 100% of Tier 1 Capital.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighted according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 50%, 70% and 100%) are applied. Tier 1 capital consists of shareholders equity while Tier 2 capital consists of the bank's eligible long-term debt, 25% of Revaluation reserve and statutory reserves.

	2015 Shs'000	2014 Shs'000
Tier I Capital		
Share capital	1,469,137	1,139,612
Share premium	703,865	
Retained earnings	1,583,163	1,197,733
At 31 December	3,756,165	2,337,345
Tier II Capital		
Revaluation reserve	17,335	17,653
Regulatory reserve	12,528	23,817
Total regulatory capital	3,786,028	2,378,815
Risk Weighted Assets	15,340,370	11,571,533
Core capital to risk assets	24.5%	20.2%
Total capital to risk assets	24.7%	20.6%
Minimum total capital to risk assets ratio	14.5%	14.5%
Minimum core capital to risk assets ratio	10.5%	10.5%

NOTES (CONTINUED)

5 INTEREST INCOME

	2015 Shs'000	2014 Shs'000
Loans and advances	2,414,397	2,181,490
Government securities	284,199	222,708
Placements and overnight lending	27,934	9,566
	2,726,530	2,413,764
Portfolio analysis		
Interest on financial asset held at amortised cost	2,726,530	2,413,764

6 INTEREST EXPENSE

	2015 Shs'000	2014 Shs'000
Term deposits	856,508	632,937
Savings accounts	28,066	9,052
Placement & Overnight borrowings	100,218	30,207
Borrowed funds	84,849	81,116
	1,069,641	753,312
Portfolio analysis		
Interest on financial liability held at amortised cost	1,069,641	753,312

7 FEES AND COMMISSION INCOME

	2015 Shs'000	2014 Shs'000
Ledger related fees and commissions	86,298	131,177
Credit related fees and commissions	326,138	274,314
Transaction related fees	148,477	149,176
	560,913	554,667

Fees and commission include income attributed to Banc assurance of Shs. 3,136,000 (2014 Nil)

8 GAIN ON FOREIGN EXCHANGE

	2015 Shs'000	2014 Shs'000
Gain on foreign exchange dealings	52,363	27,477

Gains on foreign currency dealings arose from trading in foreign currency transactions and translation of foreign currency assets and liabilities to Kenya Shillings at year-end.

9 OTHER INCOME

	2015 Shs'000	2014 Shs'000
Other miscellaneous income	2,784	3,956

10 OPERATING EXPENSES

	2015 Shs'000	2014 Shs'000
Employee benefits (Note 11)	625,316	617,698
Directors' emoluments		
- Non-executive	14,079	11,196
- Executive	31,153	28,442
Auditors' remuneration	4,048	3,938
Depreciation on property and equipment (Note 20)	108,989	97,894
Amortisation of intangible assets (Note 21)	49,043	31,449
Deposit Protection Fund contributions	15,616	11,958
Rent	138,682	110,798
Telephone, connectivity and postage	71,241	56,790
Printing and stationery	39,567	44,867
Electricity and water	35,292	36,588
Marketing, promotion and public relations	14,961	36,079
Travelling expenses	34,365	26,529
Cleaning, repairs and maintenance	103,520	115,812
Insurances & security	75,885	70,951
Professional fees	103,183	46,046
Subscriptions	8,093	4,542
Licences	64,599	55,587
Other operating expenses	26,683	16,847
	1,564,315	1,424,011

NOTES (CONTINUED)

11 EMPLOYEE BENEFITS

	2015 Shs'000	2014 Shs'000
Salaries and allowances	525,252	500,902
Pension contributions	31,593	31,509
Defined contribution	1,292	1,320
National Social Security Fund	33,757	36,427
Staff medical expenses		
Staff welfare and training expenses	33,422	47,540
	625,316	617,698

Included in operating expenses & employee benefits are costs attributed to Banc assurance of Shs.3,681,434 (2014 Nil)

12 PROVISION FOR IMPAIRED LOANS AND ADVANCES

	2015 Shs'000	2014 Shs'000
Profit or loss:		
Provisions in the year	218,256	167,708
Bad debt recovery	(29,355)	(74,228)
	188,901	93,480
Statement of financial position:		
At start of year	622,130	506,435
Provisions in the year	218,257	167,708
Write - off in the year	(64,310)	(52,013)
Net provision	776,077	622,130
Suspended interest	139,600	69,106
At end of year	915,677	691,236

Suspended interest relates to unrecognised interest on non-performing loans. Interest income is not recognised for loans deemed non-performing.

13 TAXATION

	2015 Shs'000	2014 Shs'000
a) Statement of financial position:		
Current income tax:		
At start of year	(34,830)	(88,706)
Income tax expense	(162,829)	(241,630)
Paid during the year	288,026	295,506
At end of year	90,367	(34,830)
b) Profit or loss:		
Current income tax	162,829	241,630
Deferred income tax charge (Note 22)	8,581	1,181
Over provision of deferred income tax in prior year	(23,997)	(27,794)
	147,413	215,017

c) Reconciliation of tax expense to tax based on profit before income tax

	2015 Shs'000	2014 Shs'000
Profit before income tax	519,733	729,061
Tax at the applicable rate of 30%	155,920	218,718
Tax effect of expenses not deductible for tax	15,490	24,093
Over provision of deferred tax in prior years	(23,997)	(27,794)
Tax charge for the year	147,413	215,017

NOTES (CONTINUED)

14 EARNINGS PER SHARE

Earnings per share is calculated by dividing the profit attributable to equity holders of the bank by the weighted average number of ordinary shares in issue during the year.

	2015 Shs'000	2014 Shs'000
Profit for purposes of basic and diluted earnings per share (in Shs'000)	372,320	514,044
Number of shares		
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	2,334	2,279
Earnings per share - basic and diluted (Shs)	159.52	225.56

There were no potentially dilutive shares outstanding as at 31 December 2015 or 31 December 2014. Therefore, diluted earnings per share is the same as the basic earnings per share.

15 CASH AND BALANCES WITH CENTRAL BANK OF KENYA

	2015 Shs '000	2014 Shs '000
Cash in hand	515,776	521,364
Balances with Central Bank of Kenya	954,029	1,198,909
	1,469,805	1,720,273

Cash balances at Central Bank does earn interest at floating rates based on daily deposit rates and are available for use by the bank. No balances have been pledged as security.

16 DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2015 Shs '000	2014 Shs '000
Maturing within 30 days of the reporting date:		
Local currency	445,220	287,782
Foreign currency	1,063,938	660,768
	1,509,158	948,550

The weighted average effective interest rate for deposits due from banking institutions as at 31 December 2015 was 10.27% (2014 – 10%).

17 INVESTMENTS

	2015 Shs '000	2014 Shs '000
At amortised cost		
Held-to-maturity		
Treasury bills and bonds:		
- maturing within one year	530,498	-
- maturing after 1 year	1,831,416	1,868,105
	2,361,914	1,868,105

The movement in investments was as summarised below:

	2015 Shs '000	2014 Shs '000
At start of year	1,868,105	2,109,619
Additions	1,830,166	-
Interest income (accrued)	49,398	62,105
Disposal of investments on maturity	(1,385,755)	(303,619)
At end of year	2,361,914	1,868,105

The weighted average effective interest rate for treasury investments as at 31 December 2015 was 11.5% (2014: 8%).

NOTES (CONTINUED)

18 LOANS AND ADVANCES TO CUSTOMERS

	2015 Shs '000	2014 Shs '000
(a) Term loans	12,315,168	10,325,815
Overdrafts	1,119,896	819,135
Gross loans and advances	13,435,064	11,144,950
Provision for impaired loans and advances – (note 12)	(915,677)	(691,236)
	12,519,387	10,453,714
(b) Analysis of gross loans and advances by maturity		
Maturing within one year	2,793,043	2,778,520
Between two and three years	3,651,547	4,087,509
Over three years	6,990,474	4,278,921
	13,435,064	11,144,950

The aggregate amount of non-performing advances was Shs 1,607,629,842 (2014: Shs 742,130,000) against which specific provisions of Shs 658,375,417 (2014: Shs 507,334,000) have been made leaving a net balance of Shs 949,254,425 (2014: Shs 234,796,000) which is included in the statement of financial position in the loans and advances line item.

The weighted average effective interest rate on loans and advances as at 31 December 2015 was 20% (2014: 21%). The collateral held against these loans includes mortgages, motor vehicles, land and building, chattels, share certificates among other assets.

19 OTHER ASSETS

	2015 Shs'000	2014 Shs'000
Prepaid expenses	99,627	83,622
Travel and other advances	4,094	2,002
Rent and utility deposits	18,442	16,336
Balances with ATM agents	12,543	11,203
Unpaid insurance claims	27,022	5,647
Other receivables	265,131	176,333
	426,859	295,143

Other assets are non-interest bearing and are generally on 30-90 day terms. Other receivable includes deferred staff benefit derived from valuation of staff loans provided at below market rates of interest.

NOTES (CONTINUED)

20 (a) PROPERTY AND EQUIPMENT

Year ended 31 December 2015

	Freehold Land and buildings	Furniture and fittings	Motor Vehicles	Office Equipment and Computers	Renovations and refurbishment	Total
	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000	Shs' 000
COST /VALUATION						
At start of year	150,000	80,692	6,177	422,101	406,305	1,065,275
Additions	-	4,421	-	101,474	12,223	118,118
At end of year	150,000	85,113	6,177	523,575	418,528	1,183,393
DEPRECIATION						
At start of year		67,042	3,545	356,171	273,977	700,735
Charge for the year	3,000	5,198	1,003	61,434	38,354	108,989
At end of year	3,000	72,240	4,548	417,605	312,331	809,724
NET CARRYING AMOUNT						
At end of year	147,000	12,873	1,629	105,970	106,197	373,669

20 (b) PROPERTY AND EQUIPMENT

Year ended 31 December 2014

	Freehold Land and buildings Shs' 000	Furniture and fittings Shs' 000	Motor Vehicles Shs' 000	Office Equipment and Computers Shs' 000	Renovations and refurbishment Shs' 000	Total Shs' 000
COST /VALUATION						
At start of year	90,500	76,939	6,177	409,419	389,708	972,743
Additions	-	3,753		12,682	16,597	33,032
Revaluation surplus	59,500	-	-	-	-	59,500
At end of year	150,000	80,692	6,177	422,101	406,305	1,065,275
DEPRECIATION						
At start of year	9,772	61,140	2,542	306,878	234,493	614,825
Charge for the year	2,212	5,902	1,003	49,293	39,484	97,894
Reversal on revaluation	(11,984)	-	-	-	-	(11,984)
At end of year	-	67,042	3,545	356,171	273,977	700,735
NET CARRYING AMOUNT						
At end of year	150,000	13,650	2,632	65,930	132,328	364,540

The freehold land and building were revalued by Acumen Valuers Limited, as at 25th August 2014, on an open market value basis. There are no restrictions on the use on the use of property and equipment.

NOTES (CONTINUED)

20 (c) PROPERTY AND EQUIPMENT

If the revalued freehold land and building were measured using the cost model, the carrying amounts would be as follows:

	2015 Shs '000	2014 Shs '000
Cost	77,151	77,151
Accumulated depreciation	(29,766)	(27,887)
Net carrying amount	47,385	49,264

21 INTANGIBLE ASSETS

	2015 Shs '000	2014 Shs '000
Computer software		
COST		
At start of year	348,316	302,879
Additions	237,911	45,437
At end of year	586,227	348,316
AMORTISATION		
At start of year	241,850	210,401
Charge for the year	49,044	31,449
At end of year	290,894	241,850
NET CARRYING AMOUNT		
At end of year	295,333	106,466

22 DEFERRED INCOME TAX

The net deferred income tax asset computed at the enacted rate of 30% is attributable to the following:

	Balance at 01/01/2015 Shs'000	Profit or loss Shs'000	Other Comprehensive income Shs'000	Balance at 31/12/2015 Shs'000
Property and equipment	(41,857)	(11,084)	-	(52,941)
Revaluation reserve	30,263	-	-	30,263
Unrealised exchange gain	-	-	-	-
General provisions	(33,054)	(4,332)	-	(37,386)
Net deferred income tax (asset) / liability	(44,648)	(15,416)	-	(60,064)

	Balance at 01/01/2014 Shs'000	Profit or loss Shs'000	Other Comprehensive income Shs'000	Balance at 31/12/2014 Shs'000
Property and equipment	(41,122)	(735)	-	(41,857)
Revaluation reserve	8,918	-	21,345	30,263
Unrealised exchange gain	1,701	(1,701)	-	-
General provisions	(8,877)	(24,177)	-	(33,054)
Net deferred income tax (asset) / liability	(39,380)	(26,613)	21,345	(44,648)

23 CUSTOMER DEPOSITS

	2015 Shs'000	2014 Shs'000
a)		
Call and fixed deposits	7,751,509	6,664,424
Current and demand accounts	2,846,618	2,822,360
Savings accounts - micro savers	2,327,996	2,360,145
- other	453,433	218,249
	13,379,556	12,065,178
Analysis of customer deposits by maturity:		
Payable within one year	11,243,529	9,300,835
Between one year and three years	2,136,027	2,764,343
	13,379,556	12,065,178
b) Deposits due to Banking Institutions	831,411	-

NOTES (CONTINUED)

23 CUSTOMER DEPOSITS (CONTINUED)

Included in 'Customer deposits' were deposits of Shs 1,565,572,181 (2014: Shs 1,633,253,247) that have been pledged to the Bank by the customers as securities for loans and advances.

The weighted average effective interest rate on interest bearing customer deposits for the year ended 31 December 2015 was 8 % (2014: 7%). The deposits due to banking institutions relate to overnight borrowings from other commercial banks. The weighted average interest rate on the deposits for the year ended 31 December 2015 was 10% (2014 13.42%).

24 BORROWINGS

	2015 Shs'000	2014 Shs'000
Terms loans:		
European Investment Bank	367,716	551,574
Oiko Credit	206,859	308,135
Government of Kenya – SME	67,548	132,498
	642,123	992,207
The borrowings are payable as follows		
Payable within one year	271,541	365,205
Payable after one year- three years	370,582	627,002
	642,123	992,207

The weighted average effective interest rate on the borrowings as at 31 December 2015 was 8.58% (2014: 7.79%). The borrowings are measured at amortised cost and are all unsecured.

The European Investment Bank (EIB) loan of Shs 220 Million was received in October 2012 at a fixed rate of 9.35% p.a. The total loan amount signed with EIB is 7 Million Euros denominated in local currency. The principal of the first tranche is payable semi-annually after a grace period of 1 year over a period of 5 years. The second tranche of Shs 564 Million was received in June 2013 at a fixed rate of 9.19% p.a. The second tranche principal and interest are repayable semi-annually over a period of 5 years.

Oiko Credit loan of Shs 300 Million was received on 22 September 2014. It accrued interest at a rate of 11.07% for the first six months. Thereafter, the net interest rate was reviewed by Oiko Credit and adjusted semi-annually based on the 182 day T bill rate plus a margin of 1.25%, subject to a minimum rate of 10% p.a. The interest rate is repayable semi-annually. The loan will be paid in 3 equal instalments of Kshs 100 million after 12 months from the date of disbursement.

The Small and Medium Enterprises (SME) loan of Shs 250 million was received in June 2011. It is repayable in 4 annual instalments with a grace period of 1 year. The loan attracts an interest rate of 4%. The last principal instalment will be paid in June 2016.

25 OTHER LIABILITIES

	2015 Shs'000	2014 Shs'000
Bills payable	1,068	955
Loan insurance fund	3,607	5,071
Special project fund	191,107	115,030
Accrued expenses	100,055	59,506
Bank draft	22,960	28,462
Stale cheque	11,735	16,737
Statutory deductions	34,243	25,062
Other payables	51,206	26,626
	415,981	277,449

Other liabilities are non-interest bearing and have a repayment period of between 30 and 60 days.

26 SHARE CAPITAL

	2015 Shs'000	2014 Shs'000
Authorised share capital:		
4,000,000 ordinary shares of Shs 500 each	2,000,000	2,000,000

The Annual General meeting held on 16th July 2015 approved injection of an additional Kes.1,700,000,000/= by way of rights issue to shareholders. The Board ALCO committee approved allotment of 975,765 to shareholders. The request to take up the shares was forwarded to shareholders with a payment period of one year from the

26 SHARE CAPITAL (CONTINUED)

date of the AGM. The last rights issue price is Ksh. 1,568. Two shareholders (Centum Investment Company Limited and Bakki Holdco Limited) have taken up and paid up in full the rights issue. As at 31 December 2015, the subscription received on 659,050 shares of the rights issue amounted to Ksh. 329,525,000. Additionally, the share premium emanating from the paid up rights issued amounted to of Ksh. 703,865,400 as at 31st December 2015. The comprehensive list of the shareholders rights issue allotted is on page 15.

	Number of Shares (Thousands)	Ordinary Shares Shs'000	Share premium Shs' 000
Balance at 1 January 2014	2,279,225	1,139,612	-
Rights issue	-	-	-
	2,279,225	1,139,612	-
Balance at 1 January 2015	2,279,225	1,139,612	-
Issue of shares	659,050	329,525	703,865
	2,938,275	1,469,137	703,865
Balance at 31 December 2015	2,938,275	1,469,137	703,865

27 RETAINED EARNINGS

	2015 Shs'000	2014 Shs'000
At start of year	1,197,733	678,309
Profit for the year	372,320	514,044
Excess depreciation transfer	1,821	333
Deferred tax on transfer of excess depreciation	(546)	-
Transfer from regulatory reserve	11,289	5,047
At end of year	1,582,617	1,197,733

NOTES (CONTINUED)

28 REVALUATION RESERVE

The revaluation reserve is used to record increases in the fair value of land and buildings and decreases are in line with depreciation to the extent that such decrease relates to an increase on the same asset previously recognised in equity.

29 REGULATORY RESERVE

	2015 Shs'000	2014 Shs'000
At start of year	23,817	28,864
Transfer to retained earnings	(11,289)	(5,047)
At end of year	12,528	23,817

Central Bank of Kenya prudential guidelines requires the Bank to make an appropriation to a regulatory reserve for unforeseeable risks and future losses.

The amount transferred is the excess of loan provision computed in accordance with the Central Bank of Kenya prudential guidelines over the provision for impairment of loans and advances computed in accordance with IAS 39, Financial Instruments: Recognition and Measurement. The regulatory reserve is not distributable.

30 NOTES TO THE STATEMENT OF CASH FLOWS

	2015 Shs'000	2014 Shs'000
(a) Cash flows from operating activities		
These have been derived as follows:		
Profit before income tax	519,733	729,061
Adjustments for:		
Depreciation on property and equipment (Note 20)	108,989	97,894
Interest on borrowings	84,849	81,116
Accrued interest income on investments	(49,398)	(23,938)
Amortisation of intangible assets (Note 21)	49,044	31,449
Operating profit before working capital changes	713,217	915,582
Changes in working capital:		
Increase in loans and advances to customers	(2,065,673)	(1,759,950)
Increase in other assets	(131,716)	43,022
Increase in customer deposits	1,314,378	2,900,195
Increase in balances due to banking institutions	831,411	(550,000)
Increase in other liabilities	138,533	27,966
Cash generated from operations	800,150	1,576,815

(b)Analysis of balances of cash and cash equivalents as shown in the statement of financial position and notes

	2015 Shs'000	2014 Shs'000
Cash in hand (Note 15)	515,776	521,364
Balance with Central Bank of Kenya (Note 15)	954,029	1,198,909
Balances due from banking institutions (Note 16)	1,509,158	948,550
	2,978,963	2,668,823

31 CONTINGENT LIABILITIES

	2015 Shs'000	2014 Shs'000
Letters of guarantees and performance bonds	345,324	138,707
Pending legal suits	25,904	84,005

In the ordinary course of business, the Bank conducts business involving letters of credit, performance bonds and guarantees. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by a customer to third parties. The Bank holds cash collateral to the extent of the guarantee that is realised in the events of default by customers (Note 23b).

NOTES (CONTINUED)

31 CONTINGENT LIABILITIES (CONTINUED)

Even though these obligations are not recognised on the statement of financial position, they contain credit risk and are part of the overall risk of the Bank (Note 4).

The Bank is a defendant in various legal suits. In the opinion of the directors, after taking appropriate legal advice, the outcome of such suits are unlikely to result in any significant loss. The legal suits are claims against various issues including claims for general and specific damages, injunctions to stop the bank from selling the customers' pledged assets and suits challenging the bank's actions on customers' accounts.

32 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The Bank's parent is Bakki Holdco Limited and the ultimate parent is Centum Investment Company Limited, both incorporated in Kenya.

There are other companies which are related to the Bank through common shareholdings or common directorships.

In the normal course of business, a number of banking transactions are entered into with related parties. These are staff, directors, their associates and companies associated with directors. They include loans, deposits and foreign currency transactions.

Included in customers' deposits and advances to customers at 31 December 2015 were the following related party balances:

Advances to customers:	**2015 Shs'000**	**2014 Shs'000**
Staff loans		
At start of year	517,617	552,644
Advanced during the year	69,459	95,328
Interest charged	31,201	31,056
Repayments	(143,214)	(161,411)
At end of year	475,063	517,617
Key management staff		
At start of year	5,016	257
Advances during the year	-	5,038
Interest charged	253	416
Repayments	5,269	(695)
At end of year	0	5,016

The loans to senior key management are personal loans, car loans and mortgages. All the loans are charged at an interest rate of 6%. Personal and car loans have a maximum period of 5 years and are secured by land and cars respectively. Mortgages have a maximum of 25 years. There are no provisions for bad debts on the balances.

NOTES (CONTINUED)

32 RELATED PARTY TRANSACTIONS (CONTINUED)

Related companies

	1 January 2015 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2015 Shs '000
KWA Multipurpose Co-operative Society	28,777	-	5,677	(23,474)	10,980
Directors and their associates	7,002	25,450	6,080	(7,312)	31,220
Kings Beverage	20,964	14,187	7,970	(12,648)	30,473
Makao Mashinani	25,433	-	3,815	(17,198)	12,050
	82,176	39,637	23,542	(60,632)	84,723

	1 January 2014 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2014 Shs '000
KWA Multipurpose Co-operative Society	40,472	-	5,677	(17,372)	28,777
Directors and their associates	5,147	6,523	1,121	(5,789)	7,002
Kings Beverage	-	20,778	268	(82)	20,964
Makao Mashinani	2,556	25,000	2,311	(4,434)	25,433
	48,175	52,301	9,377	(27,677)	82,176

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year end. Advances to staff members are at an average interest rate of 6 percent whereas other advances are at commercial rates. The loans are running for an average period of 12 years (2014: 12 years).

Customer deposits	2015 Shs'000	2014 Shs'000
Makao Mashinani	19,137	29,620
K-Rep Development Agency	24,873	22,121
KWA Multipurpose Co-operative Society	1,184	1,091
K-Rep Group Limited	1,295	352
Two Rivers Development Company	1,106,571	-
Centum Investment Company Limited	1,580,746	167,692
	2,733,806	220,876
Rental expenses:		
K-Rep Group Limited	8,021	7,578

Deposits received from related parties attract interest rates at bank's floating interest rates.

K-Rep Development Agency, Juhudi Kilimo Company Limited, Makao Mashinani and K-Rep Fedha Limited are related to the Bank by virtue of the significant influence and control exercised by their common holding company, K-Rep Group Limited. On

NOTES (CONTINUED)

32 RELATED PARTY TRANSACTIONS (CONTINUED)

the other hand, KWA Multipurpose Co-operative Society and Centum are shareholders of the Bank. Two Rivers is related to Centum.

Key management personnel include all the Directors and Senior Management who are referred to as Heads of Department. The remuneration of directors and other members of key management during the year were as follows:

	2015 Shs'000	2014 Shs'000
Key management		
Short term benefits	71,234	67,223
Termination benefits	6,087	6,499
Medical costs	4,123	4,737
	81,444	78,459
Directors' remuneration		
Fees for services as directors		
– Non-executive	14,079	11,196
Termination benefits		
- Executive	3,513	3,268
Salary - Executive	27,640	28,442
	45,232	42,906

33 FUTURE RENTAL COMMITMENTS UNDER OPERATING LEASES

The future lease payments in respect of obligations under operating leases are as follows:

	2015 Shs'000	2014 Shs'000
Within one year	88,562	116,337
Between two and five years	289,333	366,461
After five years	58,288	90,435
	436,183	573,233

The Bank has entered into commercial property leases for its office space. These non-cancellable leases have remaining terms of between 3 and 10 years. All leases include a clause to enable upward revision of the rental charge on an annual basis according to prevailing market conditions.

34 OPERATING LEASE RENTALS

Operating lease rentals disclosed in note 10 relates to amounts paid out for rent for premises.

35 INCIDENTAL BUSINESS

During the year, the Bank introduced a Banc assurance unit in the form of an agency. Sidian Insurance Agency was incorporated on 13th February 2015 and commenced business in May 2015.

		2015 Shs'000	2014 Shs'000
Agency			
Revenue		3,136	-
Expenses		3,681	-
Loss before tax		(545)	-
Loss after tax		(545)	-
Share capital			
Sidian Insurance Agency	100%	1,000	-

36 CAPITAL COMMITMENTS

Capital commitments relating to software contracted for at the statement of financial position date but not recognized are as follows:

	2015 Shs'000	2014 Shs'000
Authorised and contracted for	45,308	-

37 ASSETS PLEDGED AS SECURITY

No assets were pledged to secure any facilities (2014 – Nil).

38 EVENTS AFTER THE REPORTING DATE

No material events or circumstances have arisen between the accounting date and the date of this report.

39 SHAREHOLDERS OF THE BANK

As at 31 December 2014

Shareholders	Number of shares	Percentage shareholding
1 Bakki Holdco Limited	1,501,630	65.88%
2 K-Rep Group Limited	501,430	22.00%
3 KWA Multi Purpose Coop Limited	143,376	6.29%
4 Centum Investment Company Limited	37,801	1.66%
5 Kimanthi Mutua	21,040	0.92%
6 Sarah Godana	15,495	0.68%
7 Kabiru Kinyanjui	12,222	0.54%
8 Anthony Wainaina	8,887	0.39%
9 Francis Kihiko	8,871	0.39%
10 Bethuel Kiplangat	8,242	0.36%
11 Mwenda Thiribi	8,241	0.36%
12 Aleke Dondo	6,495	0.28%
13 Judith Behemuka	4,995	0.22%
14 Francis Kimunyu	**500**	**0.02%**
Total	**2,279,225**	**100.00%**

As at 31 December 2015

Shareholders	Number of shares	Percentage shareholding
1 Bakki Holdco Limited	2,144,497	72.98%
2 K-Rep Group Limited	501,430	17.07%
3 KWA Multi Purpose Coop Limited	143,376	4.88%
4 Centum Investment Company Limited	53,984	1.84%
5 Kimanthi Mutua	21,040	0.72%
6 Sarah Godana	15,495	0.53%
7 Kabiru Kinyanjui	12,222	0.42%
8 Anthony Wainaina	8,887	0.30%
9 Francis Kihiko	8,871	0.30%
10 Bethuel Kiplangat	8,242	0.28%
11 Mwenda Thiribi	8,241	0.28%
12 Aleke Dondo	6,495	0.22%
13 Judith Behemuka	4,995	0.17%
14 Francis Kimunyu	**500**	**0.02%**
Total	**2,938,275**	**100.00%**

NOTICE OF ANNUAL GENERAL MEETING

Notice is hereby given that the 17th Annual General Meeting of Sidian Bank Limited will be held on July 15th 2016, at The Capital Club, Westlands, commencing 3.30 pm.

Agenda

1. To read the Notice convening the meeting.
2. To confirm the minutes of the previous AGM held on July 16th 2015.
3. To receive and consider the audited Financial Statements for the year ended December 31st 2015.
4. To approve nil dividend payment for the year ended December 31st 2015.
5. To note the appointment or removal of directors or company secretary, if any, pursuant to the provisions of Article 77 of the Company's Articles of Association.
6. To authorise the Board to fix the remuneration of directors.
7. To reappoint M/S PricewaterhouseCoopers as auditors, who have expressed their willingness to continue as auditors until the conclusion of the next AGM and to authorise the directors to fix their remuneration.
8. To transact the following business and considering, if deem fit, passing of the following resolutions which will be proposed as a special resolution;

a). To note the final allotment of rights shares and forfeiture thereof.
b). To Approve issuance of shares to Directors upto 198,000 ordinary shares with 60 days payment period

9. To transact any other business of which due notice has been forwarded to the Chairman.
10. The secretary be mandated to file the necessary returns.

By order of the Board

Daisy Ajima

Secretary

Amended at Nairobi this 14th day of March 2016.

Notes:

1. A member entitled to attend and vote at the above meeting and any adjourned meeting thereof is entitled to appoint one or more proxies to attend and vote on his stead. Such proxy need not be a member.
2. A proxy form is available at:- a) The Bank's Head office K-rep Centre, 7th Floor Wood Avenue Kilimani Nairobi or b) The Bank's website www.sidianbank.co.ke.
3. Shareholders who will not be able to attend the Annual General Meeting are requested to complete and return the proxy form by either:- a) hand to the Registered Office of the Bank or b) mail to ''The office of the Company Secretary, Sidian Bank Ltd, P.O. Box 25363-00603 Nairobi'' or c) emailing a scanned proxy in PDF format to: dajima@sidianbank.co.ke.
4. Proxy forms must be received by the Company not later than 10.00 am on Friday 8th July 2016.

PROXY FORM

I....………………………………………………………………..of………………………………………………………………

…………………………..being a member of the Sidian Bank Limited hereby appoint ………………………………………………

…………………………………………………..of……………………………………………………………………………………………

…. as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on___________________

_______________2016 and at any adjournment thereof.

Provided that if the above mentioned fail to make an appearance the Chairman of the Meeting of the Company may act as my proxy to vote for me on my behalf at the Annual General Meeting of the Company to be held on _____________ 2016 and at any adjournment thereof.

Signed/Sealed this ………………… day of ……………….. 2016 Important

Important Notes:

i. If you are unable to attend this meeting personally, this form of proxy should be completed and returned to: The Company Secretary, Sidian Bank Limited P.O. Box 25363-00603 Nairobi to reach not later than 48 hours before the time appointed for holding the meeting or at any adjourned meeting thereof.

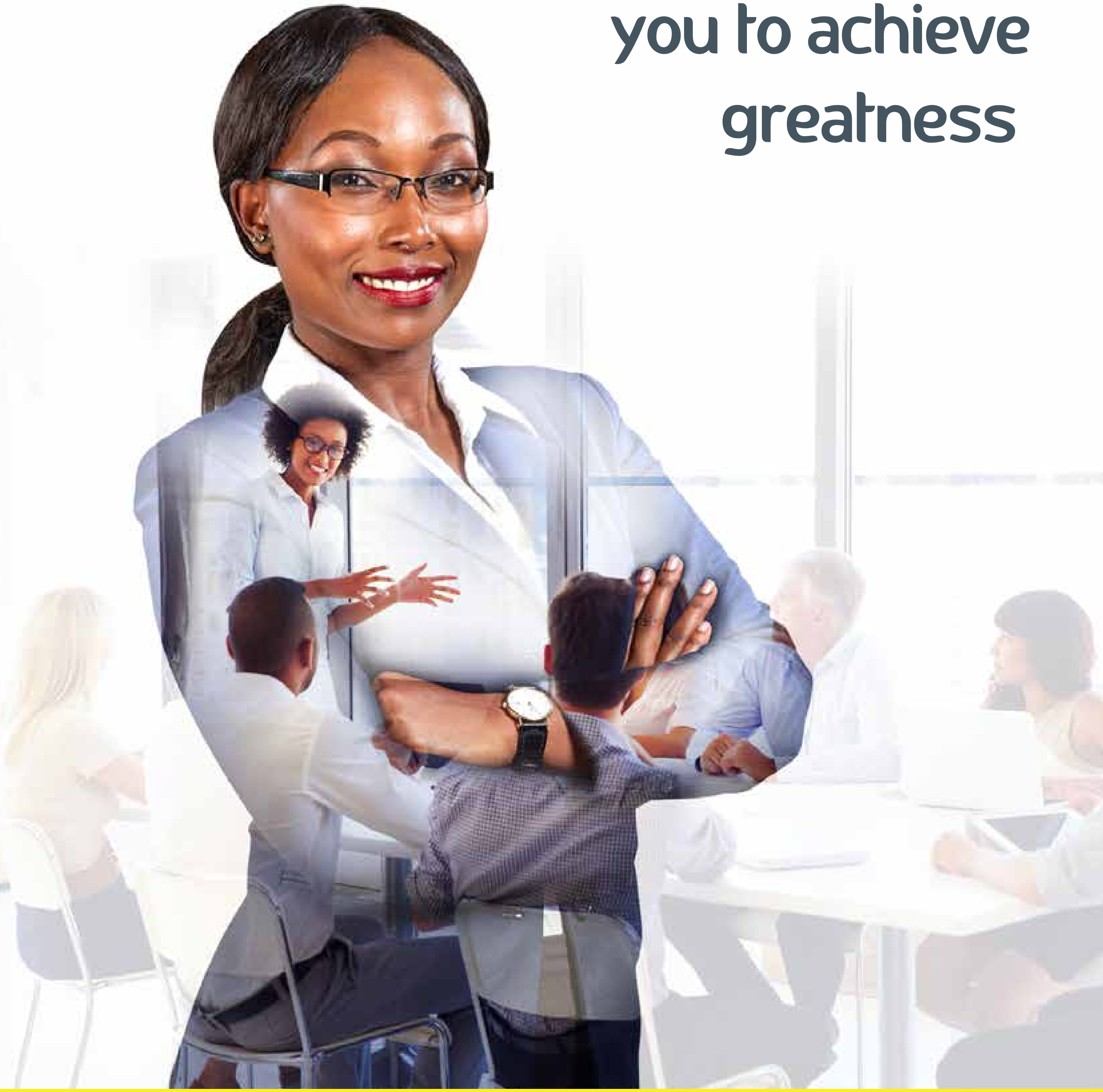
ii. Any person appointed to act as a proxy need not be a member of the Company.

iii. If the appointer is a corporation, the form of proxy must be under seal, witnessed by two directors or one director and the Company Secretary or under the hand of any officer or attorney duly authorised in writing.

The Company Secretary
Sidian Bank Limited
P O Box 25363 – 00603, Nairobi
K-Rep Centre, Wood Avenue,
Kilimani

SidianBank
Own Tomorrow

We EMPOWER you to achieve greatness



SIDIAN BANK BRANCH NETWORK

HEAD OFFICE
K-Rep Centre, Wood Avenue, Kilimani
P O Box 25363 – 00603, Nairobi
Landline: 254 020 3906000/1-7;
Mobile: 0711058000/1-30 /0711 058 003

NAIROBI REGION

NAIVASHA ROAD BRANCH - RIRUTA
Opp. Precious Blood Secondary School, Riruta
P O Box 25363-00603 – Nairobi
Mobile: 0711-058 213 / 505 / 503 / 577
www.sidianbank.co.ke

MOI AVENUE BRANCH, NAIROBI
Guilders Building,
Opposite Ebrahim's Supermarket, Moi Avenue
P O Box 49248-00100, Nairobi
Mobile: 0728-970613 / 0750-555163 www.sidianbank.co.ke

KENYATTA AVENUE BRANCH, NAIROBI
Standard Building
Kenyatta Avenue, Nairobi
P O Box 4890-00200, Nairobi
Mobile: 0722-205905 / 0755-058202
www.sidianbank.co.ke

BURUBURU BRANCH
Vision Plaza, 1st Floor, Buruburu
Between Tuskys and Uchumi Supermarkets
P O Box 853-00515, Buruburu
Mobile: 0755-058205 / 0750-555028
www.sidianbank.co.ke

KENYATTA MARKET BRANCH
Ajit Chambers, Mtongwe Road
Off Mbagathi Road
P O Box 25363-00603, Lavington, Nairobi
Mobile: 0725-049700 / 0750-555057
www.sidianbank.co.ke

KILIMANI BRANCH
K-Rep Centre, Wood Avenue, Kilimani
P O Box 25363-00603, Lavington
Mobile: 0711058051/53/54/57
www.sidianbank.co.ke

KANGEMI BRANCH
Palace Building - Kangemi
Opposite Naks Supermarket
Next to Co-operative Bank
P O Box 25363-00603, Nairobi
Mobile: 0755-058119 / 0715-428107
www.sidianbank.co.ke

MLOLONGO BRANCH
Merchant Shopping Arcade
P O Box 239-00519, Mlolongo
Mobile: 0705-411995 / 0750-555042/6/8
www.sidianbank.co.ke

RONGAI BRANCH
Honeymoon Building
Magadi Road, next to Clean-shelf Supermarket
P O Box 185 Rongai
Mobile: 0721-058253 / 0721-058254
www.sidianbank.co.ke

RIFT VALLEY

NAKURU BRANCH
Belpar House, Kenyatta Avenue, Nakuru
P O Box 15222, Nakuru
Mobile: 0750-555023 / 0755-058103 / 0755-058203
www.sidianbank.co.ke

ELDORET BRANCH
Kirem Arcade, Nairobi Road
P O Box 1362, Eldoret
Mobile: 0755058107 / 0750555037
www.sidianbank.co.ke

NAIVASHA BRANCH
Naivasha Town
Pennibrah House, Moi Road
P O Box 558, Naivasha
Mobile: 0755-058121 / 0750555106
www.sidianbank.co.ke

KERICHO BRANCH
Kuriot Plaza,
Moi Highway, Opposite Kericho Police Station
Next to Shell Petrol Station
P O Box 1455-20200 Kericho
Mobile: 0755-058209 / 0755-058109
www.sidianbank.co.ke

KAJIADO BRANCH
Priska Building, off Market Road
P O Box 377, Kajiado
Mobile: 0755-058228 / 0755-058128
www.sidianbank.co.ke

KITALE BRANCH
Ndege House, Kenyatta Street
P O Box 314-30200 Kitale
Mobile: 0755058125 /0755058225
www.sidianbank.co.ke

EASTERN

MACHAKOS BRANCH
Mbolu Malu Road, off Syokimau Road
P O Box 1932-90100, Machakos
Mobile: 0755-058217 /0750-555086
www.sidianbank.co.ke

KITUI BRANCH
Mututo Plaza, Kilungya Street
P O Box 408-90200, Kitui
Mobile: 0721-058216 / 0720-555077 www.sidianbank.co.ke

EMALI BRANCH
Katunda Building
Nairobi/Mombasa Highway
Next to Post Bank
Mobile: 0714-779941 / 0755-058120 / 0755-058220
www.sidianbank.co.ke

SIDIAN BANK BRANCH NETWORK (CONTINUED)

KIBWEZI BRANCH
Manna House, opp. Post Office
P O Box 390, Kibwezi
Mobile: 0755-058126 / 0755-058226
www.sidianbank.co.ke

MOUNT KENYA

NYAHURURU BRANCH
Opp. Laikipia Comfort Hotel
Off Kenyatta Road
P O Box 1098, Nyahururu
Mobile: 0750-555107 / 0755-058122

NYERI BRANCH
Caledonia House, Nyeri
Next to Telcom Kenya
P O Box 870, Nyeri
Mobile: 0755 058104/0755 058204
www.sidianbank.co.ke

KERUGOYA BRANCH
Kerugoya Kagumo Road,
Opp. Total Petrol Station
P O Box 1041-10300, Kerugoya
Mobile: 0755-058112 / 0755-058212
www.sidianbank.co.ke

ISIOLO BRANCH
Ibada Plaza Building
Isiolo Town, along Isiolo Marsabit Road
P O Box 188, Isiolo
Mobile: 0755-058223 / 0750555115
www.sidianbank.co.ke

EMBU BRANCH
Mumaka Building, Embu
Kiritiri Embu Road, Opp. Kiritiri Stage
P O Box 1167, Embu
Mobile: 0755-058206 /0755-058106 / 0750-555029 / 0750-555030
www.sidianbank.co.ke

THIKA BRANCH
Nelleon Plaza, Ground Floor
Harry Thuku Road, off Uhuru Highway
P O Box 6043-0100, Thika
Mobile: 0755058111 / 0750555049
www.sidianbank.co.ke

NKUBU BRANCH
Along Nairobi-Meru Highway
Opposite Nkubu Stores
P O Box 3066-60200, Meru, Kenya
Mobile: 0755-058229 / 0750555145
www.sidianbank.co.ke

MERU BRANCH
Ground Floor, Twin Plaza
Ghana Road, Opp. Uchumi Supermarket
P O Box 3066 - 60200, Meru
Mobile: 0755-058124 / 0750-555120
www.sidianbank.co.ke

CHUKA BRANCH
Captain House,
Meru/Nairobi Highway
P O Box 254-60400, Chuka
Mobile: 0755-058115 / 0750555071
www.sidianbank.co.ke

MWEA BRANCH
Meru - Nairobi Highway
Opposite Merica Petrol Station
P O Box 352, Wang'uru
Mobile: 0755058133 / 0750555167
www.sidianbank.co.ke

NANYUKI BRANCH
Lumumba Road
P O Box 1359-10400, Nanyuki
Mobile: 0755-058118 / 0755-058218 / 0750-555092 / 0750-555089

NYANZA

KISII BRANCH
Kisumu - Migori Road,
Ouru Complex Building,
P O Box 4110-40200, Kisii, Kenya
Mobile: 0755-058114 / 0750555068
www.sidianbank.co.ke

KISUMU BRANCH
Imperial Express Hotel, Oginga Odinga Road
P O Box 3558 - 40100, Kisumu
Mobile: 0755-058108 / 0755-058208
www.sidianbank.co.ke

WESTERN

BUSIA BRANCH
Tesla Plaza
P O Box 649 Busia
Mobile: 0702-058231 / 0721-058131 / 0724- 555155 / 0706- 555157
www.sidianbank.co.ke

BUNGOMA BRANCH
Moi Avenue, Opposite KCB
P O Box 288, Bungoma
Mobile: 0755058127 / 0755-058227
www.sidianbank.co.ke

COAST

KENGELENI BRANCH
Kengeleni Mall, Ground Floor, Fidel Odinga Avenue,
P O Box 95615 - 80106, Mombasa
Mobile: 0755-058234 / 0755-058134 / 0750555173 / 0724-995959
www.sidianbank.com

MTWAPA BRANCH
Malindi Road – North Coast
Next to Safaricom, Ground floor
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