2015
Annual Report
& Financial Statements

Trans National Bank

Our Vision

An Enterprising People

Our Mission:

Always Seeking to turn Opportunities into Success

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CORPORATE INFORMATION

DIRECTORS

H. Kiplangat (Chairman),
P. Kemei, J. K. Kenduiwo, A. DeSimone*, Prof. D. Rotich,
H. Cheserem (Mrs), Sammy Lang'at, * American

CHIEF EXECUTIVE OFFICER

Sammy Lang'at

AUDIT COMMITTEE

P. Kemei, (Chairman),
A. Desimone, Prof. D. Rotich

CREDIT COMMITTEE

Prof. D. Rotich, (Chairman),
H. Cheserem J. K. Kenduiwo, Sammy Lang'at, A.Kiplangat

FINANCE AND STRATEGY COMMITTEE

A. DeSimone, (Chairman),
J. K. Kenduiwo, P. Kemei, Sammy Lang'at, L. Molonko

RISK AND COMPLIANCE COMMITTEE

H. Cheserem, (Chairperson),
A. DeSimone, P. Kemei, Prof. D. Rotich, J. Onsando

NOMINATION AND RENUMENERATION COMMITTEE

J**. K. Kenduiwo, (Chairman),**
H. Cheserem, Sammy Lang'at, E. Kiptugen

ASSETS AND LIABILITY MANAGEMENT COMMITTEE (ALCO)

Sammy Lang'at, (Chairman),
F. Sheikh, J Makawuondo, L. Molonko, A. Kiplangat, M. Mwinga

SECRETARY	Jacqueline Onsando Certified Public Secretary (Kenya) P O Box 72133 - 00200 Nairobi
REGISTERED OFFICE	Trans National Plaza City Hall Way P O Box 75840 - 00200 Nairobi
AUDITORS	Deloitte & Touche Certified Public Accountants (Kenya) Deloitte Place, Waiyaki Way, Muthangari P O Box 400092 - 00100 Nairobi
ADVOCATES	Cheptumo & Company Advocates P O Box 35556 - 00200 Nairobi
	Ochieng Onyango Kibet & Ohaga Advocates P O Box 43170 - 00100 Nairobi
	Karimbux - Effendy & Company P O Box 43356 - 00100 Nairobi
	Mukite Musangi & Co Advocates P O Box 149 - 20100 Nairobi

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors of Transnational Bank Limited, I am pleased to present to you the Bank's Annual Report and Financial Statements for the year ended 31st December, 2015.

2015 OPERATING ENVIRONMENT

The Kenyan economy grew by 5.5% compared to 5.3% registered in 2014 on account of growth in agriculture and Government spending on infrastructure. Inflation rate was at 6.8% which was within Central Bank target of 7.5% while the Shilling depreciated by 12.9% on the back of global strengthening of the US Dollar. High volatility was experienced on interest rates and overall liquidity levels. This affected the uptake of loans and growth in deposits as it discouraged borrowers and investors alike.

DEVELOPMENT IN THE BANKING SECTOR

The Kenyan banking sector continued with growth during the year. Total assets stood at Kshs. 3.7 trillion as at 30th September, 2015 compared to Kshs. 3.2 trillion in December 2014. In nine months period to 30th September 2015, gross loans were up 21% from Kshs 1.9 trillion to Kshs 2.3 trillion. Deposits grew by 13% from Kshs 2.3 trillion to Kshs 2.6 trillion.

Profit before tax for the sector as at 30th September, 2015 was up 13.5% to Kshs 114.2 billion compared to similar period in 2014.

BANK'S PERFORMANCE

The Bank's total assets grew from Kshs 10.2 billion to Kshs 10.5 billion. Loans and advances to customers were up 10% from Kshs 6.0billion to Kshs 6.6 billion while customer deposits were at Kshs 7.6 billion compared to Kshs. 7.7bn in 2014.

Profit before tax was up 32% from Kshs 190.8 million to Kshs. 251.6 million. Reflecting on this growth and our strong confidence in the future, the Board of Directors recommends dividend payment of Kshs. 30 cents per share amounting to Kshs 60,000,000.

FUTURE OUTLOOK

Kenya's economic growth is projected to grow at 6% in 2016. Inflation is expected to significantly decline due to fall in oil prices. This would certainly have positive impact on economic growth setting pace for higher growth in 2016. As a Board, we are committed to working with the Management and Staff in all efforts to serve our customers' needs, grow the Bank and our shareholder value. Our faith in Management and Staff, which has in the last year delivered good results, continues to underpin our commitment to support them fully in their innovation and development of the Bank.

We will however remain resolute in our focus on targeted growth, prudent risk management and sound corporate governance.

APPRECIATION

Finally, I take this opportunity to extend my appreciation to our esteemed customers and partners for their continued support and the confidence they have demonstrated to us. I also wish to thank my fellow Directors, Management and Staff of the Bank for their able stewardship of the Bank without which it would have been difficult to achieve such great results.

Thank You.

Henry Kiplangat
Chairman Board of Directors

CORPORATE GOVERNANCE STATEMENT

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

1. Board of Directors

The names of the directors who held office at the date of this report are set out on page 2.
The Board is responsible for formulating the Bank's policies and strategies and ensuring that business objectives, aimed at promoting and protecting shareholder value, are achieved. The Board also retains the overall responsibility for effective control of the Bank and implements corporate governance policies of the Bank.

The Board comprises six non-executive directors and one executive director. The directors have diverse skills and are drawn from various sectors of the economy. The Chairmen of the Board and the Board committees, respectively, are non-executive directors.

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

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

a) Directors' Emoluments and Loans

The aggregate amount of emoluments paid to directors for services rendered during the financial year is disclosed in Note 35(e) to the financial statements for the year ended 31 December 2015.
The Bank advances loans to directors and their associated companies as disclosed in Note 34(b).

b) Related Party Transactions

There have been no related party transactions, pecuniary transactions or relationships between the Bank and its directors or management, except those disclosed in Note 34 to the financial statements for the year ended 31 December 2015.

2. Board Committees

The Board has in place five main committees, namely the Risk and Compliance, Credit, Audit, Nomination and Remuneration and Finance and Strategy. These committees assist the Board in ensuring that proper policies, strategies, internal controls, and organizational structures are in place to achieve the Bank's objectives and obligations to its stakeholders.

All the committees have detailed terms of reference and hold meetings as necessary. The Board may delegate some of its powers to any committee and may appoint any other committee, including ad hoc task forces, as and when it is deemed necessary.

a) Risk and Compliance Committee

The committee is chaired by a non-executive director and meets quarterly. It is responsible for overseeing the implementation of the Bank's risk management framework and policies to ensure that all current and potential significant risks are identified and effectively managed. The committee considers both internal and external sources of information regarding risk to keep abreast with new developments and their potential impact on the Bank's business. The committee receives periodic reports from the risk and compliance function relating to the Bank's strategic risk, credit risk, market risk (interest rate risk, price risk and foreign exchange risk), operational risk, regulatory risk, reputational risk and liquidity risk.

b) Credit Committee

The committee is chaired by a non-executive director and meets at least once per quarter to review the overall lending policy. It also meets at least once in a month to consider and approve loan applications beyond the credit management approval limits, to review and consider all issues that may materially impact on the present and future quality of the institution's credit management and ensuring that the credit policy and risk lending limits of the Bank are reviewed where appropriate. Periodically, it reviews the credit policy of the Bank.

c) Nomination and Remuneration Committee

The committee is responsible for providing policy guidelines on Human Resources (HR) practices of recruitment, training, remuneration and compensation, disciplinary actions and manpower quality across the Bank, review system of performance management, job grading, skills gaps, principles of rationalising etc. The committee is responsible for study of productivity levels across the Bank and addressing anomaly in staff productivity. The committee assists the Board in providing efficient, productive and quality organisation structures for the Bank. The committee is responsible for approval of candidates for appointment to the Board. The committee also reviews and approves recommendations from the Bank's management for appointment of the Bank's senior managers.

d) Audit Committee

The Audit Committee is chaired by a non-executive director. All the other members are non-executive directors in addition to the Internal Audit Manager. The Committee meets on a quarterly basis and is responsible for ensuring that the systems, procedures and policies of the Bank are properly established, monitored and reported on. The Committee receives reports from both external and internal auditors, and also monitors implementation of audit recommendations, on behalf of the Board. The Audit committee is also responsible for monitoring and providing effective supervision of the management's financial reporting process to ensure accurate and timely financial reporting. Additionally, the Committee is responsible for ensuring entrenchment of good corporate governance practices in the Bank.

e) Finance and Strategy Committee

The committee comprises three directors, the Chief Executive Officer and the Head of Finance. The Finance and Strategy Committee's roles and responsibilities include an analysis of the Bank's strategy and more specifically; Oversight of the implementation of the strategy approved by the Board and review of progress on a regular basis, design of action plans per business unit to ensure that objectives are met while factoring in organisational, human, technical and financial aspects, analysis of any investment/capital expenditure programme prior to its submission to the Board and design and submission to the Board of the main strategic orientations of the Bank.

3. Risk Management and Internal Control

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

4. Business Ethics

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

5. Responsibility for Staff Welfare and Training

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

6. Shareholders

The list of shareholders and their individual holdings as at 31 December 2015 was as follows:

	No. of Shares	%
Archers and Wilcock Limited	47,492,155	23.75
Sovereign Trust Limited	46,056,845	23.03
Duggan Limited	31,069,078	15.53
Pyramid Trustee Limited	30,237,545	15.12
November Nominees Limited	14,552,857	7.28
Simbi Investors	8,217,059	4.11
Losupuk Limited	5,579,844	2.79
Kenyerere Limited	4,291,381	2.15
Lohan Investments Limited	2,899,916	1.45
Others	9,603,590	4.8
Total	200,000,000	100

7. Board Performance Evaluation

The chairman conducts evaluations of the performance of the Board, individual directors and Board Committee's annually. In addition the Board and its Committees undertake an annual evaluation of their performance and report their findings and any resulting recommendations to the Board. The Board also undertakes an evaluation of the performance of the Chairman. The Board discusses the results of its evaluations and uses the process to constructively improve the effectiveness of the Board. The results of this evaluation are submitted to Central Bank of Kenya as required under the Prudential Guidelines for institutions licensed under the Banking Act.

8. Board and Committee Meetings Attendance

a) Board Meetings

During the year under review, the Board held seven meetings excluding the working committee meetings. The Board members attendance for 2015 was as follows;

Name	Number of Attendance	Percentage Attendance
Mr. Michael Cherwon**	3	43%
Mr. Peter Kemei	7	100%
Mr. Andre DeSimone	6	86%
Mr. John Kenduiwo	7	100%
Mrs. Hellena Cheserem	7	100%
Prof. Daniel Rotich	7	100%
Mr. Sammy Lang'at	7	100%
Mr. Henry Kiplangat*	4	57%

*Appointed to the board on 27 May 2015.
**Retired from the board on 20 May 2015.

b) Committee Meetings

i) Audit Committee Meetings

Name	Number of Attendance	Percentage Attendance
Mr. Peter Kemei	4	100%
Mr. John Kenduiwo	4	100%
Mr. Andre DeSimone	3	75%
Prof. Daniel Rotich*	-	-

*Appointed to the committee on 15 December 2015.

ii) Risk and Compliance Committee Meetings

Name	Number of Attendance	Percentage Attendance
Mr. Andre DeSimone	3	75%
Mr. Peter Kemei	4	100%
Mrs. Hellena Cheserem	4	100%
Prof. Daniel Rotich*	-	-
Ms. Jacqueline Onsando*	-	-

*Appointed to the committe on 15 December 2015.

iii) Credit Committee Meetings

Name	Number of Attendance	Percentage Attendance
Prof. Daniel Rotich	5	100%
Mr. John Kenduiwo	5	100%
Mrs Hellena Cheserem	5	100%
Mr. Sammy Lang'at	5	100%
Ms. Alphina Kiplangat	5	100%

iv) Finance and Strategy Committee Meetings

Name	Number of Attendance	Percentage Attendance
Mr. John Kenduiwo	5	100%
Mr. Peter Kemei	5	100%
Prof. Daniel Rotich	5	100%
Mr. Sammy Lang'at	5	100%
Mr. Laban Molonko	5	100%

v) Nomination & Remuneration Committee Meetings

Name	Number of Attendance	Percentage Attendance
Mr. John Kenduiwo	4	100%
Mrs Hellena Cheserem	4	100%
Mr. Sammy Lang'at	4	100%
Ms. Emmy Kiptugen	4	100%

vi) Asset & Liability Committee (ALCO)

Name	Number of Attendance	Percentage Attendance
Mr. Sammy Lang'at	7	88%
Mr. Farid Sheikh	8	100%
Mr. Jeremiah Makawuondo	5	63%
Mr. Laban Molonko	7	88%
Mrs. Alphina Kiplangat	7	88%
Mrs. Margaret Mwinga	8	100%

9. Directors' External Activities and Conflicts of Interest

Directors have a statutory duty to avoid situations in which they have or may have interests that conflict with those of the Bank.Business transactions with all parties, directors or their related parties are carried out at arms' length. In 2015 the directors submitted their annual declarations of interests which included:-

- An acknowledgement that should it come to the attention of a director that a matter concerning the Bank may result in a conflict of interest, they are obliged to declare the same and will exclude themself from any discussion or decision over the matter in question.
- An acknowledgement that should the director be appointed to the Board or acquire a significant interest in a business competing with the bank, the director will be obliged to offer their resignation.
- An acknowledgement that the foregoing also applies to interests of the immediate family members of the directors.

Business transactions with the directors or their related parties are disclosed in Note 34.

10. 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) and the requirements of the Kenyan Companies Act.

Director
30th March 2016

Director

REPORT OF THE DIRECTORS

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

Principal Activities

The principal activities of the Bank are the provision of banking, financial and related services.

Bank Results	Sh'000
Profit before taxation	251,623
Taxation charge	(83,593)
Profit for the year	168,030

Dividends

The directors recommend the payment of Sh 60,000,000 as dividend for the year ended 31 December 2015 (2014: Sh 50,000,000).

Directors

The current directors are listed on page 2. Mr. Michael Cherwon retired from the board on 20th May 2015 and was replaced by Mr. Henry Kiplangat on 27th May 2015.

Auditors

The auditors, Deloitte & Touche, have indicated their willingness to continue in office in accordance with Section 159 (2) of the Companies Act and subject to approval by the Central Bank of Kenya in accordance with the requirements of Section 24(1) of the Banking Act.

BY ORDER OF THE BOARD

SECRETARY
Nairobi
30th March 2016

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Kenyan Companies Act requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Bank as at the end of the financial year and of its operating results for that year. It also requires the directors to ensure that the Bank keeps proper accounting records which disclose with reasonable accuracy at any time the financial position of the Bank. They are also responsible for safeguarding the assets of the Bank.

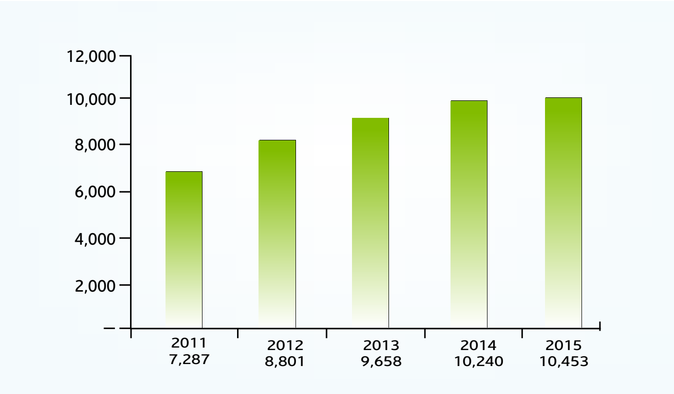
The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, and for such internal controls as directors determine are necessary to enable the preparation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

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

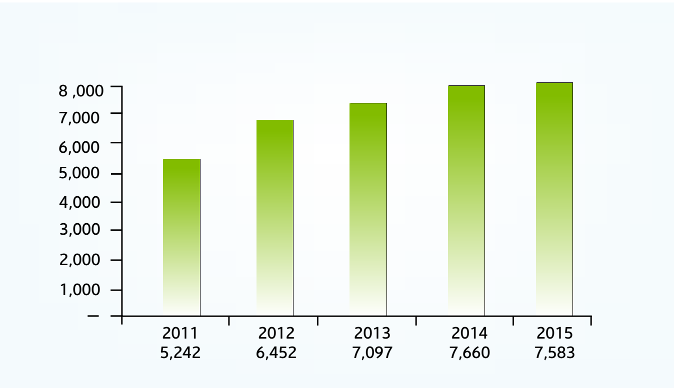
Nothing has come to the attention of the directors to indicate that the Bank will not remain a going concern for at least the next twelve months from the date of this statement.

Director
30th March 2016

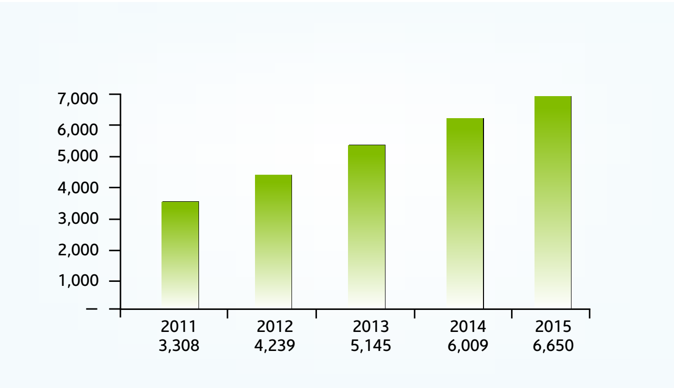
Director



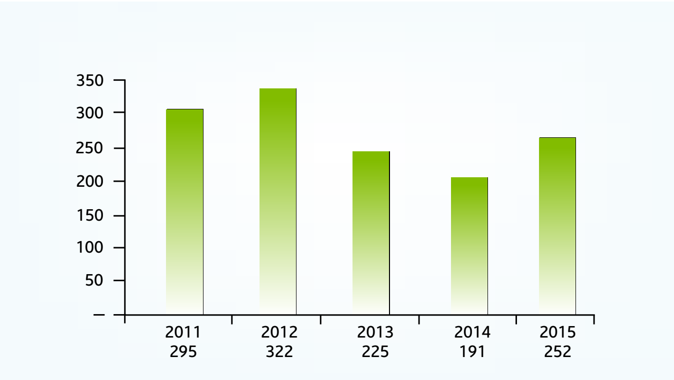
Total Assets Ksh. M



Deposits Ksh. M



Loans & Advances Ksh. M



Profit Before Tax Ksh. M

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF TRANSNATIONAL BANK LIMITED

Report on financial statements

We have audited the accompanying financial statements of Transnational Bank Limited, set out on pages 16 to 17 which comprise the statement of financial position as at 31 December 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Report on Other Legal Requirements

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

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

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

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

The engagement partner responsible for the audit resulting in this independent auditors' report is Rose Mwaura – P/No 1954.

Deloitte & Touche

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

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

	Notes	2015 Sh'000	2014 Sh'000
Interest income	7	1,445,363	1,263,233
Interest expense	8	(584,214)	(485,616)
Net interest income		861,149	777,617
Fees and commission income	9	180,991	160,403
Other income	10	44,459	24,144
Operating income		1,086,599	962,164
Other operating expenses	11	(758,476)	(680,573)
Impairment losses on loans and advances	20	(76,500)	(90,775)
Profit before taxation		251,623	190,816
Taxation charge	13(a)	(83,593)	(65,104)
Profit for the year		168,030	125,712
Other comprehensive income		-	-
Total comprehensive income for the year		168,030	125,712
		Sh	Sh
EARNINGS PER SHARE			
- Basic and diluted	14	0.84	0.63

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2015

	Notes	2015 Sh'000	2014 Sh'000
Assets			
Cash Balances	15	286,342	307,857
Bank Balances with Central Bank wf Kenya	15	732,220	395,452
Deposits and Balances Due from Banking Institutions	16	73,624	723,365
Government Securities	17	2,118,498	2,142,396
Commercial Paper	18	-	153,567
Loans and Advances to Customers	19(a)	6,649,506	6,009,427
Other Assets	21	299,249	316,024
Property and Equipment	22	132,916	118,115
Intangible Assets	23	99,087	37,340
Deferred Tax Asset	24	61,195	36,379
Financial Derivatives	28	54	-
Total Assets		10,452,691	10,239,922
Liabilities			
Customer Deposits	25	7,582,579	7,659,671
Due to Banking Institutions	26	491,905	357,245
Other Liabilities	27	318,609	294,326
Financial Derivatives	28	-	929
Tax Payable	13(c)	26,809	12,992
Total Liabilities		8,419,902	8,325,163
Shareholders' Funds			
Share Capital	29	1,000,000	1,000,000
Share Premium		42,236	42,236
Retained Earnings		885,702	771,950
Statutory Reserve	30	104,851	100,573
Total Shareholders' Funds		2,032,789	1,914,759
Total Liabilities and Shareholders' Funds		10,452,691	10,239,922

The financial statements on pages 13 to 73 were approved and authorised for issue by the board of directors on 14th March, 2016 and were signed on its behalf by:

Director ____________ Chief Executive Officer ____________

Director ____________ Company Secretary ____________

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

	Notes	Share Capital	Share premium	Retained earnings	Statutory Reserve *	Total
		Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
At 1 January 2014		1,000,000	42,236	764,494	62,317	1,896,047
Transfer to Statutory Reserve	30	-	-	(38,256)	38,256	-
2013 Dividends Declared		-	-	(80,000)	-	(80,000)
Total Comprehensive Income for the Year		-	-	125,712	-	125,712
At 31 December 2015		1,000,000	42,236	771,950	100,573	1,914,759
At 1 January 2015		1,000,000	42,236	771,950	100,573	1,914,759
Transfer to Statutory Reserve	30	-	-	(4,278)	4,278	-
2014 Dividends Declared		-	-	(50,000)	-	(50,000)
Total Comprehensive Income for the Year		-	-	168,030	-	168,030
At 31 December 2015		1,000,000	42,236	885,702	104,851	2,032,789

* Statutory reserve relates to extra provisions made in regard to non-performing loans in compliance with the Central Bank of Kenya Prudential Guidelines and is not distributable.

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2015

	Notes	2015 Sh'000	2014 Sh'000
Cash Flows From Operating Activities			
Net Cash used in Operating Activities	31(a)	(190,108)	(79,957)
Tax Paid	13(c)	(94,592)	(51,504)
Net Cash used in Operating Activities		(284,700)	(131,461)
Cash Flows from Investing Activities			
Purchase of Equipment	22	(56,712)	(68,791)
Purchase of Intangible Assets	23	(89,650)	(21,933)
Proceeds from Disposal of Equipment		8	30
Net Cash used in Investing Activities		(146,354)	(90,694)
Cash Flow from Financing Activities			
Dividends Paid	32	(49,828)	(79,710)
Decrease in Cash and Cash Equivalents		(480,882)	(301,865)
Cash and Cash Equivalents at 1 January		832,115	1,133,980
Cash and Cash Equivalents at 31 December	31(b)	351,233	832,115

1 Reporting Entity

Transnational Bank Limited (the "Bank") provides commercial banking services. The Bank is incorporated in Kenya under the Kenyan Companies Act and is domiciled in Kenya. The address of its registered office is as follows:

Trans-National Plaza
City Hall Way
P O Box 75840 - 00200
Nairobi

2 a) statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards. For purposes of reporting under the Kenyan Companies Act, the balance sheet in these financial statements is represented by the statement of financial position and the profit and loss account is presented in the statement of profit or loss and other comprehensive income.

b) Standards and Interpretations Affecting the Reported Results or Financial Position

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

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

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

IFRS 13 Fair Value Measurement	The amendment to the basis for conclusions of IFRS 13 clarifies that the issuance of IFRS 13 and consequential amendments to IAS 39 and IFRS 9 did not remove the ability to measure short- term receivables and payables with no stated interest rate at their invoice amounts without discounting, if the effect of discounting is immaterial. This amendment does not include any effective date because this is just to clarify the intended meaning in the basis for conclusions. As the Bank does not have any financial assets and financial liabilities that qualify for offset, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Bank's financial statements.
IAS 16 Property, Plant and Equipment; IAS 38 Intangible Assets	The amendments to IAS 16 and IAS 38 remove perceived inconsistencies in the accounting for accumulated depreciation/amortisation when an item of property, plant and equipment or an intangible asset is revalued. The amended standards clarify that the gross carrying amount is adjusted in a manner consistent with the revaluation of the carrying amount of the asset and that accumulated depreciation/amortisation is the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses. As the Bank has not revalued its plant and equipment and intangible assets with indefinite useful lives had been allocated, the application of the amendments has had no impact on the disclosures or on the amounts recognised in the Bank's financial statements.

2 b) Standards and Interpretations Affecting the Reported Results or Financial Position

Adoption of new and revised International Financial Reporting Standards (IFRSs)

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

IAS 24 Related Party Disclosures	The amendment clarifies that a management entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a related party of the reporting entity. Consequently, the reporting entity should disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of compensation to key management personnel that is paid by the management entity to the management entity's employees or directors is not required. The application of this Interpretation has had no material impact on the disclosures or on the amounts recognised in the Bank's financial statements.
Annual Improvements 2011-2013	The annual improvements 2011-2013 cycle makes amendments to the following standards: • IFRS 3 — The amendment clarifies that IFRS 3 does not apply to the accounting for the formation of joint arrangement in the financial statements of the joint arrangement itself. • IFRS 13 — The amendment clarifies that the scope of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. • IAS 40 — The amendment clarifies that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring an investment property must determine whether: (a) The property meets the definition of investment property in accordance with IAS 40; and (b) The transaction meets the definition of a business combination in accordance with IFRS 3.

An entity should apply the amendment prospectively for acquisitions of investment property from the beginning of the first period for which it adopts the amendment. Consequently, accounting for acquisitions of investment property in prior periods should not be restated. However, an entity may choose to apply the amendment to individual acquisitions of investment property that occurred prior to the beginning of the first annual period occurring on or after the effective date (i.e. 1 July 2014) if and only if information needed to apply the amendment to earlier transactions is available to the entity.

(i) New standards and amendments to published standards effective for the year ended 31 December 2015
The new terminologies have been adopted in these financial statements. In other respects the application of the amendments does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

New and Amendments to standards	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments	1 January 2018
IFRS 15 Revenue from contracts with customers	1 January 2018
IFRS 16 Leases	1 January 2019
Amendments to IAS 1	1 January 2016
Amendments to IAS 16 and IAS 38	1 January 2016
Amendments to IFRS's Annual improvements	1 January 2016

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

IFRS 9 Financial Instruments
In July 2014, the IASB finalised the reform of financial instruments accounting and issued IFRS 9 (as revised in 2014), which contains the requirements for a) the classification and measurement of financial assets and financial liabilities, b) impairment methodology, and c) general hedge accounting. IFRS 9 (as revised in 2014) will supersede IAS 39 Financial Instruments: Recognition and Measurement upon its effective date.

Phase 1: Classification and measurement of financial assets and financial liabilities
With respect to the classification and measurement, the number of categories of financial assets under IFRS 9 has been reduced; all recognised financial assets that are currently within the scope of IAS 39 will be subsequently measured at either amortised cost or fair value under IFRS 9. Specifically:

- A debt instrument that (i) is held within a business model whose objective is to collect the contractual cash flows and (ii) has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding must be measured at amortised cost (net of any write down for impairment), unless the asset is designated at fair value through profit or loss (FVTPL) under the fair value option.

- A debt instrument that (i) is held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets and (ii) has contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, must be measured at FVTOCI, unless the asset is designated at FVTPL under the fair value option.

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

IFRS 9 Financial Instruments

- All other debt instruments must be measured at FVTPL.
- All equity investments are to be measured in the statement of financial position at fair value, with gains and losses recognised in profit or loss except that if an equity investment is not held for trading, an irrevocable election can be made at initial recognition to measure the investment at FVTOCI, with dividend income recognised in profit or loss.

IFRS 9 also contains requirements for the classification and measurement of financial liabilities and derecognition requirements. One major change from IAS 39 relates to the presentation of changes in the fair value of a financial liability designated as at FVTPL attributable to changes in the credit risk of that liability. Under IFRS 9, such changes are presented in other comprehensive income, unless the presentation of the effect of the change in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as FVTPL is presented in profit or loss.

Phase 2: Impairment methodology

The impairment model under IFRS 9 reflects expected credit losses, as opposed to incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is no longer necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity always accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date to reflect changes in credit risk since initial recognition.

Phase 3: Hedge accounting

The general hedge accounting requirements of IFRS 9 retain the three types of hedge accounting mechanisms in IAS 39. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify as hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is no longer required. Far more disclosure requirements about an entity's risk management activities have been introduced.

Transitional provisions

IFRS 9 (as revised in 2014) is effective for annual periods beginning on or after 1 January 2018 with earlier application permitted. If an entity elects to apply IFRS 9 early, it must apply all of the requirements in IFRS 9 at the same time, except for those relating to:

1. The presentation of fair value gains and losses attributable to changes in the credit risk of financial liabilities designated as at FVTPL, the requirements for which an entity may early apply without applying the other requirements in IFRS 9; and

2. Hedge accounting, for which an entity may choose to continue to apply the hedge accounting requirements of IAS 39 instead of the requirements of IFRS 9.

The directors of the Bank have not assessed the impact that the application of IFRS 9 will have on the Bank's financial statements.

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

IFRS 15 Revenue from Contracts with Customers

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

IFRS 15 will only cover revenue arising from contracts with customers. Under IFRS 15, a customer of an entity is a party that has contracted with the entity to obtain goods or services that are an output of the entity's ordinary activities in exchange for consideration. Unlike the scope of IAS 18, the recognition and measurement of interest income and dividend income from debt and equity investments are no longer within the scope of IFRS 15. Instead, they are within the scope of IAS 39 Financial Instruments: Recognition and Measurement (or IFRS 9 Financial Instruments, if IFRS 9 is early adopted).

As mentioned above, the new revenue Standard has a single model to deal with revenue from contracts with customers. Its core principle is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

Specifically, the Standard introduces a 5-step approach to revenue recognition:

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

Far more prescriptive guidance has been introduced by the new revenue Standard:

• Whether or not a contract (or a combination of contracts) contains more than one promised good or service, and if so, when and how the promised goods or services should be unbundled.

• Whether the transaction price allocated to each performance obligation should be recognised as revenue over time or at a point in time. Under IFRS 15, an entity recognises revenue when a performance obligation is satisfied, which is when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Unlike IAS 18, the new Standard does not include separate guidance for 'sales of goods' and 'provision of services'; rather, the new Standard requires entities to assess whether revenue should be recognised over time or a particular point in time regardless of whether revenue relates to 'sales of goods' or 'provision of services'.

• When the transaction price includes a variable consideration element, how it will affect the amount and timing of revenue to be recognised. The concept of variable consideration is broad; a transaction price is considered variable due to discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties and contingency arrangements. The new Standard introduces a high hurdle for variable consideration to be recognised as revenue – that is, only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

• When costs incurred to obtain a contract and costs to fulfil a contract can be recognised as an asset.

Under IFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15. The directors of the Bank do not anticipate that the application of IFRS 15 in the future will have a significant impact on amounts reported in respect of the Bank's financial statements.

IFRS 16 Leases

IFRS 16 specifies how an entity will recognise, measure, present and disclose leases. The standard provides a single lease accounting model, requiring leases to recognise assets and liabilities for all leases unless the lease is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance lease, with IFRS 16, approach to lessor accounting unchanged from its predecessor, IAS 17

IFRS 16 applies to annual reporting periods beginning on or after 1 January 2019. The directors do not anticipate that the adoption of IFRS 16 will have a significant impact on the Bank's financial statements.

Amendments to IAS 1 (Disclosure Initiative)

The amendments were a response to comments that there were difficulties in applying the concept of materiality in practice as the wording of some of the requirements in IAS 1 had in some cases been read to prevent the use of judgement. Certain key highlights in the amendments are as follows:

• An entity should not reduce the understandability of its financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions.

• An entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material.

• In the other comprehensive income section of a statement of profit or loss and other comprehensive income, the amendments require separate disclosures for the following items:

- the share of other comprehensive income of associates and joint ventures accounted for using
  the equity method that will not be reclassified subsequently to profit or loss; and
- the share of other comprehensive income of associates and joint ventures accounted for using
  the equity method that will be reclassified subsequently to profit or loss.

Application of the amendments need not be disclosed. The directors of the Bank do not anticipate that the application of IAS 1 in the future will have a significant impact on amounts reported in respect of the Bank's financial statements.

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

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

a) when the intangible asset is expressed as a measure of revenue; or

b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Bank uses the straight-line method for depreciation and amortisation for its property and equipment, and intangible assets respectively.

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

Annual Improvements 2012-2014 Cycle

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

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

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

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

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

(iv) Early adoption of standards

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

3. Summary of Significant Accounting Policies

Basis of preparation

The financial statements have been prepared on the historical cost basis of accounting except for the following financial instruments:

- Derivative financial instruments
- Financial instruments at fair value through profit or loss

Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised within profit or loss on the accrual basis using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial instruments (or, where appropriate, a shorter period) to the carrying amount of the financial instruments. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently.
The calculation of the effective interest rate includes all fees and commissions paid or received transaction costs, and discounts or premiums that are an integral part of the effective interest rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or liability.

Fees and commission income

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

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

Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

Property and equipment

Property and equipment is stated at cost less accumulated depreciation and accumulated impairment losses where applicable.

Depreciation

Depreciation is calculated on a straight line basis at annual rates estimated to write off the cost of the property and equipment over their expected useful lives. The rates generally in use are:

Leasehold improvements	20%
Motor vehicles	25%
Computer hardware and software	30%
Equipment, furniture, fixtures and fittings	12.5%

Intangible assets

Computer software costs are stated at cost less amortisation and impairment losses where applicable. The costs are amortised over their expected useful lives on a straight line basis. Currently, software costs are amortised over three years.

Impairment of non-financial assets

At the end of each reporting period, the Bank reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated and an impairment loss is recognized in profit or loss whenever the carrying amount of the asset exceeds its recoverable amount.
Previously recognised impairment losses may be reversed to the extent of the assets carrying amount.

Foreign currencies

i) Functional and presentation currency

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

ii) Transactions and balances

Foreign currency transactions that are denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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 through profit or loss.

Offsetting

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

Financial instruments

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

a) Classification and measurement

The Bank classifies its financial assets into the following IAS 39 categories: financial assets at fair value through profit or loss; loans, advances and receivables and held-to- maturity investments. Management determines the appropriate classification of its financial instruments at initial recognition, depending on the purpose and intention for which the financial instrument was acquired and their characteristics.

i) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

a) It has been acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
b) On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and for which there is evidence of a recent actual pattern of short-term profit taking; or;
c) It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss if:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) The financial asset forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy and information about the Banking is provided internally on that basis; or
c) It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial instruments at fair value through profit or loss are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in the profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset.

ii) Due from banks and loans and advances to customers

Due from banks and loans and advances to customers include non–derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are recognised when cash is advanced to borrowers.

After initial recognition, these amounts are subsequently measured at amortised cost using the effective interest rates, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in profit and loss. The losses arising from impairment are recognised in profit or loss.

iii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the positive intention and ability to hold to maturity.
Held-to-maturity financial assets are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and recognised in the profit or loss.
Where a sale occurs of other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and classified as available for sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held to maturity during the following two years.

b) Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass–through' arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

c) Impairment and uncollectability of financial assets

The Bank assesses at each reporting date whether there is objective evidence that a financial asset or Bank of financial assets is impaired. A financial asset or Bank 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 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 Bank 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:

- Deliquency in contractual payments of principal and interest;
- Cashflow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and

- Downgrading below investment grade level.

If it is probable that the Bank will not be able to collect all amounts due (principal and interest) according to the contractual terms of loans, receivables, or held-to-maturity investments carried at amortised cost, an impairment or bad debt loss has occurred. The amount of the loss is the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial instrument's original effective interest rate (recoverable amount). The carrying amount of the asset is reduced to its estimated recoverable amount through use of the provision for bad and doubtful debts account. The amount of the loss incurred is included in profit or loss for the period.

i) Assets carried at amortised cost

The Bank assesses whether objective evidence of impairment exists individually for assets that are individually significant and individually or collectively for 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 Bank 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 financial assets 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 the estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial instruments effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss.

For the purposes of a collective evaluation of impairment, financial assets are Banked 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 types, past due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for Banks 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.

i) Assets carried at amortised cost

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

When a loan is uncollectible it is written off against the related provisions for loan impairment. Such loans are written off after all the necessary recovery procedures have been completed and the amount of loan has been determined. Subsequent recoveries of amounts previously written off are recognised as gains in the profit and loss.

ii) Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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

Equity instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities
Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

i) Financial liabilities at fair value through profit or loss
Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is classified as held for trading if:

a) It has been acquired or incurred principally for the purpose of repurchasing it in the near term; or
b) On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
c) It is a derivative that is not designated and effective as a hedging instrument.

A financial liability (other than a financial liability held for trading) may also be designated as at fair value through profit or loss upon initial recognition if:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
b) The financial liability forms part of a Bank of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the Banking is provided internally on that basis; or it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

ii) Other financial liabilities
Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction

costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Financial guarantee contracts

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

The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight line basis over the life of the guarantee.

b) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in profit or loss. The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Derivative financial instruments

Derivatives, which comprise solely forward exchange contracts, are initially recognised at fair value on the date the derivative contract is entered into and subsequently measured at fair value. The fair value is determined using forward exchange market rates at the statement of financial position date or appropriate pricing models. The derivatives do not qualify for hedge accounting. A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. Changes in the fair value of derivatives are recognised immediately in profit or loss.

Statutory reserve

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

Leasing

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

The Bank as lessor

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

The Bank as lessee

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

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences are utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from good will or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.
The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

Current and deferred tax for the year

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

Retirement benefits

The Bank operates a defined contribution retirement benefit scheme for its employees. The assets of this scheme are held in a separate trustee administered fund. The scheme is funded by payments from both the employees and the Bank. The Bank also contributes to a statutory defined contribution pension scheme, the National Social Security Fund (NSSF). Contributions are determined by local statute and are currently limited to Sh 200 per month per employee. The Bank's contributions in respect of retirement benefit costs are charged to profit or loss in the year to which they relate.

Contingent liabilities

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

Comparatives

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

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

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

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

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are as discussed below:

Impairment losses on loans and advances

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

Held-to-maturity investments

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

(ii) Key sources of estimation uncertainty

Property and equipment and intangible assets
Critical estimates are made by the directors in determining depreciation/amortisation rates for property and equipment and intangible assets.

Deferred tax assets
Critical estimates are made by the directors in determining the recoverability of deferred tax assets.

5. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management framework
The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Asset and Liability Committee (ALCO) and the Credit and Risk and Compliance committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas. All board committees have both executive and non-executive members and report regularly to the Board of Directors on their activities. The Board has set up an independent compliance function reporting to the Board.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.
The Audit committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit committee is assisted in these functions by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the audit committee.

The Bank's overall financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on financial performance.

i) Non-Financial Risk Management disclosures:

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

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

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

Who manages strategic risk

The Board of Directors is responsible for the overall direction and implementation of the Bank's strategy for purposes of enhancing shareholders' value. It has however delegated the implementation aspects to the Chief Executive Officer (CEO) and the Senior Management team who execute strategy.
Additionally, the Board of Directors, with support from CEO and Senior Management, develops and implements a new strategic cycle every 3 years to cater for the next plan period for the Bank.

Managing strategic risk

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

The Bank's CEO co-ordinates an annual strategic planning process for Senior Management intended to align individual business strategies to overall enterprise level strategies as approved by the Board of Directors. They include a comprehensive review and evaluation of the business strategies, competitive positioning, financial performance, initiatives of strategic executions and key business risks.

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

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

b) Operational risk

Operational risk is the potential for loss arising from inadequate or failed processes, systems, people or external events. Operational risk is embedded in all business activities including the practices for managing other risks e.g. credit, market and liquidity risks and arises in the normal course of business. The impact of these risks can result in significant financial loss, reputational harm or regulatory censure and penalties. The operational risks faced by the Bank and in line with Basel II recommendations, the Bank categorizes its operational risk into the following seven loss event categories.

- Internal frauds-Losses due to acts of a type intended to defraud, misappropriate property or circumvent regulations, the law or Bank policy, excluding diversity and discrimination events, which involves at least one internal party.
- External risks-Losses due to acts of a type intended to defraud, misappropriate property or circumvent the law, by a third party.
- Employment Practices and workplace safety-Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity and discrimination events.
- Clients, products and business practices- Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from improper business or market practices, from product flaws, or from disputes over performance of advisory activities.

- **Damage to physical assets -** Losses arising from loss or damage to physical assets from natural disaster or external events such as terrorism or vandalism.
- **Business disruptions and system failures-** Losses arising from disruption of business or system failures (i.e. hardware, software, network, telecommunication).
- **Execution, delivery and process management-** Losses from failed transaction processing or process management.

Who manages operational risk

The Board of Directors and the CEO have direct responsibility for the management and control of operational risk throughout the Bank. Bank Management and the Risk and Compliance Committee of the Board coordinate, facilitate, and oversee the effectiveness and integrity of the Bank's operational risk management framework while Internal Audit and the Bank's external auditors provide independent assurance and challenge across all business functions in respect of the integrity and effectiveness of this framework.

The staff and management working within or managing operational branch are responsible for the day-to-day management and control of operational risk within their businesses.

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

How the Bank manages operational risk

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

i) Governance and Policy: Management reporting and organisational structures emphasise accountability, ownership and effective oversight of each business unit's operational risk exposures. Furthermore, the Board Risk and Compliance Committee and Senior Management's expectations are guided by the Bank's policies.

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

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

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

v) Insurance: A comprehensive portfolio of insurance and other risk mitigating arrangements are maintained with the type and level of insurance coverage continually assessed to ensure both risk tolerance and statutory requirements are met. This includes identifying opportunities for transferring our risks to third parties where appropriate.

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

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

viii) Project Management: We have a disciplined project management program to ensure projects are implemented successfully in a planned and systematic manner and are monitored by Senior Management.

ix) Financial Crime: Safeguarding customers, employees, assets, information, and preventing plus detecting fraud as well as other forms of financial crime.

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

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

The Bank strives for high standards of compliance with policy, legal and regulatory requirements in all business dealings and transactions. As a result of high financial business regulation the Bank is exposed to regulatory and legal risks in virtually all our activities including those from the regulator (Central Bank of Kenya). Failure to comply with regulation not only poses a risk of censure and litigation but may lead to serious reputational risks. Financial penalties and costs related to litigation may also substantially erode the Bank's earnings.

Who manages regulatory and legal risk

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

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

How the Bank manages regulatory and legal risks

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

Departmental Heads manage day-to-day regulatory and legal risk primarily by implementing appropriate policies, procedures and controls already in place. The Legal and Risk and Compliance departments assist them by:

i) Communicating and advising on regulatory and legal requirements, and emerging compliance obligations to each business unit as required.

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

iii) Tracking, escalating and reporting significant issues and findings to Senior Management and the Board of Directors.

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

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

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

d) Reputational risk

Reputational risk is the potential that negative stakeholder impressions or perceptions, whether true or not, regarding the Bank's business practices, actions or inactions, will or may cause a decline in its value, brand, liquidity or customer base. It is a resultant effect of all other risks highlighted in this report and therefore cannot be managed in isolation. Therefore, when all the other risks are managed well, this risk is substantially minimised. The Bank's reputation is an invaluable business asset essential for optimising shareholder value, hence it is constantly under threat. Our services and activities, including new ones, ensure the Bank's good reputation is always maintained or enhanced.

Who manages reputational risk

Ultimate responsibility for this risk rests with the Board of Directors and Senior Management who examine the Bank's reputational risk as part of their regular mandate. Their purpose is to ensure that all products, services, and activities meet the Bank's reputational risk objectives in line with the Board of Director's approved appetite. Nonetheless, every employee and representative of the Bank has a responsibility to contribute positively to our reputation. Senior Management and the Board of Directors receive periodic reports on the assessment of the Bank's reputational risk exposures that arise from its business (including sales and service) activities so as to form a view on associated risks and implement corrective actions.

How the Bank manages reputational risk

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

ii) Financial Risk Management disclosures:

The Bank has exposure to the following risks from its use of financial instruments composed of credit risk, liquidity risk and market risks

(a) Credit risk

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

i) Management of credit risk

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

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

The Bank monitors concentration of risk by economic sector in line with the Bank's set limits per the sector. An analysis of concentrations within the loans and advances to customers, customer deposits and off balance sheet items is as follows:

(a) Loans and advances to customers - net

	2015		2014	
	Sh'000	%	Sh'000	%
Agriculture	1,647,370	25	1,247,690	21
Manufacturing	321,165	5	278,748	5
Wholesale and retail	620,093	9	721,170	12
Transport and communication	540,324	8	411,518	7
Real estate	888,736	13	758,496	13
Social community and personal services	725,197	11	719,666	12
Business services	341,198	6	386,465	6
Other	1,565,423	23	1,485,674	25
	6,649,506	100	6,009,427	100

(b) Customer deposits

	2015		2014	
	Sh'000	%	Sh'000	%
Building societies	-	-	-	-
Co-operative societies	1,722	-	1,706	-
Insurance companies	13,767	-	13,632	-
Private enterprises	1,449,904	19	1,443,181	19
Non profit institutions and individuals	6,117,186	81	6,201,152	81
	7,582,579	100	7,659,671	100

(c) Items not reported in statement of financial position (letters of credit and guarantees)

	2015		2014	
	Sh'000	%	Sh'000	%
Agriculture	15,155	2	2,028	-
Manufacturing	8,500	2	8,621	2
Wholesale and retail	3,634	1	2,874	1
Transport and communication	98,500	19	95,296	19
Real estate	10,941	2	8,621	2
Social community and personal services	12,450	2	11,494	2
Business services	115,800	40	198,744	40
Other	180,823	33	166,005	34
	445,803	100	493,683	100

(ii) Maximum exposure to credit risk before collateral held

Credit exposures:

Items reported in the statement of financial position:

	2015		2014	
	Sh'000	%	Sh'000	%
Deposits and balances due from banking institutions	73,624	1	723,256	8
Loans and advances to customers - net	6,649,506	72	6,009,427	63
Government securities held to maturity	2,118,498	23	2,142,396	22
Commercial paper	-	-	153,567	2
	8,841,628	96	9,028,646	95
Items not reported in the statement of financial position:				
Letters of credit	24,441	-	47,040	-
Letters of guarantees and performance bonds	372,522	4	399,473	4
Foreign exchange forward contracts	48,840	-	47,170	1
	445,803	4	493,683	5
	9,287,431	100	9,522,329	100

(iii) Classification of loans and advances

	2015	2014
	Sh'000	Sh'000
Individually impaired		
Grade 5: Impaired (loss)	324,445	177,994
Grade 3 & 4: Impaired (doubtful)	408,963	351,269
Gross amount	733,408	529,263
Suspended interest	(93,420)	(71,890)
Allowance for impairment (note 20)	(417,999)	(313,195)
Carrying amount	221,989	144,178
Past due but not impaired		
Watch (30-90 days)	2,191,179	2,056,907
Allowance for impairment (note 20)	(21,211)	(62,007)
	2,169,968	1,994,900
Neither past due nor impaired		
Grade 1: Normal	4,257,549	3,870,349
Total carrying amount	6,649,506	6,009,427

Impaired loans and advances
Impaired loans and securities are loans and advances for which the Bank determines that it is probable that it will be unable to collect a part/whole of principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 3, 4 and 5 in the Bank's internal credit risk grading system.

Past due but not impaired loans
Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and or the stage of collection of amounts owed to the Bank. These exposures are categorised as watch accounts in line with Central Bank of Kenya prudential guidelines and a general provision at 3% is made and appropriated under statutory reserves.

Loans and advances that are neither past due nor impaired.
The Bank classifies loans and advances under this category for those exposures that are upto date and in line with contractual agreements. Such loans would have demonstrated financial conditions, risk factors and capacity to repay that are acceptable. These exposures will normally be maintained largely within approved product programs and with no signs of impairment or distress. These exposures are categorised as normal accounts in line with Central Bank of Kenya (CBK) prudential guidelines and a general provision at 1% is made and appropriated under statutory reserves.

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

	2015	2014
	Sh'000	Sh'000
Renegotiated loans	136,942	148,727

(iv) Allowances for impairment
The Bank sets aside from its income an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to each defaulting borrower, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

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

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade.

	Loans and advances to customers	
	Gross	Net
	Sh'000	Sh'000
31 December 2015		
Grade 5: Individually impaired	324,445	37,510
Grade 3 & 4: Individually ipaired	408,963	184,479
Total	733,408	221,989
31 December 2014		
Grade 5: Individually impaired	177,994	29,456
Grade 3 & 4: Individually impaired	351,269	114,722
Total	529,263	144,178

(vi) Collateral held

The Bank holds collateral against loans and advances to customers, non-insiders as well as insiders 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.

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

An estimate of the fair value of collateral and other security enhancements held against past due and impaired loans and advances is shown below:

	2015	2014
	Sh'000	Sh'000
Against individually impaired		
Property	293,500	287,500
Other	302,637	219,784
	596,137	507,284
Against past due but not ipaired		
Property	2,342,536	2,126,419
Other	523,900	708,806
	2,866,436	2,835,225
Total	3,462,573	3,341,931

(vii) Settlement risk

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

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

b) Liquidity risk
The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with customer requirements. Liquidity risk is addressed through the following measures:

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

The Asset and Liability Committee (ALCO), a management committee, is tasked with the responsibility of ensuring that all foreseeable funding commitments and deposits withdrawals can be met when due and that no difficulties in meeting financial liabilities as they fall due are encountered. The Bank's Treasury department maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

(ii) Source of funding
The Bank has an aggressive strategy aimed at increasing the customer base and maintains a diversified and stable base comprising retail and corporate customers. The Bank also borrows from the interbank market through transactions with other Banks and from the wholesale market through transactions with pension funds and insurance companies for short term liquidity requirements.

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

Details of the reported Bank ratio of net liquid assets to customer deposits at the reporting date and during the reporting period were as follows:

	2015	2014
At 31 December	34%	40%
Average for the period	36%	42%
Maximum for the period	41%	46%
Minimum for the period	29%	38%
Statutory Minimum requirement	20%	20%

Liquidity risk based on undiscounted cash flows

The table below represents the cash flows payable by the Bank under non-derivative financial liabilities by remaining contractual maturities at the reporting date. The amounts disclosed in the table are the contractual undiscounted cash flows, since the Bank manages the inherent liquidity risk based on expected undiscounted cash inflows.

Liquidity risk based on undiscounted cash flows

At 31 December 2015	Upto 3 months Sh'000	3-6 months Sh'000	6-12 months Sh'000	1-3 years Sh'000	3-5 years Sh'000	Over 5 years Sh'000	Total Sh'000
FINANCIAL LIABILITIES							
Customer deposits	6,436,633	945,346	200,400	200	-	-	7,582,579
Financial guarantee contracts	445,803	-	-	-	-	-	445,803
Due to banking institutions	491,905	-	-	-	-	-	491,905
	7,374,341	945,346	200,400	200	-	-	8,520,287
FINANCIAL ASSETS							
Cash balances and	286,342	-	-	-	-	-	286,342
Bank balances with the Central Bank of Kenya	732,220	-	-	-	-	-	732,220
Deposits and balances due from banking institutions	73,624	-	-	-	-	-	73,624
Loans and advances to customers	2,692,655	418,474	1,550,221	1,417,701	804,899	359,707	7,243,657
Government securities	-	-	-	396,386	810,941	911,169	2,118,498
	3,784,841	418,474	1,550,221	1,814,087	1,615,840	1,270,877	10,454,341
Net liquidity gap	3,589,500	526,872	(1,349,821)	(1,813,887)	(1,615,840)	(1,270,877)	(1,934,054)
At 31 December 2014							
Total financial liabilities	7,261,048	851,944	302,483	915	-	-	8,416,390
Total financial assets	3,567,777	578,852	1,369,702	1,416,582	1,026,080	1,773,071	9,732,064
Net liquidity gap	3,693,271	273,092	(1,067,219)	(1,415,667)	(1,026,080)	(1,773,071)	(1,315,674)

c) Market risks

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

Management of market risks

The Bank's open Foreign Exchange Position is the net investment in its foreign operations. The amount of market risk on the net foreign exchange position is estimated at 4% of the amount of net exchange position.

Overall authority for market risk is vested in ALCO. The senior management is responsible for the development of detailed risk management policies (subject to review and approval by the Board) and for the day-to-day review of their implementation.

Exposure to interest rate risk – non-trading portfolios

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on financial position and cash flows. The assets and liability committee closely monitors the interest rates trends to minimize the potential adverse impact of interest rate changes. The table overleaf summarizes the exposure of interest rate risk at the reporting date. The Bank maintains an appropriate mix of fixed and floating rates deposit base. Interest rates on advances to customers and other risk assets are either pegged to the Bank's base lending rate or Treasury bill rate. The base rate is adjusted from time to time to reflect the cost of deposits.

Interest rates on customer deposits are negotiated between the Bank and the customer with the Bank retaining the discretion to adjust the rates in line with changes in market trends. The interest rates, therefore, fluctuate depending on the movement in the market interest rates. The Bank also invests in fixed interest rate instruments issued by the Government of Kenya through the Central Bank of Kenya.

The matching and controlled mismatching of the maturities and interest rate of assets and liabilities is fundamental to the management of the Bank. It is unusual for a Bank's assets and liabilities to be completely matched due to the nature of business terms and types.

The Bank is exposed to various risks associated with the effects of fluctuation in the prevailing levels of market interest rates on its financial position and cash flows.

Interest rate risks

The Assets and Liability Committee closely monitors the interest rate trends to minimize the potential adverse impact of interest rate changes. The table below summarises the exposure to interest rate risk at the reporting date whereby financial assets and liabilities at carrying amounts are categorized by the earlier of contractual re-pricing or maturity dates.

At 31 December 2015	Upto 3 months	3-6 months	6-12 months	1-3 years	Over 3 years	Non-interest bearing	Total
Financial Assets	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Cash balances	286,342	-	-	-	-	-	286,342
Bank balances with the Central Bank of Kenya	732,220	-	-	-	-	-	732,220
Deposits and balances due from banking institutions	73,624	-	-	-	-	-	73,624
Loans and advances to customers	2,692,655	418,474	1,550,221	1,417,701	804,899	359,707	7,243,657
Government securities	-	-	-	396,386	810,943	911,169	2,118,498
Total financial assets	3,784,841	418,474	1,550,221	1,814,087	1,615,842	1,270,876	10,454,341
Financial Liabilities							
Customer deposits	6,436,633	945,345	200,400	200	-	-	7,582,578
Due to banking institutions	491,905	-	-	-	-	-	491,905
Total financial liabilities	6,928,538	945,345	200,400	200	-	-	8,074,483
Interest sensitivity gap	3,143,697	526,871	(1,349,821)	(1,813,887)	(1,615,842)	(1,270,876)	(2,379,856)
Total assets	3,567,777	578,852	1,369,702	1,416,582	1,026,080	1,773,071	9,732,064
Total liabilities	6,880,453	838,023	297,540	900	-	-	8,016,916
Interest sensitivity gap	(3,312,676)	(259,171)	1,072,162	1,415,682	1,026,080	1,773,071	1,715,148

Interest rate risk stress test - Increase/decrease of 8% in Net Interest Margin

Interest rate risk sensitivity analysis is based on the following assumptions

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

The table below sets out the impact on the net interest income of an incremental 8% parallel fall or rise in net interest margin for the twelve months from 1 January 2015 to 31 December 2015.

31 December 2015	Sh'000	Scenario 1 8% increase in net interest margin	Scenario 2 8% decrease in net interest margin
Profit before tax	251,623	271,753	231,493
Adjusted core capital	1,927,938	2,082,173	1,773,703
Risk weighted assets (RWA)	9,392,602	10,144,010	8,641,194
Adjusted core capital to RWA	20.53%	20.53%	20.53%
Adjusted total capital to RWA	21.64%	21.64%	21.64%

Overall non-trading interest rate risk positions are managed by treasury, which uses investment securities, advances to banks, deposits from banks and derivative instruments to manage the overall position arising from the Bank's non-trading activities.

Currency risk

The Bank operates wholly in Kenya and its assets and liabilities are reported in the local currency.
The Bank's currency risk is managed within the Central Bank of Kenya exposure guideline of 20% of core capital.
The Bank's management monitors foreign currency exposure on a daily basis.

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

At 31 December 2015	KSH	USD	GBP	EURO	Others	Total
	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000	Sh'000
Financial Assets						
Cash balances	269,610	10,591	1,657	1,976	2,508	286,342
Bank balances with Central Bank of Kenya	697,116	31,086	1,706	2,274	38	732,220
Deposits and balances due from banking institutions	1,048	30,532	8,736	18,674	14,634	73,624
Loans and advances	6,336,861	254,758	94	57,793	-	6,649,506
Government securities	2,118,498	-	-	-	-	2,118,498
Total financial assets	9,423,133	326,967	12,193	80,717	17,179	9,910,190
Financial Liabilities						
Customer deposits	7,404,451	143,276	1,314	33,518	20	7,582,579
Due to banking institutions	429,608	51,150	-	11,147	-	491,905
Total financial liabilities	7,834,059	194,426	1,314	44,665	20	8,074,484
Net items reported in statement of financial position	1,589,074	132,541	10,879	36,052	17,159	1,835,706
Items not reported in statement of financial position	364,633	81,170	-	-	-	445,803
At 31 December 2014						
Total financial assets	9,164,663	391,753	16,962	149,891	8,795	9,732,064
Total financial liabilities	7,450,195	523,224	1,314	42,165	18	8,016,916
Net items reported in statement of financial position	1,714,468	(131,471)	15,648	107,726	8,777	1,715,148
Items not reported in statement of financial position	428,159	39,918	212	-	25,394	493,683

Foreign currency risk stress test-appreciation/depreciation of Kenya shilling by 10%

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

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

The table below summarises the estimated impact of a 10% decline/appreciation of the Kenya Shilling.

		Scenario 1 10% appreciation of Kenya shilling	Scenario 2 10% depreciation of Kenya shilling
31 December 2015	Sh'000	margin	margin
Profit before tax	251,623	276,785	226,461
Adjusted core capital	1,927,938	2,082,173	1,773,703
Risk weighted assets (RWA)	9,392,602	10,144,010	8,641,194
Adjusted core capital to RWA	20.53%	20.53%	20.53%
Adjusted total capital to RWA	21.64%	21.64%	21.64%

Exposure to other market risks – non-trading portfolios

Credit spread risk (not relating to changes in the obligor/issuer's credit standing) on debt securities held by treasury and equity price risk is subject to regular monitoring by ALCO but is not currently significant in relation to the overall results and financial position of the Bank.

d) Fair value of financial assets and liabilities

(i) Financial instruments not measured at fair value

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

(ii) Fair value hierarchy

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

• **Level 1 –** Quoted prices in active markets for identical assets or liabilities. This level includes equity securities and debt instruments listed on the Nairobi stock exchange.

• **Level 2 –** Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly as derived from prices.

• **Level 3 –** inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.
Fair value of the Bank's financial assets and liabilities that are measured at fair value on a recurrent basis
Some of the Bank's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

Financial Assets/ (liabilities)	Fair value as at 31/12/15 Sh'000	31/12/15 Sh'000	Fair value hierarchy	Valuation technique (s) and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial derivative	54	(929)	Level	Exchange rates in an active market	N/A	N/A

There were no transfers between levels 1, 2 and 3 in the period (2014: Nil).
The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

At 31 December 2015	Note	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Shs'000
Fair value - Financial Derivative	29	54	-	-	54
31 December 2014					
Fair value - Financial Derivative	29	(929)	-	-	(929)

Reconciliation of level 3 fair value measurements
There were no financial assets or financial liabilities measured at fair value on level 3 fair value measurement (2014: none).

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

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

6. CAPITAL MANAGEMENT

Regulatory capital
The Central Bank of Kenya sets and monitors capital requirements for the Bank as a whole.

In implementing current capital requirements the Central Bank of Kenya requires the Bank to maintain a prescribed ratio of total capital to total risk-weighted assets. The Bank calculates requirements for operations risk and market risk for internal monitoring purposes.

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

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

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

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

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

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

- A minimum level of regulatory capital of Shs 1 billion as at 31 December 2015.
- A ratio of core capital to the risk–weighted assets plus risk-weighted off-balance sheet assets at or above the required minimum of 10.5%.
- Core capital of not less than 10.5% of total deposit liabilities.
- Total capital of not less than 14.5% of risk-weighted assets plus risk-weighted off-balance sheet items.

The Bank has complied with all externally imposed capital requirements throughout the year.
There have been no material changes in the Bank's management of capital during the year.

The Bank's regulatory capital positions at 31st December was as follows:

	2015 Sh'000	2014 Sh'000
Tier 1 capital		
Total share capital	1,000,000	1,000,000
Share premium	42,236	42,236
Retained earnings	885,702	771,950
Total	1,927,938	1,814,186
Tier 2 capital		
Statutory reserve	104,851	100,573
Total regulatory capital	2,032,789	1,914,759
Risk-weighted assets		
Retail bank, corporate bank and central treasury	9,392,602	6,904,549
Total risk weighted assets	9,392,602	6,904,549
Capital ratios		
Total regulatory capital expressed as a percentage of total risk-weighted assets	21%	28%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	22%	26%

7. INTEREST INCOME

	2015 Sh'000	2014 Sh'000
Loans and advances	1,235,809	1,040,156
Government securities held to maturity	198,698	205,849
Deposits and balances due from banking institutions	10,856	17,228
	1,445,363	1,263,233

8. INTEREST EXPENSE

	2015 Sh'000	2014 Sh'000
Interest on customer deposits	547,003	479,001
Interest on deposits due to banking institutions	37,211	6,615
	584,214	485,616

9. FEES AND COMMISSION INCOME

	2015 Sh'000	2014 Sh'000
Commissions	153,332	132,895
Ledger related fees	27,659	27,508
	180,991	160,403

10. OTHER INCOME

	2015 Sh'000	2014 Sh'000
Gain on sale of treasury bonds	1,806	951
Gain on disposal of equipment	8	30
Miscellaneous income	6,710	560
Foreign exchange gains*	35,935	22,603
	44,459	24,144

* Foreign exchange gains arose from trading in foreign currency transactions and also on the translation of foreign currency monetary assets and liabilities.

	2015 Sh'000	2014 Sh'000
11. OTHER OPERATING EXPENSES		
Staff costs (note 12)	367,387	351,972
Directors' emoluments - fees	9,343	6,971
- other emoluments	12,676	15,831
Other expenses	100,030	72,970
Rent and parking	62,165	54,279
Depreciation (note 22)	41,911	34,912
Computer maintenance	20,372	7,910
Security services	34,895	31,775
Amortisation of intangible assets (note 23)	27,903	12,763
Telephone, data and postage	22,944	23,712
Insurance	17,587	16,227
Advertising and marketing	16,500	30,434
Stationery and supplies	8,223	8,150
Auditors' remuneration	3,722	3,200
Information system audit	1,600	-
Contribution to Deposit Protection Fund	11,218	9,467
	758,476	680,573
12. STAFF COSTS		
Salaries and wages	315,154	282,858
Pension costs - defined contribution plan	19,832	19,322
Provision for leave pay	13,833	15,854
Medical expenses	9,799	7,819
National Social Security Fund contributions	509	458
Other staff costs	2,412	20,387
Refreshments and entertainment	5,848	5,274
	367,387	351,972
13. TAXATION		
a) Taxation charge		
Current taxation based on the taxable profit for the year at 30%		
Current tax charge	108,409	73,847
Deferred taxation credit (note 24)	(24,816)	(14,541)
Deferred taxation - prior year under provision (note 24)	-	5,798
Taxation charge	83,593	65,104

	2015 Sh'000	2014 Sh'000
b) Reconciliation of taxation charge to the expected taxation based on profit before taxation		
Profit before taxation	251,623	190,816
Tax at the applicable rate of 30%	75,487	57,245
Tax effect of expenses not deductible for tax purposes	8,106	2,331
Tax effect of income not taxable	-	(270)
Prior year deferred tax under provision	-	5,798
Taxation charge for the year	83,593	65,104
C). TAX PAYABLE		
At the beginning of the year	12,992	(9,351)
Charge for the year	108,409	73,847
Payments during the year	(94,592)	(51,504)
At end of the year	26,809	12,992
14. EARNINGS PER SHARE		
Profit attributable to owners of the Bank – Sh'000	168,030	125,712
At 1 January and 31 December (note 29)	200,000,000	200,000,000
Basic earnings per share – Sh	0.84	0.63

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

	2015 Sh'000	2014 Sh'000
CASH ON HAND AND BALANCES WITH CENTRAL BANK OF KENYA		
Cash on hand	286,342	307,857
Balances with Central Bank of Kenya:		
- Cash ratio requirement	391,632	380,915
- Cash held under lien	12,262	9,966
- Other (available for use by the Bank)	328,326	4,571
	732,220	395,452
	1,018,562	703,309

The cash ratio requirement balance is non-interest earning and is based on the value of customer deposits as adjusted by the Central Bank of Kenya requirements. As at 31 December 2015, the cash ratio requirement was 5.25% (2014 – 5.25%) of all customer deposits. These funds are not available to finance the Bank's day to day operations. The cash held under lien comprises USD 100,000 (2014 – USD 100,000). This amount is held by the Central Bank of Kenya for domestic and foreign currency clearing and thus is not available for the Bank's use (note 35).

16. DEPOSITS AND BALANCES DUE FROM BANKING INSTITUTIONS

	2015 Sh'000	2014 Sh'000
Held to maturity: At amortised cost		
Current accounts due on demand	73,624	723,365

The weighted average effective interest rate on deposits with banking institutions as at 31 December 2015 was 7.91% (2014 – 9.3%) and nil for current account balances.

	2015 Sh'000	2014 Sh'000
17. GOVERNMENT SECURITIES		
Treasury bonds – Held to maturity		
- maturing within 90 days	154,846	-
- maturing between 90 days to 1 year	9,051	209,109
- maturing between 1 - 2 years	-	163,969
- maturing after 2 years but within 5 years	1,288,953	314,909
- maturing after 5 years	665,648	1,454,409
	2,118,498	2,142,396

The weighted average effective interest rate as at year end was:	2015 %	2014 %
Treasury bonds held to maturity	10.41	9.53

	2015 Sh'000	2014 Sh'000
18. COMMERCIAL PAPER		
Maturing within 90 days	-	153,567

The commercial paper was held with Kenol Kobil Limited and was redeemed during 2015. As at 31 December 2014, the weighted average effective rate for the commercial paper was 12.96% per annum.

19. LOANS AND ADVANCES TO CUSTOMERS

	2015 Sh'000	2014 Sh'000
a) Loans and advances to customers	6,039,936	5,470,660
Staff loans (note 34(b))	366,424	311,752
Finance lease receivables (note 19(b))	837,296	756,321
	7,243,656	6,538,733
Less: unearned finance charges (note 19(b))	(154,940)	(154,104)
	7,088,716	6,384,629
Impairment loss on loans and advances (note 20)	(439,210)	(375,202)
	6,649,506	6,009,427

	Minimum lease payments		Minimum lease payments	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
b) Finance lease receivables				
Amounts receivable under finance leases:				
Within one year	332,920	305,980	289,640	282,051
In the second to fifth year inclusive	504,376	450,341	392,716	320,166
	837,296	756,321	682,356	602,217
Less: unearned finance income	(154,940)	(154,104)	-	-
Present value of minimum lease payments receivable	682,356	602,217	682,356	602,217

The Bank enters into finance leasing arrangements for certain equipment and motor vehicles.
The average term of finance leases entered into is 3 years. Unguaranteed residual values of assets leased under finance leases are estimated at Sh Nil. (2014: Sh Nil). The interest rate inherent in the leases is variable at the contract date for all of the lease term.

The weighted average effective interest rate on loans and advances as at 31 December 2015 was 18.05% (2014 – 18.07%).

The weighted average effective interest rate on finance lease receivables at 31 December 2015 was 15.4% (2014 - 15.8%).

(c) Non performing loans and advances to customers

Included in net loans and advances of Sh 6,649,506,000 (2014 - Sh 6,009,427,000) are loans and advances amounting to Sh 221,989,000 (2014 - Sh 144,178,000), net of specific provisions, which have been classified as non-performing.

(d) MATURITY OF GROSS LOANS AND ADVANCES (NET OF FINANCE CHARGES)

	2015 Sh'000	2014 Sh'000
Maturing:		
Up to one month	1,604,471	1,453,987
1-3 months	933,244	839,038
3-6 months	418,474	376,231
6-12 months	1,550,221	1,393,735
1-3 years	1,417,701	1,274,592
3-5 years	804,899	723,649
Over 5 years	359,707	323,397
Loans and advances to customers (gross)	7,088,717	6,384,629

	2015 Sh'000	2014 Sh'000
GROSS LOANS AND ADVANCES TO CUSTOMERS		
BY TYPE (NET OF FINANCE CHARGES)		
Overdrafts	1,644,063	1,589,405
Term loans	5,444,654	4,795,224
Loans and advances to customers (gross)	7,088,717	6,384,629

The related party transactions and balances are covered under note 35 and concentration of advances to customers is covered under note (5a) (i) on financial risk management objectives and policies.

20. IMPAIRMENT LOSS ON LOANS AND ADVANCES

	2015 Sh'000	2014 Sh'000
At 1 January	375,202	319,858
Provisions in the year	76,500	91,225
Recoveries in the year	-	(450)
	76,500	90,775
Written off in the year	(12,491)	(35,431)
At 31 December	439,210	375,202
Make up:		
Individually impaired	417,999	313,195
Past due but not impaired	21,211	62,007
	439,210	375,202

	2015 Sh'000	2014 Sh'000
21. OTHER ASSETS		
Clearing and transit items	83,421	104,244
Deposits and prepayments	19,472	8,582
Interest receivable	154,940	154,104
Sundry debtors	6,800	7,902
Deposits	10,601	13,948
Other assets	24,015	27,244
	299,249	316,024

22. PROPERTY AND EQUIPMENT

	Leasehold improvements	Furniture, fittings and equipment, computer, hardware Shs'000	Motor vehicles Shs'000	Work in progress Shs'000	Total Shs'000
COST					
At 1 January 2014	115,669	199,535	9,713	10,639	335,556
Additions	31,274	33,817	3,700		68,791
Disposal	-	-	(2,030)	-	(2,030)
Transfer from Work in progress	3,654	6,985	-	(10,639)	-
At 31 December 2014	150,597	240,337	11,383	-	402,317
At 1 January 2015	150,597	240,337	11,383	-	402,317
Additions	19,951	35,608	1,153	-	56,712
Disposal	-	(8)	-	-	(8)
At 31 December 2015	170,548	275,937	12,536	-	459,021
DEPRECIATION					
At 1 January 2014	92,519	151,100	7,701	-	251,320
Charge for the year	12,379	19,924	2,609	-	34,912
Eliminated on disposal	-	-	(2,030)	-	(2,030)
At 31 December 2014	104,898	171,024	8,280	-	284,202
At 1 January 2015	104,898	171,024	8,280	-	284,202
Charge for the year	16,240	24,383	1,288	-	41,911
Eliminated on disposal	-	(8)	-	-	(8)
At 31 December 2015	121,138	195,399	9,568	-	326,105
NET BOOK VALUE					
At 31 December 2015	49,410	80,538	2,968	-	132,916
At 31 December 2014	45,699	69,313	3,103	-	118,115

Property and equipment with a cost of Sh 259,767,000 (2014 - Sh 169,247,000) were fully depreciated as at 31 December 2015. The nominal annual depreciation charge on these assets would have been Sh

58,595,000 (2014 - Sh 38,856,000).

23 INTANGIBLE ASSETS (Computer Software)

	Software Sh'000	Work in progress Sh'000	Total Sh'000
COST			
At 1 January 2014	62,194	21,794	83,988
Additions	21,933	-	21,933
Transfer from work in progress	21,794	(21,794)	-
At 1 January 2015	105,921	-	105,921
Additions	89,650	-	89,650
At 31 December 2015	195,571	-	195,571
AMORTISATION			
At 1 January 2014	55,818	-	55,818
Amortisation for the year	12,763	-	12,763
At 1 January 2015	68,581	-	68,581
Amortisation for the year	27,903	-	27,903
At 31 December 2015	96,484	-	96,484
NET BOOK VALUE			
At 31 December 2015	99,087	-	99,087
At 31 December 2014	37,340	-	37,340

Intangible assets with a cost of Sh 150,094,000 (2014 - Sh 49,818,000) were fully amortised as at 31 December 2015. The nominal annual amortisation charge on these assets would have been Sh 45,028,000 (2014 - Sh 14,945,000).

24. DEFERRED TAX ASSET

	2015 Sh'000	2014 Sh'000
The deferred tax asset is attributable to the following items:		
Accelerated capital allowances	21,190	11,952
Provisions		
- Leave pay	2,255	2,394
- Legal fees	3,007	3,929
- Gratuity and union salary increment	1,073	577
Other provisions	33,670	17,527
	61,195	36,379
Movement in deferred tax asset is as follows:		
At 1 January	36,379	27,636
Profit and loss credit/(charge):		
- Current year credit	24,816	14,541
- Prior year over/(under) provision	-	(5,798)
Profit and loss credit - Note 13(a)	24,816	8,743
At 31 December	61,195	36,379

25. CUSTOMER DEPOSITS

	2015 Sh'000	2014 Sh'000
Current and demand accounts	1,804,030	1,903,598
Savings accounts	866,750	799,644
Fixed and call deposit accounts	4,911,799	4,956,429
	7,582,579	7,659,671

MATURITY ANALYSIS OF CUSTOMER DEPOSITS

	2015	2014
Repayable:		
Within one month	4,346,837	5,114,201
Within 1 - 3 months	2,089,797	1,285,688
Within 3 - 6 months	945,345	838,022
Within 6-12 months	200,400	420,860
Within 1-3 years	200	900
	7,582,579	7,659,671

The weighted average effective interest rate on interest bearing customer deposits at 31 December 2015 was 10.5% (2014 – 10.40%).The related party transactions and balances are disclosed under note 35 and concentration of customer deposits is covered under note 5(a)(i) on financial risk management objectives and policies.

26. DUE TO BANKING INSTITUTIONS

	2015 Sh'000	2014 Sh'000
Demand accounts	491,905	357,245

The average effective interest rate on deposits and balances due to banking institutions at 31 December 2015 was 7.72% (2014: 6.4%).

27. OTHER LIABILITIES

	2015	2014
Bankers cheques outstanding	76,237	74,321
Deposits for letters of credit and letters of guarantee	10,602	7,483
Provision for leave pay	7,515	7,983
Legal fees provision	10,025	13,096
Bonus	2,800	2,135
Dividends payable (note 32(a))	1,353	1,181
Other liabilities and accruals	210,077	188,127
	318,609	294,326

28. FINANCIAL DERIVATIVES

Maturing within 3 months	Contract exchange rate 2015	Foreign currency 2015 $'000	Contract value 2015 Sh'000	Fair value asset 2015 Sh'000
Sell Euros	111.47	438	48,824	54
				54

At 31 December 2014

Maturing within 3 months	Contract exchange rate 2014	Foreign currency 2014 $'000	Contract value 2014 Sh'000	Fair value liability 2014 Sh'000
Sell Euros	112.78	350	39,473	929
				929

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency. The fair value is the difference between the contract value and the foreign currency at the closing rate of Sh 112.78 to US Dollar 1 and Sh 111.47 to Euro 1 in 2015

(2014- Sh 90.60 to US Dollar 1 and Sh 110.12 to Euro 1).

29. SHARE CAPITAL

	2015 Sh'000	2014 Sh'000
Authorised		
230,000,000 ordinary shares of Sh 5 each	1,150,000	1,150,000
Issued and fully paid:		
200,000,000 (2014- 200,000,000) ordinary shares of Sh 5 each	1,000,000	1,000,000

30. STATUTORY RESERVE

At 1 January 2015	100,573	62,317
Transfer from retained earnings	4,278	38,256
At 31 December 2015	104,851	100,573

The statutory reserve represents an appropriation from retained earnings to comply with Central Bank of Kenya's prudential guidelines on impairment of loans and advances. It represents the excess of loan provisions as computed in accordance with the Central Bank of Kenya prudential guidelines over the impairment of loans and receivables as computed per IAS 39. The statutory reserve is not distributable.

31. NOTES TO THE STATEMENT OF CASH FLOWS

	2015 Sh'000	2014 Sh'000
(a) Reconciliation of profit before taxation to cash used in operating activities		
Profit before taxation	251,623	190,816
Depreciation (note 22)	41,911	34,912
Amortisation of intangible assets (note 23)	27,903	12,763
Gain on disposal of equipment	(8)	(30)
	321,429	238,461
Working capital changes;		
Balances with Central Bank of Kenya		
- Cash ratio requirement (note 15)	(10,717)	10,727
- Cash held under lien	(2,296)	(506)
Government securities held at fair value	178,744	95,456
Loans and advances to customers	(640,079)	(864,718)
Other assets	16,775	(50,506)
Customer deposits	(77,092)	562,846
Other liabilities	24,111	(72,146)
Financial liability – derivatives	(983)	429
Cash used in operating activities	(190,108)	(79,957)

	2015 Sh'000	2014 Sh'000
(b) Analysis of the balances of cash and cash equivalents		
Cash on hand (note 15)	286,342	307,857
Balances with Central Bank of Kenya – other (note 15)	328,326	4,571
Placements and balances due from banking institutions		
(note 16)	73,624	723,365
Deposits due to banking institutions (note 26)	(491,905)	(357,245)
Commercial paper maturing within 90 days (note 18)	-	153,567
Government securities maturing within 90 days (note 17)	154,846	-
	351,233	832,115

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

32. DIVIDENDS

	2015 Sh'000	2014 Sh'000
a) Dividends payable		
At 1 January	1,181	891
Dividends declared	50,000	80,000
Dividends paid	(49,828)	(79,710)
At 31 December	1,353	1,181

Dividends payable relate to dividends declared in the current and previous year by the Bank but not collected by the shareholders or their representatives. The dividends payable have been included in other liabilities.

b) Proposed dividends
Proposed dividends are not accounted for until they have been ratified at the Annual General Meeting.
A first and final dividend for the year ended 31 December 2015 has been proposed as follows:-

Dividend per share	Total dividend
Sh	Sh
0.3	60,000,000

The financial statements for the year ended 31 December 2015 do not reflect this resolution which will be accounted for in the shareholders' equity as an appropriation of retained profits in the year ending 31 December 2016 after ratification by the shareholders at the Annual General Meeting.

Payment of dividends is subject to withholding tax at a rate of 5% for resident shareholders and 10% for non-resident shareholders.

33. CONTINGENCIES AND COMMITMENTS INCLUDING OFF BALANCE SHEET ITEMS

	2015 Sh'000	2014 Sh'000
(a) Contingent liabilities		
Letters of credit	24,441	47,040
Letters of guarantee and performance bonds	372,522	399,473
Forward exchange contracts	48,840	47,170
	445,803	493,683

Letters of credit commit the Bank to make payments to third parties, on production of documents, and the amounts are subsequently reimbursed by customers.

Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by customers to third parties. The Bank will only be required to meet these obligations in the event of default by the customers.

The Bank enters into forward foreign exchange contracts to cover specific exposure generated from payments and receipts of foreign currency.

The related party transactions and balances are covered under note 35 and concentration of contingent liabilities is covered under note 5(a)(i) on financial risk management objectives and policies.

	2015 Sh'000	2014 Sh'000
b) Capital commitments		
Authorised but not contracted for	229,683	118,012
Authorised and contracted for	33,400	5,000
	263,083	123,012

(c) Operating lease arrangements
The Bank leases its branches premises under operating leases. During the year ended 31 December 2015, Sh 59,438,000 (2014: Sh 51,238,000) was recognised as an expense in the profit or loss account in respect of operating leases.

The Bank as a lessee

At the reporting date, the Bank had outstanding commitments under operating leases which fall due as follows:

	2015 Sh'000	2014 Sh'000
Within one year	37,200	44,992
In the second to fifth year inclusive	61,500	53,200
	98,700	98,192

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

34. RELATED PARTY TRANSACTIONS

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

Placings are made in the Bank by directors, their associates and companies associated to directors. Advances to customers at 31 December 2015 include advances and loans to companies associated with directors. Contingent liabilities at 31 December 2015 include guarantees and letters of credit for companies associated with directors.

(a) The Bank leases office and parking space from Autosilo (Queensway) Ltd, a company with common directorship. Payments during the year amounted to Sh 27,466,000 (2014 - Sh 22,513,000).

(b) Loans and advances:

	Directors' associated companies		Employees	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
At 1 January	1,158,084	819,598	311,752	314,212
Net movement during the year	(423,891)	338,486	54,672	(2,460)
At 31 December	734,193	1,158,084	366,424	311,752

These loans and advances are performing and are adequately secured.

Interest earned on advances to directors and associated companies amounted to Sh 41,219,000

(2014 – Sh 46,940,000).

(c) Deposits:

	Directors' associated companies		Employees	
	2015 Sh'000	2014 Sh'000	2015 Sh'000	2014 Sh'000
At 1 January	1,369,377	1,706,418	19,222	39,099
Net movement during the year	(289,400)	(337,041)	(980)	(19,877)
At 31 December	1,079,977	1,369,377	18,242	19,222

Interest paid on deposits from directors and associated companies amounted to Sh 48,220,000 (2014 – Sh 51,836,000) and Sh 1,105,072 (2014 - Sh 1, 377,072) on staff deposits.

	2015 Sh'000	2014 Sh'000
Guarantees and letters of credit to		
companies associated with director	52,414	44,851

(e) Key management compensation

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

	2015 Sh'000	2014 Sh'000
Salaries and other benefits	43,337	81,580
Directors' remuneration:		
Fees for services as directors	9,343	6,971
Allowances	12,676	15,831
	22,019	22,802

35. ASSET PLEDGED AS SECURITY

As at 31 December 2015, assets pledged as security comprised balances with the Central Bank of Kenya under lien for Domestic Foreign Currency clearing amounting to USD 100,000 (2014: USD 100,000).

35. INCIDENTAL BUSINESS ACTIVITIES

The Bank is in partnership with Liaison Group (I.B) Limited to offer Bancassurance services to both Transnational Bank internal and external users. As per the agreement, the commissions on underwritten business are to be shared on a ratio 50:50 between the Bank and Liaison Group (I.B) Limited. The commission shared are net of expenses and are included in fees and commission income on the statement of profit or loss and other comprehensive income.

	2015 Sh'000	2014 Sh'000
Commissions – net of expenses	460	-

36. POST BALANCE SHEET EVENTS

No significant post balance sheet events have come to the attention of the Directors.

37. COUNTRY OF INCORPORATION

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

38. CURRENCY

The financial statements are presented in Kenya shillings thousands (Sh'000), the Bank's functional and presentation currency.

Appendix I

	Appendix	2015 Sh'000	2014 Sh'000
INCOME			
Interest on loans and advances		1,235,809	1,040,156
Interest on government securities		198,698	205,849
Interest on placements		10,856	17,228
		1,445,363	1,263,233
INTEREST EXPENSE			
Interest on customer deposits		547,003	479,001
Interest on deposits due to banking institutions		37,211	6,615
		584,214	485,616
NET INTEREST INCOME		861,149	777,617
FEES AND COMMISSIONS INCOME		180,991	160,403
OTHER OPERATING INCOME	II	44,459	24,144
OPERATING EXPENSES	II	(758,476)	(680,573)
IMPAIRMENT LOSSES ON LOANS AND ADVANCES		(76,500)	(90,775)
PROFIT BEFORE TAXATION		251,623	190,816
TAXATION CHARGE		(83,593)	(65,104)
PROFIT FOR THE YEAR		168,030	125,712

Appendix II

	2015 Sh'000	2014 Sh'000
OTHER OPERATING INCOME		
Gains on foreign exchange dealings	35,935	22,603
Gains on disposal of equipment	8	30
Bad debts recovered	-	450
Miscellaneous income	6,710	110
Gain/(loss) on sale of treasury bonds	1,806	951
	44,459	24,144
ADMINISTRATION		
Staff costs	367,387	351,972
Directors' emoluments - fees	9,343	6,971
- other emoluments	12,676	15,831
Miscellaneous expenses	58,755	39,207
Rent and parking fees	62,165	54,279
Depreciation	41,911	34,912
Computer maintenance	20,372	7,910
Security services	34,895	31,775
Amortisation of intangible assets	27,903	12,763
Telephone, data and postage	22,944	23,712
Insurance	17,587	16,227
Advertising and marketing	16,500	30,434
Stationery and supplies	8,223	8,150
Auditors' remuneration	3,722	3,200
Information system Audit	1,600	-
Licenses	5,196	5,877
Contribution to Deposit Protection Fund	11,218	9,467
Subscriptions and donations	5,704	4,256
Maintenance costs	2,397	5,533
Car running expenses	2,238	2,343
Legal and professional fees	1,674	1,655
ATM expenses	13,619	7,373
Travel and accommodation	10,447	6,726
	758,476	680,573

Trans
National
Bank

Transnational Bank Ltd, Transnational plaza,City Hall way
P.O. Box 34353 - 00100, Nairobi kenya
Tel: (+ 254) 20 2224235/6, 2252188/91
www.tnbl.co.ke