SIDIAN BANK LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

Contents

Directors	**Executive**	
	Chege Thumbi	(Appointed 22 August 2017)
	Titus Karanja*	(Resigned 31 July 2017)
	Non-executive	
	James Mworia	(Chairman)
	Mary Ann Musangi	
	Kimanthi Mutua	
	Tom Kariuki	Independent
	Catherine Mturi-Wairi	Independent
	Donald B Kipkorir**	Independent (Resigned 26 July 2017)
	Oscar Kang'oro	Independent (Appointed 5 January 2018)

Board Committees

Audit and Risk Committee	Catherine Mturi-Wairi	- Chairperson
	Kimanthi Mutua	
	Tom Kariuki	
	Mary Ann Musangi	
	Oscar Kangoro	
Asset and Liability Committee	Kimanthi Mutua	- Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	
	Mary Anne Musangi	
	Oscar Kangoro	
Credit Committee	Tom Kariuki	- Chairperson
	Kimanthi Mutua	
	Chege Thumbi	
	Oscar Kangoro	
Nominations and Governance Committee	Mary Ann Musangi	- Chairperson
	Catherine Mturi-Wairi	
	Chege Thumbi	
	Tom Kariuki	

* Mr. Titus Karanja continued in the Bank as a consultant until 31 December 2017.

** Following the resignation of Mr. Donald B Kipkorir, all Committees were reconstituted as search for a new Director began.

*** Details of the Brand Committee and the ICT and Operations Committee are included in the Statement on Corporate Governance.

Secretary	Daisy Ajima R/CPS 2003 Certified Public Secretary P O Box 25363 - 00603 Nairobi
Registered Office	K-Rep Centre Wood Avenue, Kilimani P O Box 25363 - 00603 Nairobi
Auditor	PricewaterhouseCoopers PwC Tower, Waiyaki Way / Chiromo Road, Westlands P O Box 43963 - 00100 Nairobi
Legal Advisers	Mohammed Muigai & Co. Advocates K-Rep Centre, 4th floor, Wood Avenue, Off Lenana Road, Kilimani. P.O Box 61323 – 00200 Nairobi Munyao Muthama & Kashindi Co. Advocates, ACK Cathedral Complex, Office No. 14 1st Floor, Cathedral Road, Off Nkrumah Road P.O Box 2419 - 80100 Mombasa Waruhiu K’Owade Nganga Co. Advocates, Taj Tower, 4th Floor Wing B, Upper hill Road, P.O Box 47122 – 00100, Nairobi

The Directors submit their report together with the audited financial statements for the year ended 31 December 2017 which discloses the state of affairs of Sidian Bank Limited (the "Bank").

Business review

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

A detailed business review is on pages 4 to 6 of this report.

Results and dividend

The loss for the year of Shs 421,810,000 (2016: profit of Shs 28,048,000) has been added to retained earnings. The directors do not recommend payment of a dividend for the year (2016: Nil).

Directors

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

Disclosures to Auditors

The directors confirm that with respect to each director at the time of approval of this report:

(a) there was, as far as each director is aware, no relevant audit information of which the Bank's auditor is unaware; and

(b) each director had taken all steps that ought to have been taken as a director so as to be aware of any relevant audit information and to establish that the Bank's auditor is aware of that information

Terms of appointment of Auditors

PricewaterhouseCoopers continue in office in accordance with the Company's Articles of Association and Section 719 of the Kenyan Companies Act, 2015.

The directors monitor the effectiveness, objectivity and independence of the auditor. This responsibility includes the approval of the audit engagement contract and the associated fees on behalf of the shareholders.

Approval of financial statements

The financial statements set out on pages 14 to 69 were approved at a meeting of the directors held on 9 March 2018.

By order of the Board

Daisy Ajima
Company Secretary

9 March 2018

Overall performance

The Bank recorded a loss of KES 422 million in 2017. The loss is attributed to the impact of interest rate capping and the dampened economic environment in 2017 due to the prolonged electioneering period. Loans and advances to customers decreased by 15% and customer deposits also decreased by 7% in the year.

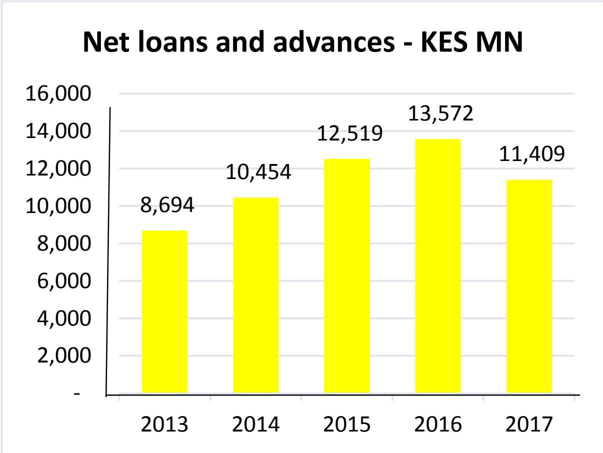
Net interest income decreased by 45% in the year attributed to the impact of interest rate capping. To mitigate the impact of interest rate capping the Bank increased its focus on non-funded business with the non- funded income growing by 9% supported by growth of Trade Finance income and foreign exchange income. Trade Finance business recorded significant growth of over 600% in the year.

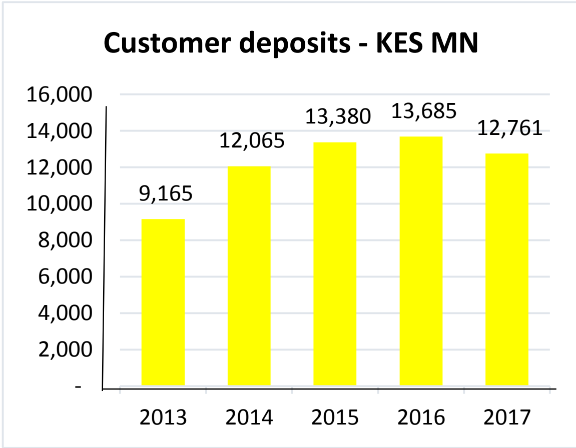
Operating costs were well managed with stringent cost management measures leading to a 12% decrease in the year. In the last 2 years, the Bank has invested heavily in its ICT infrastructure to enhance customers' experience. Payback of these investments is expected to be realized in 2018 and subsequent years.

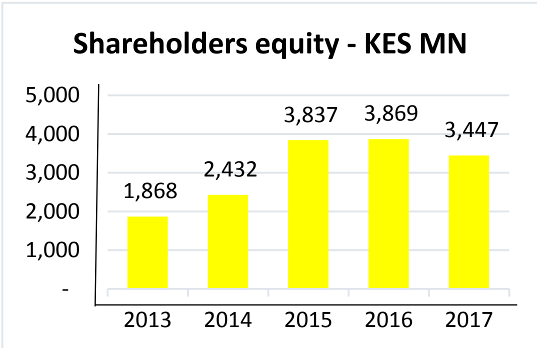
The Bank's financial performance over the last five years is detailed below;

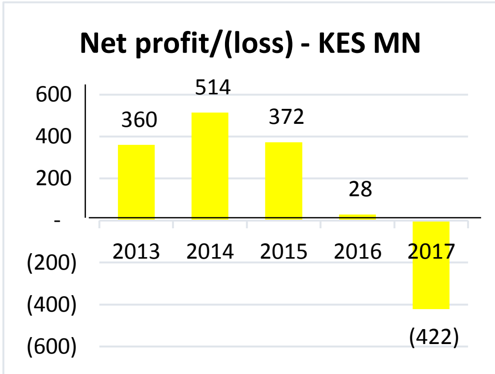
BALANCE SHEET	**2013 Shs'000**	**2014 Shs'000**	**2015 Shs'000**	**2016 Shs'000**	**2017 Shs'000**
Assets					
Cash and cash equivalents	1,331,427	2,668,823	2,978,963	3,101,778	3,842,281
Government securities	2,109,619	1,868,105	2,361,914	2,522,997	1,899,299
Loans and advances to customers	8,693,764	10,453,714	12,519,387	13,434,572	11,409,325
Other assets	866,108	810,797	1,246,293	1,816,152	2,150,847
Total assets	13,000,918	15,801,439	19,106,557	20,875,499	19,301,752
Liabilities					
Cash and cash equivalents	550,000	34,830	831,411	2,269,645	2,379,413
Customer deposits	9,164,983	12,065,178	13,379,556	13,685,093	12,760,791
Borrowings	1,080,154	992,207	642,123	589,149	434,340
Other liabilities	338,189	277,450	415,982	462,824	280,230
Shareholders' funds	1,867,592	2,431,774	3,837,485	3,868,788	3,446,978
Total equity and liabilities	13,000,918	15,801,439	19,106,557	20,875,499	19,301,752
INCOME STATEMENT					
Interest income	1,913,418	2,413,764	2,726,530	3,095,572	2,013,912
Interest expense	(515,280)	(753,312)	(1,069,641)	(1,194,873)	(966,574)
Net interest income	1,398,138	1,660,452	1,656,889	1,900,699	1,047,338
Non- funded income	532,580	586,100	616,060	586,379	641,999
Operating income	1,930,718	2,246,552	2,272,949	2,487,078	1,689,337
Credit impairment charge	(149,743)	(93,480)	(188,901)	(300,542)	(449,790)
Other operating expenses	(1,224,187)	(1,424,011)	(1,564,315)	(2,124,644)	(1,872,488)
Profit before income tax	556,788	729,061	519,733	61,892	(632,941)
Income tax expense	(196,870)	(215,017)	(147,413)	(33,844)	211,131
Profit / (loss) for the year	359,918	514,044	372,320	28,048	(421,810)
PERFORMANCE RATIOS					
Net Interest margin	11.5%	11.1%	9.3%	10.0%	6.1%
Cost to income	63.4%	63.4%	68.8%	85.4%	111.0%
Return on equity	19.3%	21.1%	9.7%	0.7%	-12.2%
Return on assets	2.8%	3.3%	1.9%	0.1%	-2.2%
NPL ratio	8.1%	6.9%	12.0%	16.8%	20.6%

Overall performance (continued)









Capital and Liquidity

The Bank's capital and liquidity ratios are strong with sufficient headroom above the regulatory requirements. We are well positioned to support future growth as per our strategy in the medium term and beyond.

	2013	2014	2015	2016	2017
CAPITAL STRENGTH					
Core capital to risk weighted assets (min: 10.5%)	21.0%	20.2%	24.5%	23.1%	16.3%
Total capital to risk weighted assets (min: 14.5%)	21.4%	20.6%	24.7%	23.2%	16.5%
Liquidity ratios					
Loans to deposits	95%	87%	94%	98%	89%
Liquidity ratio (minimum: 20%)	31.1%	36.8%	32.2%	25.5%	24.3%

Potential threats

Description	Example	Mitigation Measures
Credit risk		
Failure of an obligor of the bank to repay principal or interest at the stipulated time or failure of otherwise to perform as agreed.	Default on credit facilities	Monitoring and reporting of loan book, setting appetite limits, sector concentration limits, risk adjusted loan pricing.

Potential threats (continued)

Description	Example	Mitigation Measures
Cyber Risk		
Cyber risk' means any risk of financial loss, disruption or damage to the reputation of an organization from some sort of failure of its information technology systems.	Cyber security attack	Cyber Security Policy and framework, increase awareness and train and retrain staff, monitor anti-virus and anti-malware software, put in place security controls to avert penetration and to constantly test and monitor.
Information risk		
Risk arising from weaknesses in the ICT environment, system availability or data integrity.	Data fraud, phishing and privacy breaches Stringent information protection processes and policies	IT security policy, IT operations and monitoring firewalls, strong BCP, stringent information protection processes and policies.
Market Risk		
Market risk at Sidian includes: Interest rate risk, foreign exchange risk, investment risk, settlement risk, liquidity risk and country risk, this poses a potential loss of earning or economic value due to sudden shifts in financial and economic factors.	Loss in economic value due to shift in interest rate	Regular monitoring of Sidian's risk profile against risk appetite limits e.g. Exposure and risk limits, liquidity and solvency ratios which are contained In the market risk framework.
Compliance Risk		
Failure to adhere to prudential guidelines, new or existing legislation as well as internal compliance policies	Introduction of new or changes to existing legislation, regulation and prudential guidelines.	Gap analysis and enhancement of the internal policy environment Identification of changes to the regulatory environment. Internal compliance checks and assessments. AML, FT, FATCA etc. policies.
Reputational Risk		
Potential that negative publicity regarding Sidian's business practices, whether true or not, will cause a decline in the customer confidence, costly litigation or revenue reductions. This risk may be due to the failure of the bank to effectively manage all the other risks.	Negative publicity	Senior management oversight, effective and efficient complaint management system, monitoring print, electronic and social media and resolution of issues. Strong risk management and ethics culture.
Country Risk		
The collections of risks associated with investing in a country	Political risk, economic risk and sovereign risk	Regular monitoring of inflation rates, political climate and proper business continuity programs

2018 Focus

The Bank is in the process of raising additional Shs 1.5 billion via a rights issue from its Shareholders. The additional capital will support the Bank's growth including growing its Trade Finance business, increase the loan book and transactional business. Trade Finance will be the key driver of the Bank's growth in the medium term as the Bank positions itself as the 'Go To Bank' for Trade Finance solutions. Further, in 2018 the Bank will upgrade its core banking T24 system, invest in a new internet banking platform and open a new branch in Westlands, Nairobi.

Compliance with Sound Corporate Governance

Corporate Governance is central to the Bank's approach to safeguard shareholders and stakeholders interest and at the same time enhance shareholder value. The overall control over the activities, affairs, operations, business and property of the Bank is vested in the Bank's Board of Directors ("BOD"). The BOD notes that maintenance and consistent practice and application of good corporate governance practices is key to the long-term success of the Bank.

The Board is committed and confirms full compliance of all the relevant laws including the Central Bank of Kenya (CBK) Guidelines on Corporate Governance (CBK/PG/02) issued under Section 33(4) of the Banking Act, guidelines set by itself in accordance with international best practices. The Bank has adopted the highest standards of integrity and ethics in all undertakings. The Board has adopted a comprehensive framework of Corporate Governance Guidelines, designed to ensure performance of the Bank's enhanced targets and regulatory compliance.

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

Board of Directors

The Board consists of seven members chaired by Mr. James Mworia. It consists of six non-executive directors and one executive director. During the year, two directors, Mr. Donald B. Kipkorir and Mr. Titus Karanja resigned to pursue other interests. The Board collectively pools together vast experience in various relevant fields inter alia, investment management, banking, finance, law and marketing. With this, it is able to effectively ensure that the Bank establishes and maintains internal controls that drive profitability and sustainable growth.

Authority and Delegation

The Board delegates its authority to Board Committees, which meet quarterly or whenever a need arises. The authority for the day to day running of the Bank is delegated to the Chief Executive Officer, who runs the Bank together with the Executive Management Committee. The Board Charter sets out the Board authority and matters reserved for determination and approval by the Board. The Board Chair plays a crucial role in fostering constructive dialogue between shareholders, the Board and management at the Annual General Meeting and other shareholder meetings.

Corporate Planning

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

Board Effectiveness

The Board of Directors comprises of six non-executive Directors and one executive Director, the Chief Executive Officer. This arrangement initiates the significance of impartiality in matters of corporate governance. It also ensures that the Board is free from undue influence on matters affecting the day to day running of the Bank. Generally, the conduct of the Board in particularly the non-executive Directors, are regulated by the Bank's Memorandum and Articles of Association as well as a Board Charter, Terms of Reference and Directors' Code of Board Principles and Conduct. Management also ensures that the Board is well informed on the operations of the Bank at all times. The annual Board evaluation exercise for the year 2017 was conducted in March 2018 internally.

Executive Management Committee

The implementation of the Bank's strategic decisions is handled by the Executive Management Committee which is chaired by the Chief Executive Officer. The Committee meets once a month to review the Bank's performance, control overall direction of business and make strategic decisions. The Committee is composed of departmental heads of Human Resources, Finance, Credit, Treasury, Marketing, Branch Banking, Legal and Information and Communication Technology (ICT). The Heads of Enterprise Risk and Audit are invited to give an overview.

Board Committees

The Board has established Board Committees to assist in discharging its duties and responsibilities. The Board committees have formally determined terms of reference, which define their role, function, reporting procedures and scope of authority. The existing committees are Audit and Risk Committee, Asset and Liability Committee, Credit Committee, Brand Committee, Nominations and Governance Committee, ICT and Operations Committee. The Board also ensures that effective communication with shareholders is upheld. This is done through holding of the Annual General Meeting and also provision of annual report and financial statements in full compliance with the requirements of the Kenyan Companies Act, 2015 and the International Financial Reporting Standards (IFRSs).

Brand Committee and ICT and Operations Committee

In 2015, the Bank embarked in an ICT transformation journey and rebranding. Rebranding was successfully completed in April 2016. Additionally, the ICT system was stabilized by various investments in ICT, both software and hardware. To drive these two initiatives, two board committees' vis: Brand Committee and ICT and Operations Committee was established to ensure board oversight of these crucial processes.

When the transformation journeys in both ICT and branding were competed, these two committees were collapsed and any branding, operations and ICT issues were reported to the ALCO committees. As such the functioning Board committees in 2017 were as below:

Audit and Risk Committee

This committee consists of non –executive directors who check on the quality of financial reporting, selection of internal and external auditing functions, advise the board on best practices, provide oversight on risk management and compliance with relevant local legislation, regulations and guidelines issued by regulatory bodies together with the Bank's laid down policies and procedures.

The committee further defines the scope of risk management work, ensures that adequate risk policies and strategies are in place to identify, monitor and effectively mitigate the various risk issues the Bank is exposed to in the day to day activities. On a yearly basis, the committee reviews the proposed work plans for the internal audit function. The committee is also responsible for ensuring that the Bank operates within the set risk appetite levels and must ensure that any deviations are corrected within a given time frame. The Chair of this committee is a member of Institute of Certified Public Accountants of Kenya (ICPAK).

Asset and Liability Committee (ALCO)

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

Nominations and Governance Committee

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

Credit Committee

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

The Board scheduled six board meetings during the year which were inclusive of two Special Board meetings. The average attendance of board meetings is above 80%.

Board meeting membership and attendance for the year ended 31 December 2017 is as below;

	February	March	July	Sept ember	October	November	Percentage Attendance
James Mworia	1	1	1	1	1	1	100%
Mary Ann Musangi	1	1	1	1	1	1	100%
Kimanthi Mutua	1	1	1	1	-	1	83%
Tom Kariuki	1	1	-	1	1	1	83%
Donald B. Kipkorir *	1	1	n/a	n/a	n/a	n/a	n/a
Catherine Mturi-Wairi	1	-	1	1	1	1	83%
Titus Karanja**	1	1	1	n/a	n/a	n/a	n/a
Chege Thumbi***	n/a	n/a	n/a	1	1	1	n/a
Average							

*Resigned on 26 July 2017
** Resigned on 31 July 2017
***Appointed as the Chief Executive Officer on 22 August 2017

Board Evaluation

In line with the requirements of the Bank's Corporate Governance Policy and the relevant prudential guideline issued by the CBK, each member of the Board (including the Chairman) conducts a peer as well as self-evaluation of the Board and the returns made to the CBK. A self-evaluation was conducted in February 2018.

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).

Shareholding structure

The Bank's shareholders are disclosed in note 39 of the financial statements.

The Kenyan Companies Act, 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Bank at the end of the financial year and of its profit or loss for that year. The directors are responsible for ensuring that the Bank keeps proper accounting records that are sufficient to show and explain the transactions of the Bank; disclose with reasonable accuracy at any time the financial position of the Bank; and that enables them to prepare financial statements of the Bank that comply with prescribed financial reporting standards and the requirements of the Kenyan Companies Act, 2015. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors accept responsibility for the preparation and presentation of these financial statements in accordance with International Financial Reporting Standards and in the manner required by the Kenyan Companies Act, 2015. They also accept responsibility for:

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

In preparing the financial statements, the directors have assessed the Bank's ability to continue as a going concern and disclosed, as applicable, matters relating to the use of going concern basis of preparation of the financial statements. 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.

The directors acknowledge that the independent audit of the financial statements does not relieve them of their responsibility.

Approved by the Board of Directors on 9 March 2018 and signed on its behalf by:

Chege Thumbi
Chief Executive Officer

Tom Kariuki
Director

9 March 2018

Independent auditor's report to the Shareholders of Sidian Bank Limited

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Sidian Bank Limited (the "Bank") set out on pages 14 to 69 which comprise the statement of financial position at 31 December 2017 and the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and the notes to the financial statements, which include a summary of significant accounting policies.

In our opinion the financial statements give a true and fair view of the financial position of Sidian Bank Limited at 31 December 2017 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Kenya, and we have fulfilled our ethical responsibilities in accordance with these requirements and the IESBA Code.

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

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Partners: A Eriksson E Kerich B Kimacia K Muchiru M Mugasa A Murage F Muriu P Ngahu R Njoroge S N Ochieng' B Okundi K Saiti

Independent auditor's report to the Shareholders of Sidian Bank Limited (continued)

Responsibilities of the directors for the financial statements

The directors are responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the requirements of the Kenyan Companies Act, 2015, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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Independent auditor’s report to the Shareholders of Sidian Bank Limited (continued)

Auditor’s responsibilities for the audit of the financial statements (continued)

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other matters prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on page 3 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor’s report is FCPA Michael Mugasa – P/No 1478.

PricewaterhouseCoopers.

Certified Public Accountants
Nairobi
30th March 2018

Statement of profit or loss and other comprehensive income

	Notes	2017 Shs'000	2016 Shs'000
Interest income	5	2,013,912	3,095,572
Interest expense	6	(966,574)	(1,194,873)
Net interest income		1,047,338	1,900,699
Credit impairment charge	7	(449,790)	(300,542)
Net interest income after credit impairment charge		597,548	1,600,157
Net fee and commission income	8	512,175	511,455
Foreign exchange income	9	112,410	70,833
Other income	10	17,414	4,091
Non funded income		641,999	586,379
Net operating income		1,239,547	2,186,536
Operating expenses	11	(1,872,488)	(2,124,644)
(Loss) / Profit before income tax		(632,941)	61,892
Income tax (credit) / expense	13(b)	211,131	(33,844)
(Loss) / Profit for the year		(421,810)	28,048
Other comprehensive income		-	-
Total comprehensive (loss) / income		(421,810)	28,048

Statement of financial position

Assets	Notes	2017 Shs'000	2016 Shs'000
Cash and balances with Central Bank of Kenya	15	2,621,332	2,216,043
Deposits and balances due from banking institutions	16	1,220,949	885,735
Investments – held to maturity	17	1,899,299	2,522,997
Investment in subsidiary	34	1,000	1,000
Loans and advances to customers	18	11,409,325	13,434,572
Other assets	19	944,508	772,136
Derivatives financial assets	20	40,508	8,514
Property and equipment	21	497,192	537,399
Intangible assets	22	290,416	335,737
Current income tax	13 (a)	108,903	104,177
Deferred income tax	23	268,320	57,189
Total Assets		19,301,752	20,875,499
Equity and liabilities			
Liabilities			
Customer deposits	24	12,760,791	13,841,265
Deposits and balances due to banking Institutions	25	2,379,413	2,269,645
Borrowings	26	434,340	589,149
Derivatives financial liabilities	20	2,151	1,930
Other liabilities	27	278,079	304,722
		15,854,774	17,006,711
Equity			
Share capital	28	1,470,175	1,470,175
Share premium	28	706,082	706,082
Revaluation reserve	29	68,161	68,553
Regulatory reserve	30	11,686	14,832
Retained earnings	31	1,190,874	1,609,146
Total Equity		3,446,978	3,868,788
Total equity and liabilities		19,301,752	20,875,499

The financial statements were approved by the Board of Directors on 9 March 2018 and were signed on its behalf by:

....
James Mworia (Chairman)

....
Chege Thumbi (Chief Executive Officer)

....
Tom Kariuki (Director)

....
Daisy Ajima (Company Secretary)

Statement of changes in equity

	Notes	Share capital	Share Premium	Revaluation reserve	Regulatory reserve	Retained earnings	Total
		Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Year ended 31 December 2016							
At start of year		1,469,137	703,865	69,338	12,528	1,582,617	3,837,485
Issue of shares	28	1,038	2,217	-	-	-	3,255
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	28,048	28,048
		-	-	-	-	28,048	28,048
Transfer of excess depreciation		-	-	(1,121)	-	1,121	-
Deferred tax on transfer of excess depreciation		-	-	336	-	(336)	-
Transfer to regulatory reserve		-	-	-	2,304	(2,304)	-
At end of year		1,470,175	706,082	68,553	14,832	1,609,146	3,868,788
Year ended 31 December 2017							
At start of year		1,470,175	706,082	68,553	14,832	1,609,146	3,868,788
Total comprehensive income for the year:							
Profit for the year		-	-	-	-	(421,810)	(421,810)
Transfer of excess depreciation		-	-	(560)	-	560	-
Deferred tax on transfer of excess depreciation		-	-	168	-	(168)	-
Transfer from regulatory reserve		-	-	-	(3,146)	3,146	-
At end of year		1,470,175	706,082	68,161	11,686	1,190,874	3,446,978

Statement of cash flows

	Notes	2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Cash generated from operations	31(a)	248,363	790,238
Income tax paid	13(a)	(951)	(44,779)
Net cash flows generated from operating activities		247,412	745,459
Cash flows from investing activities			
Purchase of financial instruments	17	(699,707)	(1,298,080)
Proceeds on disposal of investments	17	1,555,167	1,190,144
Purchase of property and equipment	21	(86,381)	(274,967)
Purchase of intangible assets	22	(47,085)	(135,882)
Proceeds from disposal of property and equipment		719	824
Transfer of intangible assets		(6,000)	-
Transfer of property and equipment		(174)	-
Net cash flows generated from /(used in) investing activities		716,539	(517,961)
Cash flows from financing activities			
Proceeds from borrowings	26	202,000	300,000
Repayment of borrowings	26	(425,448)	(407,938)
Proceeds from issuance of ordinary shares in rights issue	28	-	3,255
Net cash used in financing activities		(223,448)	(104,683)
Net increase in cash and cash equivalents		740,503	122,815
Cash and cash equivalents at start of year	31 (b)	3,101,778	2,978,963
Cash and cash equivalents at end of year	31 (b)	3,842,281	3,101,778

Notes

1 Corporate information

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

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

The Bank is licensed under the Kenyan Banking Act (Chapter 488).

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

2 Summary of significant accounting policies

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

(a) Basis of preparation

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

(i) Basis of measurement

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

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

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(ii) Use of estimates

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

(iii) Changes in accounting policies and disclosures

(a) New and amended standards adopted by the Bank

The following standards and amendments have been applied by the Bank for the first time for the financial year beginning 1 January 2017:

Amendment to IAS 12 – Income taxes, the amendments were issued to clarify the requirements for recognising deferred tax assets on unrealised losses. The amendments clarify the accounting for deferred tax where an asset is measured at fair value and that fair value is below the asset's tax base. They also clarify certain other aspects of accounting for deferred tax assets. The amendments clarify the existing guidance under IAS 12. They do not change the underlying principles for the recognition of deferred tax assets.

Amendment to IAS 7 – Cash flow statements, the amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities. The amendment responds to requests from investors for information that helps them better understand changes in an entity's debt. The amendment will affect every entity preparing IFRS financial statements. However, the information required should be readily available. Preparers should consider how best to present the additional information to explain the changes in liabilities arising from financing activities.

Annual improvements 2014 – 2016 – IFRS 12, 'Disclosure of interests in other entities' regarding clarification of the scope of the standard. The amendment clarifies that the disclosures requirement of IFRS 12 are applicable to interest in entities classified as held for sale except for summarised financial information. Previously, it was unclear whether all other IFRS 12 requirements were applicable for these interests.

The revised standards did not have any effect on the Bank's reported earnings or financial statement position and had no impact on the accounting policies.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017, and have not been applied in preparing these financial statement. None of these is expected to have a significant effect on the financial statements of the Bank, except the following set out below

IFRS 9, 'Financial instruments'

On 29 July 2014, the IASB issued the final IFRS 9 Financial Instruments Standard, which brings together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*.

The standard is effective for annual period beginning on or after 1 January 2018 with retrospective application permitted if, and only if, it is possible without the use of hindsight. The bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement including impairment changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings and reserves as at 1 January 2018.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(*ii) Changes in accounting policies and disclosures* (continued)

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

IFRS 9, 'Financial instruments' (continued)

The new classification and measurement and impairment requirements will be applied by adjusting our Balance Sheet on 1 January 2018, the date of initial application, with no restatement of comparative period financial information.

Based on current estimates, the adoption of IFRS 9 is expected to result in a reduction to retained earnings at 1 January 2018 of approximately 27% before taxes. The impact is primarily attributable to increases in the allowance for credit losses of approximately to 32% under the new impairment requirements. Further, the adoption of IFRS 9 will reduce the Bank's capital adequacy ratios by 1.6% as detailed in page 49 of this report. The Bank will raise additional share capital of Shs 1.5 billion in 2018 to mitigate the impact of IFRS 9 adoption as well as support the planned business growth.

We will continue to monitor and refine certain elements of our impairment process in advance of Q1 2018 reporting.

Classification and measurement

IFRS 9 introduces a principles-based approach to the classification of financial assets. Debt instruments, including hybrid contracts, are measured at fair value through profit or loss (FVTPL), fair value through other comprehensive income (FVOCI) or amortized cost based on the nature of the cash flows of the assets and an entity's business model. These categories replace the existing IAS 39 classifications of FVTPL, available for sale (AFS), loans and receivables, and held-to-maturity. Equity instruments are measured at FVTPL, unless they are not held for trading purposes, in which case an irrevocable election can be made on initial recognition to measure them at FVOCI with no subsequent reclassification to profit or loss.

For financial liabilities, most of the pre-existing requirements for classification and measurement previously included in IAS 39 were carried forward unchanged into IFRS 9 other than the provisions relating to the recognition of changes in own credit risk for financial liabilities designated at fair value through profit or loss, as permitted by IFRS 9.

The combined application of the contractual cash flow characteristics and business model tests as at 1 January 2018 is expected to have no significant impact when compared to our classification under IAS 39.

Impairment

Impairment Overall Comparison of the New Impairment Model and the Current Model

IFRS 9 introduces a new, single impairment model for financial assets that requires the recognition of expected credit losses (ECL) rather than incurred losses as applied under the current standard. Currently, impairment losses are recognized if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after initial recognition of the asset and that loss event has a detrimental impact on the estimated future cash flows of the asset that can be reliably estimated. If there is no objective evidence of impairment for an individual financial asset, that financial asset is included in a group of assets with similar credit risk characteristics and collectively assessed for impairment losses incurred but not yet identified. Under IFRS 9, ECLs will be recognized in profit or loss before a loss event has occurred, which could result in earlier recognition of credit losses compared to the current model.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(*ii) Changes in accounting policies and disclosures* (continued)

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

IFRS 9, 'Financial instruments' (continued)

Impairment (continued)

Impairment Overall Comparison of the New Impairment Model and the Current Model(continued)

Under the current standard, incurred losses are measured by incorporating reasonable and supportable information about past events and current conditions. Under IFRS 9, the ECL model, which is forward-looking, in addition requires that forecasts of future events and economic conditions be used when determining significant increases in credit risk and when measuring expected losses. Forward-looking macroeconomic factors such as unemployment rates, inflation rates, interest rates, exchange rates, domestic borrowing, credit to private sector and gross domestic product will be incorporated into the risk parameters. Estimating forward-looking information will require significant judgment and must be consistent with the forward-looking information used by the Bank for other purposes, such as forecasting and budgeting.

Scope

Under IFRS 9, the same impairment model is applied to all financial assets, except for financial assets classified or designated as at FVTPL and equity securities designated as at FVOCI, which are not subject to impairment assessment. The scope of the IFRS 9 expected credit loss impairment model includes amortized cost financial assets, debt securities classified as at FVOCI, and off balance sheet loan commitments and financial guarantees which were previously provided for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets (IAS 37). The above-mentioned reclassifications into or out of these categories under IFRS 9 and items that previously fell under the IAS 37 framework were considered in determining the scope of our application of the new expected credit loss impairment model.

Measurement of Expected Credit Losses
ECLs are measured as the probability-weighted present value of expected cash shortfalls over the remaining expected life of the financial instrument.

The measurement of ECLs will be based primarily on the product of the instrument's probability of default (PD), loss given default (LGD), and exposure at default (EAD).

The ECL model contains a three-stage approach that is based on the change in the credit quality of assets since initial recognition.

- Stage 1 - If, at the reporting date, the credit risk of non-impaired financial instruments has not increased significantly since initial recognition, these financial instruments are classified in Stage 1, and a loss allowance that is measured, at each reporting date, at an amount equal to 12-month expected credit losses is recorded.
- Stage 2 - When there is a significant increase in credit risk since initial recognition, these non-impaired financial instruments are migrated to Stage 2, and a loss allowance that is measured, at each reporting date, at an amount equal to lifetime expected credit losses is recorded. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a significant increase in credit risk since initial recognition, the ECL model requires reverting to recognition of 12-month expected credit losses based on the Central Bank of Kenya and banks policy on curing of loans.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(*ii) Changes in accounting policies and disclosures* (continued)

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

IFRS 9, 'Financial instruments' (continued)

Measurement of Expected Credit Losses (continued)

Interest income is calculated on the gross carrying amount of the financial assets in Stages 1 and 2 and on the net carrying amount of the financial assets in Stage 3.

Assessment of Significant Increase in Credit Risk

The determination of a significant increase in credit risk takes into account many different factors including a comparison of a financial instruments credit risk or PD at the reporting date and the credit or PD at the date of initial recognition. The Bank has included relative and absolute thresholds in the definition of significant increase in credit risk and a backstop of 30 days past due. All financial instruments that are 30 days past due are migrated to Stage 2.

Definition of Default

IFRS 9 does not define default but requires the definition to be consistent with the definition used for internal credit risk management purposes. However, IFRS 9 contains a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due. Under IFRS 9, the Bank will consider a financial asset as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of a financial asset have occurred or when contractual payments are 90 days past due. The Bank's write-off policy under IAS 39 is not expected to be materially different under IFRS 9.

Hedge Accounting

IFRS 9 introduces a new general hedge accounting model that better aligns hedge accounting with risk management activities. However, the current hedge accounting requirements under IAS 39 may continue to be applied until the IASB finalizes its macro hedge accounting project. The IFRS 9 Hedge accounting requirements will not have any significant impact on the bank as the bank does not apply hedge accounting.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The IASB has amended IFRS 15 to clarify the guidance, but there were no major changes to the standard itself. The amendments comprise clarifications of the guidance on identifying performance obligations, accounting for licences of intellectual property and the principal versus agent assessment (gross versus net revenue presentation). The IASB has also included additional practical expedients related to transition to the new revenue standard. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. Management does not expect the standard to have a material impact on the financial statements.

Notes (continued)

2 Summary of significant accounting policies (continued)

(a) Basis of preparation (continued)

(*ii) Changes in accounting policies and disclosures* (continued)

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

IFRS 16, Leases, effective 1 January 2019. This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays almost the same. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

IFRS 16 supersedes IAS 17, 'Leases', IFRIC 4, 'Determining whether an Arrangement contains a Lease', SIC 15, 'Operating Leases – Incentives' and SIC 27, 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'

IFRIC 22, 'Foreign currency transactions and advance consideration, Annual periods beginning on or after 1 January 2018. This IFRIC addresses foreign currency transactions or parts of transactions where there is consideration that is denominated or priced in a foreign currency. The interpretation provides guidance for when a single payment/receipt is made as well as for situations where multiple payment/receipts are made. The guidance aims to reduce diversity in practice.

IFRIC 23, 'Uncertainty over income tax treatments' - Annual periods beginning on or after 1 January 2019. IFRIC 23 provides a framework to consider, recognise and measure the accounting impact of tax uncertainties. The Interpretation provides specific guidance in several areas where previously IAS 12 was silent. The Interpretation also explains when to reconsider the accounting for a tax uncertainty. Most entities will have developed a model to account for tax uncertainties in the absence of specific guidance in IAS 12. These models might, in some circumstances, be inconsistent with IFRIC 23 and the impact on tax accounting could be material. Management should assess the existing models against the specific guidance in the Interpretation and consider the impact on income tax accounting.

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

b) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

Notes (continued)

2 Summary of significant accounting policies (continued)

b) Foreign currency translation (continued)

(ii) Transactions and balances

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

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

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

(c) Sale and repurchase agreements

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

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

(d) Financial assets and liabilities

(i) Financial assets

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

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

This category comprises two sub-categories: financial assets classified as held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

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

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

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise; or

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(i) Financial assets (continued)

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

- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis; or
- the financial assets consists of debt host and embedded derivatives that must be separated.

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

(b) Loans and receivables

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

- those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the Bank upon initial recognition designates as at fair value through profit or loss; or
- those that the Bank upon initial recognition designates as available–for–sale; or
- those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

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

(c) Held to maturity investments

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

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

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

(d) Available for sale financial assets

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) **Financial assets and liabilities (continued)**

(i) Financial assets (continued)

(d) Available for sale financial assets (continued)

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

(ii) Financial liabilities

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

(iii) Determination of fair value

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

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

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

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

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

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

(ii) Derecognition

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(d) Financial assets and liabilities (continued)

(iii) Classes of financial instruments

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

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

(e) Impairment of financial assets

(i) Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower’s financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Impairment of financial assets (continued)

(ii) Assets carried at amortised cost (continued)

- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

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

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

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

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(e) Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

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

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

(f) Offsetting of financial instruments

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

(g) Cash and cash equivalents

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

(h) Property and equipment

Property and equipment are stated at historical cost less depreciation.

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

- Office premises 40 years
- Office improvements 10 years
- Furniture, fittings and equipment 8 years
- Motor vehicles 4 years
- Computer equipment 3 years

Freehold land is not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. The Bank assesses at each reporting date whether there is any indication that any item of property and equipment is impaired. If any such indication exists, the Bank estimates the recoverable amount of the relevant assets.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining profit.

Notes (continued)

2 Summary of significant accounting policies (continued)

(i) Intangible assets – software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 5 years. Costs associated with maintaining computer software programmes are recognised as an expense as incurred.

(j) Impairment of non – financial assets

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

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

(k) Employee benefits

Retirement benefit obligations

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

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

(l) Income tax

(i) Current income tax

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

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

(b) Deferred income tax

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

Notes (continued)

2 Summary of significant accounting policies (continued)

(m) Dividend payable

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

(n) Share capital

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

(o) Interest income and expense

Interest income and expense for all interest-bearing financial instruments, except for those classified as held for trading or designated at fair value through profit or loss, are recognised within 'interest income' or 'interest expense' in profit or loss using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(p) Fee and commission income

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

(q) Dividend income

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

(r) Acceptances and letters of credit

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

(s) Derivative financial instruments

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

Notes (continued)

3 Significant accounting estimates and judgements

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

(i) Estimates and assumptions:

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

Property and equipment

Directors make estimates in determining the useful lives and residual values of property and equipment and intangible assets. The depreciation rates used are set out in the accounting policy for property and equipment (note 2 (h)). These estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the prevailing circumstances.

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

(ii) Judgement

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

Impairment losses on loans and advances

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

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

Impairment of non-financial assets

The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

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

Notes (continued)

4 Financial risk management

This section provides an overview of the Bank's approach to risk management and a description of the nature and extend of risks. Risk is an integral part of the banking business and the Bank aims to deliver superior shareholder value by achieving an appropriate trade-off between risk and returns. The Bank incurs its major risk exposure from extending credit to customers through lending operations. In addition to credit risk, the bank is also exposed to other risks such as liquidity and market risk among other risks that are inherent in the product range, sector concentration and geographical coverage of the bank.

Risk Management Structure

Key roles and responsibilities regarding risk management are summarized below –

Level of management	Role
Board of Directors	Approving risk management policies, setting risk appetite while ensuring that the executive management focuses on managing risks.
Board Audit and Risk Committee	Assessment, management and mitigation of risk in the Bank. It is accountable to the Board of directors.
Internal Audit Department	Independently reviews the risks on a periodic basis and reports to the Board Audit and Risk Committee.
Enterprise Risk Management Department	Carries out risk management under policies approved by the board. The responsibility of identifying, evaluating and hedging risks lies here with close corporation with operating units.

Risk Management Framework

This encompasses practices relating to the identification, analysis, evaluation, treatment, mitigation and monitoring of risks.

The Bank's risk management framework is based on a clear understanding of various risks, disciplined risk assessment and measurement procedures and continuous monitoring. The policies and procedures established for this purpose are continuously benchmarked with the industry best practices.

Taking risk is core to the Bank's business and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return, and minimize potential adverse effects on its financial performance and this involves

- *Risk identification, analysis and evaluation* – includes periodic assessment of the business environment, incident analysis and analysis of bank's performance relative to set objectives. Risk analysis is carried out using scenario bases assessments to determine the likelihood of occurrence and potential impact of risk.

- *Risk treatment* – implementing measures to alleviate the impact of the identified risk. These measures include avoiding the risk, transferring risk to another entity, reducing level of risk or accepting the risk.

- *Risk mitigation and monitoring* – mitigation measures are put in place and agreed upon by the business teams. The indicators and levels of risks are measured continuously.

- *Risk reporting and disclosures* – The bank uses a risk dashboard to track external and internal indicators of each risk. The analysis and impact of risks is periodically presented and discussed at the board level.

Notes (continued)

4 Financial risk management (continued)

Credit risk

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

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

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

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

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

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

Credit related commitments

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

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

Notes (continued)

4 Financial risk management (continued)

Credit risk (continued)

Maximum exposure to credit risk before collateral held

	Notes	2017 Shs'000	%	2016 Shs'000	%
Items recognised in the statement of financial position:					
Balances with Central Bank of Kenya	15	1,961,536	8.1	1,574,820	8.0
Placements with other banks	16	1,220,949	5.1	885,735	4.5
Investments held to maturity	17	1,899,299	7.9	2,522,997	12.7
Loans and advances to customers	18	11,409,325	47.4	13,434,572	67.9
Other assets	19	944,508	3.9	475,548	2.4
Derivative financial assets	20	40,508	0.2	8,514	0.0
		17,476,125	72.5	18,902,186	95.5
Items not recognised in the statement of financial position:					
Letters of credit, guarantees and performance bonds		6,616,884	27.5	896,748	4.5
		24,093,009	100	19,798,934	100

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2017 and 31 December 2016 without taking account of any collateral held or other credit enhancement attached. For assets recognised in the statement of financial position, the exposures set out above are based on carrying amounts as reported in the statement of financial position.

As shown above, 47.4% of the total maximum exposure is derived from loans and advances to customers (2016: 67.9%), 5.1% represents placement with other banks (2016: 4.5%), while investments in debt securities was at 7.9% (2016: 12.7%).

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

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

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

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

Impairment and provisioning policies

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

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

The table below summarises the Bank's Loans and advances and the associated impairment provision:

	2017 Shs'000	2016 Shs'000
Grade 1- Normal	8,962,462	11,666,114
Grade 2- Watch	877,919	333,977
Grade 3- Substandard	595,162	540,203
Grade 4- Doubtful	1,892,164	1,588,296
Grade 5- Loss	108,236	330,230
	12,435,943	14,458,820
Less: allowance for impairment	(1,026,618)	(1,024,248)
Net loans and advances	11,409,325	13,434,572

Grade 1 - Normal
All loans are performing in accordance with the contractual terms and are expected to continue doing so. Loans in this category are fully protected by the current sound net worth and paying capacity of the borrower.

Grade 2 - Watch
Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary.

The gross amounts of loans and advances that were past due but not impaired were as follows:

	2017 Shs'000	2016 Shs'000
Past due 31- 60 days	544,029	218,013
Past due 61 - 90 days	333,890	115,964
	877,919	333,977

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

	2017 Shs'000	2016 Shs'000
Grade 3 - Substandard	595,162	540,203
Grade 4 - Doubtful	1,892,164	1,588,296
Grade 5 - Loss	108,236	330,230
Total	2,595,562	2,458,729

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

	2017 Shs'000	2016 Shs'000
Individually assessed impaired loans and advances:		
Micro loans	404,618	288,957
SME loans	2,190,944	2,169,772
	2,595,562	2,458,729
Fair value of collateral held	3,171,556	3,200,943

Collateral on loans and advances is shown below. An estimate of the fair value of collateral and other security enhancement held against financial assets is shown below:

	2017 Shs'000	2016 Shs'000
Land and building	18,475,239	24,312,535
Cash and other pledges	36,886	1,651,718
Motor vehicle	6,381,150	3.020,853
Debenture and guarantees	196,652	516,663
Other chattels	161,990	96,320
Sub total	25,251,917	26,577,236

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

Analysis of gross loans and advances by performance	2017 Shs '000	2016 Shs '000
Current	8,394,827	11,046,866
1-30 days	400,969	585,629
31-60 days	522,568	218,013
61-90 days	287,716	82,345
91-180 days	500,842	88,955
181-360 days	1,398,882	1,128,142
Over 360 days	108,236	120,130
Sub total	11,614,040	13,270,080
Renegotiated/rescheduled loans		
1-90 days	234,301	33,619
Over 90 days	587,602	560,751
Sub total	821,903	594,370
Grand total (note 18 (b))	12,435,943	13,864,450

Notes (continued)

4 Financial risk management (continued)

a) Credit risk (continued)

According to Central Bank of Kenya prudential guidelines, loans and advances overdue by above 90 days are considered non-performing. The provisions made amount to 8.2% (2016: 7%) of gross advances. These provisions are considered adequate in view of the realizable value of securities held. Renegotiated/rescheduled loans are tracked and monitored the same way classified loans are, whether they are performing normally or not.

Exposure to Chase Bank Limited

In April 2016, the Central Bank of Kenya (CBK) placed Chase Bank Limited under statutory management following reported significant fraud at the institution. The Bank's exposure to Chase Bank Limited at the time comprised of a money market placement of Shs 303 million and matured foreign currency forward transactions of Shs 2.7 million. A provision of Shs 51 million has been made against the balance. No other assets are past due or impaired. The Bank is exposed to the risk that it will encounter difficulty in raising funds to meet commitments associated with financial instruments as they fall due and to replace funds when they are withdrawn.

b) Liquidity risk

Liquidity risk is the risk that a company or bank may be unable to meet short term financial demands. This usually occurs due to the inability to convert a security or hard asset to cash without a loss of capital and/or income in the process. Liquidity risk is addressed through the following measures:

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

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

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Expected maturity dates	On demand Shs'000	1 - 3 months Shs'000	3 – 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2017						
Financial assets						
Cash and balances with Central Bank of Kenya	2,621,332	-	-	-	-	2,621,332
Investments	-	349,340	-	-	1,549,959	1,899,299
Deposits and balances due from banking institutions	485,546	735,403	-	-	-	1,220,949
Loans and advances to customers	958,563	179,253	1,004,791	6,595,944	2,670,774	11,409,325
Other assets	944,508	-	-	-	-	944,508
Total financial assets	5,009,949	1,263,996	1,004,791	6,595,944	4,220,733	18,095,413
Financial liabilities						
Customer deposits	9,582,555	2,442,130	719,417	16,250	439	12,760,791
Deposits due to banks	-	2,379,413	-	-	-	2,379,413
Borrowings	-	-	-	480,294	53,753	534,047
Other liabilities	278,079	-	-	-	-	278,079
Total financial liabilities	9,860,634	4,821,543	719,417	496,544	54,192	15,952,330
Net liquidity gap	(4,850,685)	(3,557,547)	285,374	6,099,400	4,166,541	2,143,083
Financial guarantees	-	1,142,797	1,955,630	3,515,117	3,340	6,616,884
Foreign currency swaps	-	25,816	12,540	-	-	38,356

Notes (continued)

4 Financial risk management (continued)

b) Liquidity risk (continued)

Expected maturity dates	On demand Shs'000	1 - 3 months Shs'000	3 – 12 months Shs'000	1 - 5 years Shs'000	Over 5 years Shs'000	Total Shs'000
2016						
Financial assets						
Cash and balances with Central Bank of Kenya	2,216,043	-	-	-	-	2,216,043
Investments	524,685	141,172	300,000	-	1,557,140	2,522,997
Deposits and balances due from banking institutions	885,735	-	-	-	-	885,735
Loans and advances to customers	1,126,623	497,154	1,410,845	7,912,181	2,487,769	13,434,572
Other assets	218,856	107,952	193,084	260,758	-	780,650
Total financial assets	4,971,942	746,278	1,903,929	8,172,939	4,044,909	19,839,997
Financial liabilities						
Customer deposits	8,515,218	3,922,584	914,510	487,747	1,206	13,905,043
Deposits due to banks	2,269,645	-	-	-	-	2,269,645
Borrowings	-	-	589,149	-	-	589,149
Other liabilities	107,358	135,516	63,778	-		306,652
Total financial liabilities	10,892,221	4,058,100	1,567,437	487,747	1,206	17,006,711
Net liquidity gap	(5,920,279)	(3,311,822)	336,492	7,685,192	4,043,703	2,833,285
Financial guarantees	64,921	73	421,140	337,348	-	896,748
Foreign currency swaps	182,393	408	94,117	-	-	684,548

Notes (continued)

4 Financial risk management (continued)

c) Market risk

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

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

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

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

i) Currency risk

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

The table below summarizes the Bank's exposure to foreign currency exchange rate risk at 31 December 2017 and 31 December 2016

At 31 December 2017

	USD	Euro	GBP	OTHER	Total
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets					
Cash and balances with CBK	1,116,146	2,020	897	71	1,119,134
Deposits and balances due from banking institutions	1,031,548	131,646	8,693	872	1,172,759
Loans and advances	165,034	4	1	-	165,039
	2,312,728	133,670	9,591	943	2,456,932
Financial liabilities					
Customers deposits	569,434	34,049	347	-	603,830
Borrowings	207,230	-	-	-	207,230
	776,664	34,049	347	943	811,060
Net exposure	1,536,064	99,621	9,244	943	1,645,872

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

i) Currency risk (continued)

At 31 December 2016

	USD	Euro	GBP	OTHER	Total
	Shs'000	**Shs'000**	**Shs'000**	**Shs'000**	**Shs'000**
Financial assets					
Cash and balances with CBK	604,810	13,228	6,549	132	624,719
Deposits and balances due from banking institutions	772,779	168,031	51,285	9,684	1,001,779
Loans and advances	42,936	-	-	-	42,936
	1,420,525	181,259	57,834	9,816	1,669,434
Financial liabilities					
Customers deposits	460,436	163,882	73,275	-	697,593
	460,436	163,882	73,275	-	697,593
Net exposure	960,089	17,377	(15,441)	9,816	971,841

<u>Sensitivity analysis</u>

The bank has assets and liabilities in three major currencies. The most significant exposure arises from assets denominated in US dollar and the EURO. The following table demonstrates the sensitivity to reasonably possible change in the KES/US dollar and KES / Euro, with all other variables held constant, of the banks profit before tax. Other foreign currency include Uganda shilling, Tanzanian Shilling, Canadian dollar, Japanese yen and South African rand.

Shs/ US dollar	**2017 Shs'000**	**2016 Shs'000**
Effect on profit before tax of a +/-5% change in exchange rates	87,165	48,004

Shs / Euro		
Effect on profit before tax of a +/-5% change in exchange rates	4,981	67

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk

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

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

Changes in the market interest rates affect the interest income or expenses of variable interest financial instruments:

- Changes in market interest rates only affect interest income or expenses in relation to financial instruments with fixed interest rates if these are recognized at their fair value.
- The projections make other assumptions including that all positions run to maturity.

<u>Sensitivity Analysis</u>

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

	2017 Shs'000	2016 Shs'000
Effect on profit before tax of a +/-2% change in interest rates	149,197	38,014
Effect on profit before tax (%)	+/- 25%	+/- 53.5%

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

ii) Interest rate risk (continued)

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

2017	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and balances with the Central Bank of Kenya						2,621,332	2,621,332
Government securities	349,340	-	-	-	1,549,959	-	1,899,299
Deposits and balances due from banking institutions	569,692	165,658	-	-	-	485,599	1,220,949
Loans advances to customers	958,563	179,253	1,004,791	6,595,944	2,670,774	-	11,409,325
	1,877,595	344,911	1,004,791	6,595,944	4,220,733	3,106,931	17,150,905
Financial liabilities:							
Customer deposits	3,906,753	2,442,195	719,418	16,250	439	5,675,736	12,760,791
Deposits due to banks	2,379,413	-	-	-	-	-	2,379,413
Borrowings	-	-	227,110	-	207,230	-	434,340
	6,286,166	2,442,195	946,528	16,250	207,669	5,675,736	15,574,544
Total interest sensitivity gap	(4,408,570)	(2,097,284)	58,263	6,579,694	4,013,064	(2,568,805)	1,576,361

Notes (continued)

4 Financial risk management (continued)

c) Market risk (continued)

iii) Interest rate risk (continued)

2016	Up to 1 month Shs'000	1-3 months Shs'000	3-12 months Shs'000	1-5 Years Shs'000	Over 5 years Shs'000	Non-interest bearing Shs'000	Carrying amount Shs'000
Financial assets:							
Cash and balances with the Central Bank of Kenya	-	-	-	-	-	2,216,043	2,216,043
Government securities	524,685	141,172	300,000	-	1,557,140	-	2,522,997
Deposits and balances due from banking institutions	307,500	-	-	-	-	578,235	885,735
Loans advances to customers	-	13,191,390	-	-	-	243,182	13,434,572
	832,185	13,332,562	300,000	-	1,557,140	3,037,460	19,059,347
Financial liabilities:							
Customer deposits	5,838,078	3,922,584	862,943	383,142	1,206	2,833,312	13,841,265
Deposits due to banks	2,269,645						2,269,645
Borrowings	-	-	589,149	-	-	-	589,149
	8,107,723	3,922,584	1,452,092	383,142	1,206	2,833,312	16,700,059
Total interest sensitivity gap	(7,275,538)	9,409,978	(1,152,092)	(383,142)	1,555,934	204,148	2,359,288

Notes (continued)

4 Financial risk management (continued)

d) Fair value of financial assets and liabilities

The fair value of held-to-maturity investment securities listed at NSE as at 31 December 2017 is estimated at Shs 1,435,926,000 (2016: Shs 1,656,760,000) compared to their carrying value of Shs 1,899,299,000 (2016: Shs 2,522,997,000). The available for sale investment securities are carried at fair value in the Bank’s books. The fair values of the Bank's other financial assets and liabilities approximate the respective carrying amounts, due to the generally short periods to contractual repricing or maturity dates as set out above. Fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that directors expect would be available to the Bank at the balance sheet date.

e) Offsetting disclosure

Financial instruments subject to offsetting, enforceable master netting arrangements or similar agreements

The following table sets out the impact of offset, as well as financial assets and financial liabilities that are subject to enforceable master netting arrangement or similar agreement, irrespective of whether they have been offset in accordance with IAS 32, as required by IFRS 7R disclosure requirements. The gross amounts of financial asset and financial liabilities and their net amounts disclosed in the table below have been measured in the statement of financial position on the following bases:

- Derivative asset and liabilities – fair value;
- Loans and advances – amortised cost and
- Customer deposits – amortised cost

	Gross amount of recognised financial assets 2017 Shs’000	Gross amounts of recognised financial liabilities offset in statement of financial position 2017 Shs’000	Net amounts of financial assets presented in the statement of financial position 2017 Shs’000	Financial instruments, financial collateral and cash collateral received 2017 Shs’000	Net amount 2017 Shs’000
Assets					
Loans and advances	11,409,325	-	11,409,325	-	11,409,325
Derivative assets	40,508	-	40,508	-	40,508
	11,449,833	-	11,449,833	-	11,449,833
Liabilities					
Deposits	12,760,791	-	12,760,791	-	12,760,791
Derivative liabilities	2,151	-	2,151	-	2,151
	12,762,942	-	12,762,942	-	12,762,942

Notes (continued)

4 Financial risk management (continued)

e) Offsetting disclosure (continued)

	Gross amount of recognised financial assets 2016 Shs'000	Gross amounts of recognised financial liabilities offset in statement of financial position 2016 Shs'000	Net amounts of financial assets presented in the statement of financial position 2016 Shs'000	Financial instruments, financial collateral and cash collateral received 2016 Shs'000	Net amount 2016 Shs'000
Assets					
Loans and advances	13,434,572	-	13,434,572	-	13,434,572
Derivative assets	8,514	-	8,514	-	8,514
	13,443,086	-	13,443,086	-	13,443,086
Liabilities					
Deposits	13,841,265	-	13,841,265	-	13,841,265
Derivative liabilities	1,930	-	1,930	-	1,930
	13,843,195	-	13,843,195	-	13,843,195

The ISDA* and similar master netting arrangements do not meet the criteria for offsetting in the statement of financial position. This is because they create for the parties to the agreement a right of set-off of recognised amounts that is enforceable only following an event of default, insolvency or bankruptcy of the bank or the counterparties following other predetermined events. In addition the bank and its counterparties do not intent to settle on a net basis or to realise the assets and the liabilities simultaneously.
The bank receives collateral in the form of cash in respect of lending.

The table below sets out the nature of agreement, and the types of rights relating to items which do not qualify for offset but that are subject to a master netting arrangement or similar agreement.

Financial instrument	Nature of agreement	Basis on which amounts are compiled
Derivative assets and liabilities	ISDAs	The agreement allows for offset in the event of default.
Trading assets and trading liabilities	Global master repurchase agreements	The agreement allows for offset in the event of default.
Loans and advances to banks	Banking Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banking Act requirements.
Deposits and current accounts	Banking Act	In the event of liquidation or bankruptcy, offset shall be enforceable subject to meeting Banking Act requirements.

Notes (continued)

4 Financial risk management (continued)

e) Offsetting disclosure (continued)

IAS 32 Financial Instruments: Presentation (IAS 32) requires financial assets and financial liabilities to be offset and the net amount presented in the statement of financial position when, and only when, the bank has a current legally enforceable right to set off recognised amounts, as well as the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

f) Capital Adequacy and Management

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

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

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

The Bank has 3 main capital objectives:

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

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

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

- Hold the minimum level of regulatory capital of Shs 1billion
- Maintain a ratio of total regulatory capital to the risk weighted assets plus risk weighted assets not recognized in the statement of financial position at or above the required minimum of 8%.
- Maintain core capital of not less than 10.5% (2016:10.5%) of total deposit liabilities
- Maintain total capital of not less than 14.5% (2016:14.5%) of risk-weighted assets plus risk-weighted items not recognized in the statement of financial position.

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

Tier 1 capital (core capital): Share capital, share premium, plus retained earnings

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

Notes (continued)

4 Financial risk management (continued)

f) Capital Adequacy and Management (continued)

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

	2017 Shs'000	2016 Shs'000
Tier I Capital		
Share capital	1,470,175	1,470,175
Share premium	706,082	706,082
Retained earnings	1,190,874	1,609,146
Deferred tax on tax losses carried forward	(42,227)	-
	3,324,904	3,785,403
Tier II Capital		
Revaluation reserve	17,040	17,139
Regulatory reserve	11,686	14,832
Total regulatory capital	3,353,630	3,817,374
Risk Weighted Assets	20,377,205	16,420,056
Core capital to risk assets (Minimum: 10.5%)	16.3%	23.1%
Total capital to risk assets (Minimum: 14.5%)	16.5%	23.2%

The Bank was compliant with the capital adequacy ratios throughout the year. The adoption of IFRS 9 will reduce the capital adequacy ratios by 1.6%. The Bank will raise additional share capital of Shs 1.5 billion in 2018 to mitigate the impact IFRS 9 adoption as well as support the planned business growth.

5 Interest income

	2017 Shs'000	2016 Shs'000
Loans and advances	1,762,317	2,765,478
Investment securities	231,763	281,902
Deposits and balances due from banking institutions	19,832	48,192
	2,013,912	3,095,572

Portfolio analysis

Interest on financial assets held at amortised cost	2,013,912	3,095,572

Notes (continued)

6 Interest expense

	2017 Shs'000	2016 Shs'000
Term deposits	610,925	902,605
Savings accounts	22,750	29,082
Deposits and balances due to banking institutions	265,960	208,222
Borrowings	66,939	54,964
	966,574	1,194,873
Portfolio analysis		
Interest on financial liabilities held at amortised cost	966,574	1,194,873

7 Provision for impairment of loans and advances

Statement of profit or loss:		
Provisions in the year	464,126	310,536
Bad debt recoveries	(14,336)	(9,994)
	449,790	300,542
Statement of financial position:		
At start of year	712,986	776,077
Charged in the year	464,126	310,536
Write - offs in the year	(394,172)	(373,627)
Net provision	782,940	712,986
Suspended interest	243,678	311,262
At end of year	1,026,618	1,024,248

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

8 Net fee and commission income

	2017 Shs'000	2016 Shs'000
Ledger related fees and commissions	74,049	91,568
Credit related fees and commissions	296,496	264,095
Transaction related fees	141,630	155,792
	512,175	511,455

Notes (continued)

9 Foreign exchange income	2017 Shs'000	2016 Shs'000
Net foreign exchange gain	112,410	70,833

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

10 Other income	2017 Shs'000	2016 Shs'000
Income on disposal of property and equipment	717	600
Income on insurance compensation	9,984	-
Sundry income	6,713	3,491
	17,414	4,091

11 Operating expenses		
Employee benefits (Note 12)	778,084	897,505
Directors' emoluments - Non-executive	9,676	14,241
- Executive	39,403	20,402
Auditor's remuneration	4,576	4,220
Depreciation on property and equipment (Note 21)	126,365	111,234
Amortisation of intangible assets (Note 22)	86,406	95,478
Premises costs	220,718	206,009
Telephone, connectivity and postage	84,790	90,903
Printing, stationery and ATM card expenses	45,823	91,122
Marketing, promotion and public relations	4,011	85,417
Travelling expenses	21,602	50,942
Cleaning, repairs and maintenance	43,469	72,071
Insurances and security	89,587	92,716
Professional fees	56,007	77,189
Software licenses	129,219	89,265
Lease rentals	28,274	18,571
Other operating expenses	104,478	107,359
	1,872,488	2,124,644

12 Employee benefits		
Salaries and allowances	660,691	783,728
Pension contributions - Defined contribution benefits scheme	36,671	34,054
- National Social Security Fund	2,127	1,371
Staff medical expenses	58,280	52,752
Staff welfare and training expenses	20,315	25,600
	778,084	897,505

Notes (continued)

12 Employee benefits (continued)

Included in 2016 salaries and allowances are termination benefits amounting to Shs 100,811,000.

Average number of employees during the year	**2017**	**2016**
Management	143	89
Supervisory	43	87
Clerical	267	339
	453	515

13 Taxation

	2017 Shs'000	**2016 Shs'000**
a) Statement of financial position:		
Current income tax recoverable		
At start of year	104,177	90,367
Prior year understatement	3,775	-
Income tax expense	-	(30,969)
Paid during the year	951	44,779
At end of year	108,903	104,177
b) Profit or loss:		
Current income tax	-	30,969
Deferred income tax credit (Note 23)	211,131	2,875
	211,131	33,844
Reconciliation of tax expense to tax based on (loss)/profit before income tax:		
(Loss)/profit before income tax	(632,941)	61,892
Tax at the applicable rate of 30% (2016: 30%)	(189,882)	18,568
Tax effect of expenses not deductible for tax	(21,249)	15,276
Tax (credit)/charge for the year	(211,131)	33,844

Notes (continued)

14 Earnings per share

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

	2017	2016
(Loss)/profit for purposes of basic and diluted earnings per share (in Shs'000)	(421,810)	28,048
Number of shares		
Weighted average number of ordinary shares for purposes of basic and diluted earnings per share (in thousands)	2,940	2,940
Earnings per share - basic and diluted (Shs)	(143.5)	9.54

There were no potentially dilutive shares outstanding as at 31 December 2017 and 31 December 2016. Therefore, diluted earnings per share is the same as the basic earnings per share.

15 Cash and balances with Central Bank of Kenya

	2017 Shs '000	2016 Shs '000
Cash in hand	659,796	641,223
Balances with Central Bank of Kenya(CBK)		
• Cash reserve requirement	650,719	716,909
• Other current accounts	1,310,817	857,911
	2,621,332	2,216,043

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

The cash reserve ratio with Central Bank of Kenya (CBK) is non-interest earning and is based on the value of deposits as adjusted for CBK requirements. As at 31 December 2017, the cash reserve ratio requirement was 5.25% of eligible deposits. The Bank is free to deviate from the 5.25% requirement on any given day, but not to fall below 3%, provided that the overall average for the month will be at least 5.25%.

Notes (continued)

16 Deposits and balances due from banking institutions

	2017 Shs '000	2016 Shs '000
Maturing within 90 days of the reporting date:		
Due from local banks	931,781	612,937
Due from foreign banks	289,168	272,798
	1,220,949	885,735

The weighted average effective interest rate for deposits due from banking institutions at 31 December 2017 was 2.8% (2016:10.27%).

17 Investments – held to maturity

	2017 Shs '000	2016 Shs '000
Treasury bills and bonds:		
- maturing within one year	349,340	965,858
- maturing after 1 year	1,549,959	1,557,139
	1,899,299	2,522,997
The movement in investments is summarised below:		
At start of year	2,522,997	2,361,914
Additions	699,707	1,298,080
Interest income (accrued)	231,762	53,147
Liquidation of investments on maturity	(1,555,167)	(1,190,144)
At end of year	1,899,299	2,522,997

The weighted average effective interest rate for treasury investments at 31 December 2017 was 11% (2016: 11%).

Notes (continued)

18 Loans and advances to customers

	2017 Shs '000	2016 Shs '000
Term loans	11,836,502	13,572,828
Overdrafts	599,441	885,992
Gross loans and advances	12,435,943	14,458,820
Provision for impairment losses on loans and advances – (note 7)	(1,026,618)	(1,024,248)
	11,409,325	13,434,572

Analysis of gross loans and advances by maturity

	2017	2016
Maturing within one year	2,145,169	4,095,155
Between two and three years	3,716,459	5.002,934
Over three years	6,574,315	5,360,731
	12,435,943	14,458,820

The aggregate amount of non-performing advances was Shs 2,595,562,371 (2016: Shs 2,458,729,344) against which specific provisions of Shs 969,097,864 (2016: Shs 934,690,076) have been made leaving a net balance of Shs 1,626,464,136 (2016: Shs 1,524,038,924) which is included in the statement of financial position in the loans and advances line item.

The weighted average effective interest rate on loans and advances at 31 December 2017 was 14% (2016:14%). The collateral held against these loans includes mortgages, motor vehicles, land and building, chattels, share certificates among other assets.

19 Other assets

	2017 Shs'000	2016 Shs'000
Prepayments	152,099	152,551
Uncleared effects	27,909	2,576
Security deposits	34,445	43,745
Mobile banking and money transfer receivables	226,962	35,197
Due from subsidiary company	16,998	-
Placement with Chase Bank	303,440	303,440
Less: provision for impairment of Chase Bank balances	(51,046)	(37,265)
Other receivables	233,701	271,892
	944,508	772,136

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

Notes (continued)

20 Financial derivatives

The Bank only trades in foreign exchange derivatives.

The Bank's principal exchange rate-related contracts are forward foreign exchange contracts and currency swaps. Forward foreign exchange contracts are agreements to buy or sell a specified quantity of foreign currency, usually on a specified future date at an agreed rate. A currency swap generally involves the exchange, or notional exchange, of equivalent amounts of two currencies and a commitment to exchange interest periodically until the principal amounts are re-exchanged on a future date. As compensation for assuming the option risk, the option writer generally receives premium at the start of the option period.

The Bank trades foreign exchange forwards and swaps (forward contracts). These are binding contracts locking in the exchange rate for the purchase or sale of a currency on a future date. The Bank's forward book is marked to market on daily basis.

Notional principal amounts are the respective amounts of principal underlying the contract at the reporting date.

2017	**Notional amount**	**Assets**	**Liabilities**
	Shs'000	**Shs'000**	**Shs'000**
Forwards	1,783,783	40,508	214
Cross currency swaps	109,619	-	1,937
	1,893,402	40,508	2,151

2016	**Notional amount**	**Assets**	**Liabilities**
	Shs'000	**Shs'000**	**Shs'000**
Forwards	-	-	-
Cross currency swaps	988,618	8,514	1,930
	988,618	8,514	1,930

All foreign exchange derivatives are current.

Notes (continued)

21 Property and equipment

	Freehold land and buildings Shs'000	Furniture and fittings Shs'000	Motor vehicles Shs'000	Office equipment & computers Shs'000	Renovations & refurbishment Shs'000	Total Shs'000
Year ended 31 December 2017						
Cost or valuation						
At start of year	150,000	133,008	6,177	611,977	552,804	1,453,966
Additions	-	14,583	9,954	13,630	48,214	86,381
Disposals	-	(5,018)	(87)	(35,412)	-	(40,517)
Transfers	-	(51)	-	(277)	-	(328)
At end of year	150,000	142,522	16,044	589,918	601,018	1,499,502
Depreciation						
At start of year	6,000	74,723	5,544	481,905	348,395	916,567
Charge for the year	3,000	9,678	1,461	68,856	43,370	126,365
Disposals	-	(5,018)	(87)	(35,363)	-	(40,468)
Transfers	-	(9)	-	(145)	-	(154)
At end of year	9,000	79,374	6,918	515,253	391,765	1,002,310
Net carrying amount						
At end of year	141,000	63,148	9,126	74,665	209,253	497,192
Year ended 31 December 2016						
Cost or valuation						
At start of year	150,000	85,113	6,177	523,575	418,528	1,183,393
Additions	-	51,579	-	89,112	134,276	274,967
Disposals	-	(3,684)	-	(710)	-	(4,394)
At end of year	150,000	133,008	6,177	611,977	552,804	1,453,966
Depreciation						
At start of year	3,000	72,240	4,548	417,605	312,331	809,724
Charge for the year	3,000	6,163	996	65,010	36,064	111,234
Disposals	-	(3,680)	-	(710)	-	(4,390)
At end of year	6,000	74,723	5,544	481,905	348,395	916,567
Net carrying amount						
At end of year	144,000	58,285	633	130,072	204,409	537,399

Notes (continued)

21 Property and equipment (continued)

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

	2017 Shs'000	2016 Shs'000
Cost	77,151	77,151
Accumulated depreciation	(33,524)	(31,645)
At end of year	43,627	45,506

22 Intangible assets

Computer software

	2017 Shs'000	2016 Shs'000
Cost		
At start of year	546,441	586,227
Additions	47,085	135,882
Written off	-	(175,668)
Transfers	(6,000)	-
At end of year	587,526	546,441
Amortisation		
At start of year	210,704	290,894
Charge for the year	86,406	95,478
Written off	-	(175,668)
At end of year	297,110	210,704
Net carrying amount		
At end of year	290,416	335,737

Notes (continued)

23 Deferred income tax

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

	At 1 January 2017 Shs '000	Profit or loss Shs '000	At 31 December 2017 Shs '000
Property and equipment	(30,081)	(21,480)	(51,561)
Other temporary differences	(27,108)	(147,424)	(174,532)
Tax losses carried forward	-	(42,227)	(42,227)
Net deferred income tax asset	(57,189)	(211,131)	(268,320)

	At 1 January 2016 Shs '000	Profit or loss Shs '000	At 31 December 2016 Shs '000
Property and equipment	(30,772)	691	(30,081)
Other temporary differences	(29,292)	2,184	(27,108)
Net deferred income tax asset	(60,064)	2,875	(57,189)

24 Customer deposits

	2017 Shs'000	2016 Shs'000
Call and fixed deposits	6,396,019	7,600,525
Current and demand accounts	4,438,138	2,556,900
Savings accounts - micro savers	866,872	2,982,990
- other	1,059,762	700,850
	12,760,791	13,841,265

Analysis of customer deposits by maturity:

	2017 Shs'000	2016 Shs'000
Payable within one year	12,744,169	13,456,917
Between one year and three years	16,622	384,348
	12,760,791	13,841,265

Notes (continued)

24 Customer deposits (continued)

Included in 'Customer deposits' were deposits of Shs 701,863,953 (2016: Shs 1,119,786,026) that have been pledged to the Bank by the customers as securities for loans and advances.

The weighted average effective interest rate on interest bearing customer deposits for the year ended 31 December 2017 was 9% (2016: 7%). The deposits due to banking institutions relate to overnight borrowings from other commercial banks. The weighted average interest rate on the deposits for the year ended 31 December 2017 was 9.8% (2016: 9%).

25 Deposit and Balances due to banking institutions

	2017 Shs'000	2016 Shs'000
Due to local banks	2,379,413	2,269,645

26 Borrowings

	2017 Shs'000	2016 Shs'000
Terms loans:		
European Investment Bank	-	183,858
OikoCredit Ecumenical Development Co-operative Society U.A	227,110	405,291
Pamiga Finance SA	207,230	-
	434,340	589,149
The borrowings are payable as follows:		
Payable within one year	75,000	589,149
Payable after one year- three years	359,340	-
	434,340	589,149

The movement in borrowings is a summarised below:

	2017	2016
At start of year	589,149	642,123
Additions	202,000	300,000
Repayments	(425,448)	(407,938)
Accrued interest payable	63,939	54,964
Currency translation loss	4,700	
At end of year	434,340	589,149

The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

Notes (continued)

26 Borrowings (continued)

The weighted average effective interest rate on the borrowings as at 31 December 2017 was 10.66% for LCY loans and 4.25% for FCY loans (2016: 9.42% for LCY). The borrowings are measured at amortised cost and are all unsecured.

The last principal instalment for both EIB loans was paid in October 2017.

The Oiko Credit loan was issued in two tranches. The first tranche Shs 300 million was received on 22 September 2014. It accrued interest at a rate of 11.07% for the first six months. Thereafter, net interest rate was reviewed by Oiko Credit and adjusted semi-annually based on the 182 day T-bill rate plus a margin of 1.25%, subject to a minimum rate of 10% p.a. The interest rate is repayable semi-annually. The loan would be paid in 3 equal instalments of Shs 100 million after 12 months from the date of disbursement. The last principal instalment was paid in October 2017.The second tranche was received on 8 December 2016. It accrued interest at the rate of 10.84%, for the first six months, thereafter net interest rate was reviewed by Oiko Credit and adjusted semi-annually based on the 182-day T-bill rate plus a margin of 1.25%, subject to a minimum rate of 10% p.a. Interest is repayable semi-annually with 4 equal annual instalments of the principal Shs 75 million after the date of disbursement.

The Pamiga loan of USD 2 million was received on 30 July 2017 at a fixed rate of 4.25 % p.a. The first principal instalment is payable after a grace period of 2 years over a period of 3 years. Interest is repayable semi-annually.

The loans financial covenants relating to the non-performing loans and operational self- sufficiency ratios were not met as at 31 December 2017. The two lenders, Pamiga and Oiko, have not recalled the loans.

27 Other liabilities

	2017 Shs'000	2016 Shs'000
Accrued expenses	103,197	97,048
Outstanding bankers cheques	20,541	23,125
Statutory deductions	22,746	49,389
Due to subsidiary	7,157	1,000
Other payables	124,438	134,160
	278,079	304,722

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

28 Share capital

	2017 Shs'000	2016 Shs'000
Authorised share capital:		
4,000,000 ordinary shares of Shs 500 each	2,000,000	2,000,000

Notes (continued)

28 Share capital (continued)

Share capital	Number of shares	Share capital Shs'000	Share premium Shs'000
At 1 January 2016	2,938,275	1,469,137	703,865
Issue of shares	2,075	1,038	2,217
At 31 December 2016 and 31 December 2017	2,940,350	1,470,175	706,082

29 Revaluation reserve

The revaluation reserve is used to record increases in the fair value of land and buildings, net of deferred income tax.

30 Regulatory reserve

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

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

31 a) Cash generated from operations

Reconciliation of profit before income tax to cash generated from operations:

Profit before income tax	(632,941)	61,892
Adjustments for:		
Depreciation on property and equipment (Note 21)	126,365	111,234
Amortisation of intangible assets (Note 22)	86,406	95,478
Interest on borrowings	63,939	54,964
Revaluation of borrowing	4,700	-
Interest income on investments	(231,762)	(53,147)
Gain on sale of assets	(611)	(822)
Operating profit before changes in operating assets and liabilities	(583,904)	269,599
Changes in operating assets and liabilities:		
Increase in loans and advances to customers	2,025,247	(915,185)
Increase in other assets	(195,852)	(354,791)
(Decrease) / increase in customer deposits	(924,302)	305,537
Increase in balances due to banking institutions	109,768	1,438,234
(Decrease) / increase in other liabilities	(182,594)	46,844
Cash generated from operations	248,363	790,238

Notes (continued)

31 b) Analysis of cash and cash equivalents as shown in the cash flow statement:

	2017 Shs'000	2016 Shs'000
Cash in hand (Note 15)	659,796	641,223
Balance with Central Bank of Kenya (Note 15)	1,961,536	1,574,820
Balances due from banking institutions (Note 16)	1,220,949	885,735
	3,842,281	3,101,778

32 Contingent liabilities

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

	2017 Shs'000	2016 Shs'000
Pending legal suits	1,676	28,832

33 Off balance sheet items

In the ordinary course of business, the Bank conducts business involving letters of credit, performance bonds and guarantees. Letters of guarantee and performance bonds are issued by the Bank, on behalf of customers, to guarantee performance by a customer to third parties. The Bank holds cash collateral to the extent of the guarantee that is realised in the events of default by customers (Note 24).

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

	2017 Shs'000	2016 Shs'000
Guarantees	6,067,064	896,748
Letters of credit	549,820	-
	6,616,884	**896,748**

Notes (continued)

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 operation decisions, or one other party controls both.

The Bank's immediate parent company is Bakki Holdco Limited, which is a wholly owned subsidiary of Centum Investment Company Limited, both incorporated in Kenya. There are other companies which are related to the Bank through common shareholdings or common directorships.

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

Included in customers' deposits and advances to customers at 31 December 2017 were the following related party balances:

i) Loans and advances	**2017**	**2016**
	Shs'000	**Shs'000**
a) Staff loans		
At start of year	316,733	475,063
Advanced during the year	186,953	240,873
Interest charged	65,681	55,794
Repayments	(137,058)	(454,997)
At end of year	432,309	316,733

b) Key management staff

	2017	**2016**
	Shs'000	**Shs'000**
At start of year	55,404	32,137
Advances during the year	23,202	29,201
Interest charged	3,116	2,346
Repayments	(17,607)	(8,280)
At end of year	**64,116**	**55,404**

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

Notes (continued)

34 Related party transactions (continued)

i) Loans and advances (continued)

Related parties

	1 Jan 2017 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2017 Shs '000
KWA Multipurpose Co-operative Society	20,990	3,000	3,183	(16,276)	10,897
Directors and their associates	25,530	20,000	6,374	(12,918)	38,986
Kings Beverages Limited	22,710	-	3,179	(9,923)	15,966
Makao Mashinani Limited	9,390	-	1,315	(10,705)	-
	78,620	23,000	14,051	(49,822)	65,849

Advances to related parties

	1 Jan 2016 Shs '000	Advances Shs '000	Interest Shs '000	Repayment Shs '000	31 December 2016 Shs '000
KWA Multipurpose Co-operative Society	10,980	18,000	4,057	(12,047)	20,990
Directors and their associates	31,220	504	4,441	(10,634)	25,530
Kings Beverages Limited	30,473	-	4,266	(12,029)	22,710
Makao Mashinani Limited	12,050	-	1,687	(4,347)	9,390
	84,723	18,504	14,451	(39,057)	78,620

Notes (continued)

34 Related party transactions (continued)

Advances to related parties (continued)

No impairment losses have been recorded against balances outstanding during the year and no specific allowance has been made for impairment losses on balances at the year end. Advances to staff members are at an average interest rate of 6 percent whereas other advances are at commercial rates. The loans are running for an average period of 12 years (2016: 12 years).

ii) Customer deposits	**2017 Shs'000**	**2016 Shs'000**
Ace Nairobi One Limited	62,805	-
Almasi Beverages Limited	973,755	1,058,167
Athena Properties Limited	2,081	415
Centum Investment Company Limited	447,203	825,611
Greenblade Growers Limited	2,169	2,844
King Beverage Limited	164	1,188
Kisii Botlers Limited	49,919	104,304
K-Rep Development Agency	1,200	3,411
K-Rep Development Agency	1,200	3,411
Kwa Multipurpose Society	943	808
Kwa Multipurpose Limited	3,387	3,074
Longhorn Publishers Limited	1,081	18,379
Makao Mashinani Limited	6,257	17,381
Mount Kenya Bottlers Limited	343,288	76,280
Nabo Capital Limited	369	2,388
Platinum Credit Limited	1,016	251,747
Premier Kenya Limited	15,444	77,593
Rift Valley Bottlers Limited	19,326	415,935
Two Rivers Development Limited	555	94,693
Two Rivers Lifestyle Centre Limited	5,230	160
Two Rivers Property Owners Co Ltd	120	-
Two Rivers Theme Park Ltd	674	-
Two Rivers Water &Sanitation Co Ltd	1,517	-
Vipingo Development Limited	26,629	1,123
Zohari Leasing Limited	771	7,186
	1,967,103	2,966,098

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

iii) Other transactions with related parties

Rental expenses:		
K-Rep Group Limited	17,372	8,823

Notes (continued)

34 Related party transactions (continued)

K-Rep Development Agency, Makao Mashinani and K-Rep Fedha Limited are related to the Bank by virtue of the significant influence and control exercised by their common holding company, K-Rep Group Limited. On the other hand, KWA Multipurpose Co-operative Society and Centum Investment Company Limited are shareholders of the Bank. Centum affiliate companies include; Two Rivers Limited, Almasi Bottlers Limited, Kisii Bottlers Limited, Mt Kenya Bottlers Limited, Rift Valley Bottlers Limited, Platinum Credit Limited, Premier Kenya Limited, Longhorn Publishers Limited , Nabo Capital, Athena Properties, and Kings Beverages Limited.

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

iv) Key management compensation

	2017 Shs'000	2016 Shs'000
Key management		
Short term benefits	141,641	77,738
Termination benefits	5,808	3,668
Medical costs	1,404	6,330
	148,853	87,736

v) Directors' remuneration

	2017 Shs'000	2016 Shs'000
Fees for services as Directors – Non-executive	150	14,239
Termination benefits – Executive director	10,201	2
Salary and other benefits – Executive director	30,055	20,402
	40,406	34,643

vi) Subsidiary

In 2015, the Bank introduced a Bancassurance unit in the form of an agency. Sidian Bank Insurance Agency was incorporated on 13 February 2015 and commenced business in August 2015. Its results are summarized below.

		2017 Shs'000	2016 Shs'000
Agency			
Revenue		33,345	17,489
Expenses		(12,056)	(9,809)
Profit before tax		12,289	7,680
Profit after tax		14,902	7,680
Share capital			
Sidian Bank Insurance Agency Limited	100%	1,000	1,000

Notes (continued)

34 Related party transactions (continued)

Results of the subsidiary will be consolidated in the accounts of Centum Investments Company Limited. As such, the bank has not prepared consolidated financial statements.

35 Future rental commitments under operating leases

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

	2017 Shs'000	2016 Shs'000
Within one year	37,691	97,452
Between two and five years	130,023	245,253
After five years	88,490	84,511
	256,204	427,216

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

Operating lease rentals

Operating lease rentals disclosed in note 11 relates to amounts paid out for rent for premises.

36 Capital commitments

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

	2017 Shs'000	2016 Shs'000
Authorised and contracted for	-	38,128

37 Assets pledged as security

Treasury bonds of Shs 1 billion (2016: Nil) has been pledged with the Central Bank of Kenya to secure borrowing of Shs 1,000,001,000.

38 Events after the reporting date

In February 2018, the Bank's Shareholders approved a rights issue to raise additional share capital of Shs 1.5 billion. The additional capital will support the Bank's medium term growth including growing its trade finance business, increase the loan book and transactional business.

Notes (continued)

39 Shareholders of the bank

At 31 December 2017

	Shareholders	Number of shares	Percentage shareholding
1	Bakki Holdco Limited	2,144,497	72.93%
2	K-Rep Group Limited	501,430	17.05%
3	KWA Multi-Purpose Coop Limited	143,376	4.88%
4	Centum Investment Company Limited	53,984	1.84%
5	Kimanthi Mutua	21,040	0.72%
6	Sarah Godana	15,495	0.53%
7	Kabiru Kinyanjui	12,222	0.42%
8	Mwenda Thiribi	10,316	0.35%
9	Anthony Wainaina	8,875	0.30%
10	Francis Kihiko	8,871	0.30%
11	Bethuel Kiplagat	8,254	0.28%
12	Aleke Dondo	6,495	0.22%
13	Judith Behemuka	4,995	0.17%
14	Francis Kimunyu	500	0.02%
	Total	**2,940,350**	**100.00%**

At 31 December 2016

	Shareholders	Number of shares	Percentage shareholding
1	Bakki Holdco Limited	2,144,497	72.93%
2	K-Rep Group Limited	501,430	17.05%
3	KWA Multi-Purpose Coop Limited	143,376	4.88%
4	Centum Investment Company Limited	53,984	1.84%
5	Kimanthi Mutua	21,040	0.72%
6	Sarah Godana	15,495	0.53%
7	Kabiru Kinyanjui	12,222	0.42%
8	Mwenda Thiribi	10,316	0.35%
9	Anthony Wainaina	8,875	0.30%
10	Francis Kihiko	8,871	0.30%
11	Bethuel Kiplangat	8,254	0.28%
12	Aleke Dondo	6,495	0.22%
13	Judith Behemuka	4,995	0.17%
14	Francis Kimunyu	500	0.02%
	Total	**2,940,350**	**100.00%**

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