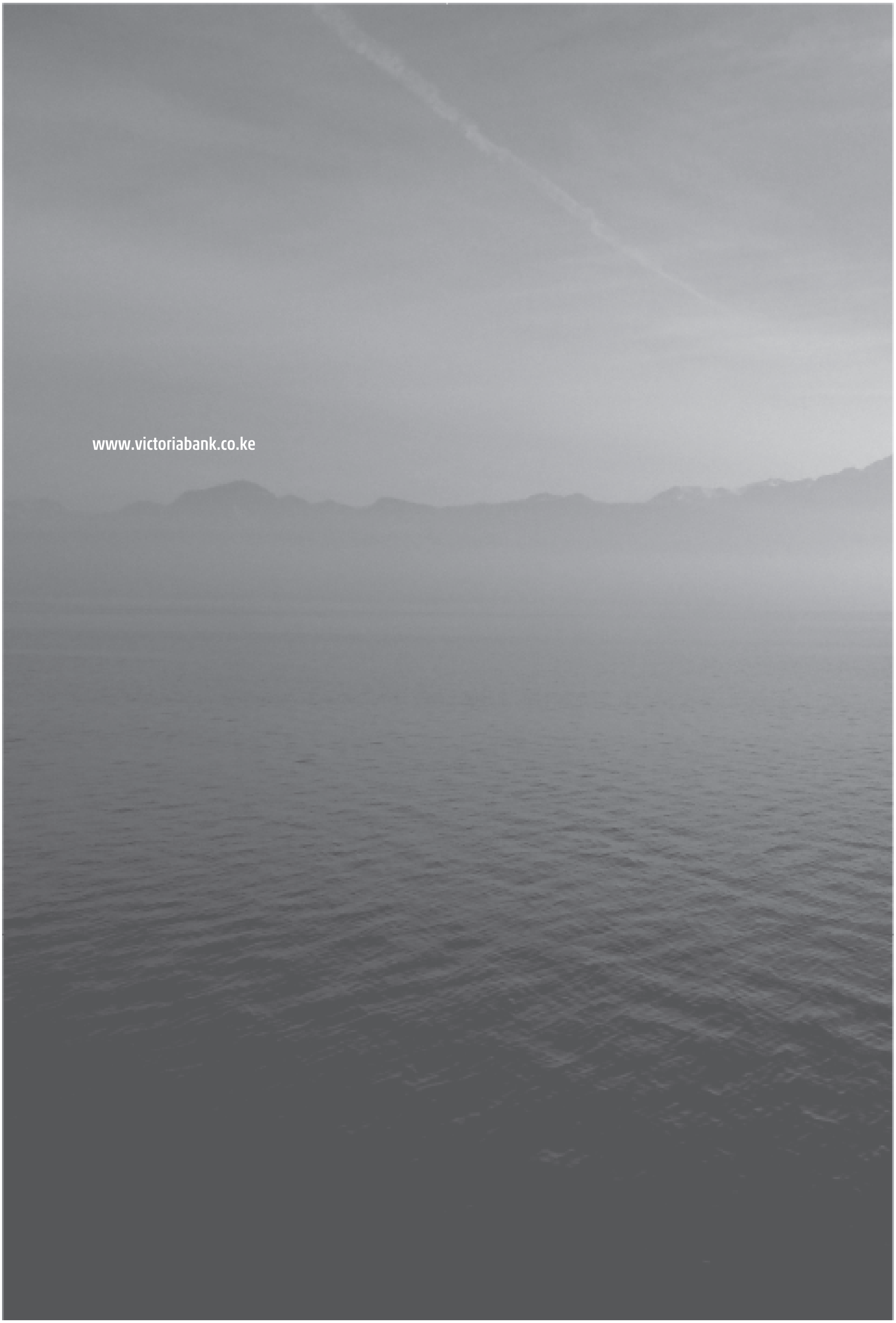
ANNUAL REPORT
& FINANCIAL STATEMENTS

2017

EXPERIENCE THE ULTIMATE
VICTORIA
COMMERCIAL BANK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EXPERIENCE THE ULTIMATE
VICTORIA
COMMERCIAL BANK

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EXPERIENCE THE ULTIMATE
VICTORIA
COMMERCIAL BANK

2017

ANNUAL REPORT
& FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

SECTION ONE


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4.57
19.48
5.45
5.45
0.17

CORPORATE INFORMATION

REGISTERED OFFICE

Victoria Towers, Mezzanine Floor
Kilimanjaro Avenue, Upper Hill
PO Box 41114- 00100, Nairobi

AUDITOR

PricewaterhouseCoopers, Certified Public Accountants
PwC Tower, Waiyaki Way/Chiromo Road, Westlands
Nairobi, Kenya
PO Box 43963-00100, Nairobi

PRINCIPAL CORRESPONDENTS

Standard Chartered Bank	*New York*
Standard Chartered Bank	*London*
Standard Chartered Bank	*Frankfurt*
Standard Chartered Bank	*Tokyo*
Axis Bank Limited	*India*

MAIN LAWYERS

Taibjee and Bhalla Advocates
Ashitiva and Company Advocates
Raffman, Dhanji, Elms and Virdee Advocates
Njoroge Regeru & Company Advocates

BOARD OF DIRECTORS

Kanji D Pattni
CHAIRMAN

Yogesh K Pattni Ph.D BRITISH
CHIEF EXECUTIVE OFFICER

Sylvano O Kola

Rajan P Jani BRITISH
RETIRED, 5 OCTOBER 2017

Yadav Jani
ALTERNATE

Ketaki Sheth BRITISH

Mukesh S Shah

COMPANY SECRETARY

Highway Registrars
Certified Public Secretaries (K)
Delta Riverside Block 3,3rd Floor,
Riverside Drive
P.O. Box 72519 - 00200, Nairobi

PRINCIPLE OFFICERS

Yogesh K Pattni Ph.D
CHIEF EXECUTIVE OFFICER

Manish L Parmar
DIRECTOR - BUSINESS DEVELOPMENT

Nitin H Jethwa
DIRECTOR - OPERATIONS

Dharmesh M Vaya
GENERAL MANAGER

Azmina Pattni
HEAD OF LIABILITIES RELATIONSHIPS

Hezron Kamau
HEAD OF FINANCE

Mitesh Chouhan
HEAD OF CREDIT ADMINISTRATION

Alpesh C Parmar
SENIOR MANAGER, TREASURY

Varsha Lakhman
BRANCH MANAGER

Fiddelice Otwani
HUMAN RESOURCES MANAGER

Daniel Kabuku
INTERNAL AUDITOR

Nasibo Abdullahi
HEAD OF COMPLIANCE

CORPORATE GOVERNANCE STATEMENT

STATEMENT ON CORPORATE GOVERNANCE

Corporate governance involves the way the business and affairs of an institution are governed by its board and senior management and provides the structure through which the objectives of the institution are set, and the means of attaining those objectives and monitoring performance are determined.

These structures are aimed at maintaining and increasing shareholder value simultaneously with the satisfaction of other stakeholders in the context of the institution's corporate mission.

GOVERNANCE PRINCIPLES

The Board of Directors is composed of the Chairman, five non-executive directors and the Chief Executive Officer, all of whom have extensive business and banking experience applied in the management of the Bank. The Board meets regularly to review the Bank's performance against business plans in addition to formulating and implementing strategy as well as discharge its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The Central Bank of Kenya Prudential Guidelines require that appointment of all directors must be approved by Central Bank, a requirement that the Bank has complied with.

The Board has delegated authority for the conduct of the day to day business to the Management. However, the Board retains responsibility for establishing and maintaining the Bank's overall internal control of financial, operational and compliance issues.

The Board has four main functional committees (Audit, Credit, Nomination and Remuneration, and Risk Management) which meet at least on quarterly basis with the main functions outlined below. These are supported by Management committees charged with implementing various decisions of the Board.

All the Bank's Directors and employees adhere to the principles of the Code of Conduct in all of their dealings on behalf of the Bank. The code of conduct ensures that all actions are in the overall best interests of the Bank and reflects commitment to maintaining the highest standards of integrity, ethical behaviour and compliance with all applicable internal and external laws and regulations.

All the Directors are committed to act honestly and in the best interests of the Bank. The Board also ensures that the Directors' personal interests do not conflict with their duty to the Bank and to all the stakeholders.
The following are the board and management committees of Victoria Commercial Bank Limited with brief description of their key role, composition and membership as well as the frequency of the meetings.

BOARD AUDIT COMMITTEE (BAC)

This Committee provides independent oversight of the bank's financial reporting and internal control system, ensure checks and balances within the Bank are in place and recommends remedial actions regularly.
The committee comprises of three non- executive directors. In addition, the Chairperson of the Committee can invite members to attend meetings as may be necessary.

The external and internal auditors of the Bank shall have free access to the Audit Committee. The Auditors can request the Chairperson of the Committee to convene a meeting to consider any matter that the auditors believe should be brought to the attention of directors or shareholders.

The BAC is chaired by an independent non-executive director and meets once every quarter as per its terms of reference.

BOARD RISK MANAGEMENT COMMITTEE (BRMC)

This Committee assists the board of directors in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting. The responsibility to ensure quality, integrity and reliability of the bank's risk management is delegated to the BRMC.

The committee comprises of three non- executive directors. In addition, the Chairperson of the Committee can invite members to attend meetings as may be necessary.

The Risk and Compliance Function of the Bank has free access to the BRMC.

The BRMC is chaired by an independent non-executive director and meets once every quarter as per its terms of reference.

BOARD CREDIT COMMITTEE (BCC)

This Committee assists the board of directors in reviewing and overseeing the overall lending of the Bank. The committee also monitors and reviews the quality of the Banks' portfolio and ensures adequate levels of loan loss provisions are maintained. The BCC deliberates and considers loan applications beyond the discretionary limits of the Credit Risk Management Committee.

The Committee comprises of two non-executive directors and the Chief Executive Officer, who is an executive director.

The BCC is chaired by an independent non-executive director and meets once every quarter as per its terms of reference. In addition, the Chairperson of the Committee can invite members to attend meetings as may be necessary.

BOARD NOMINATION AND REMUNERATION COMMITTEE (BNRC)

The objective of this Committee is to assist the Board undertake structured assessment of candidates for membership of the Board and senior executives as well as regular review of structure, size and composition of the board and make recommendations on any adjustments deemed necessary.

The Committee also oversees the compensation system's design and operation in line with clearly defined remuneration principles. The Committee comprises of three non-executive directors and the Chief Executive Officer, who is an executive director. The BNRC is chaired by an independent non-executive director and meets at least twice every year as per its terms of reference.

EXECUTIVE COMMITTEE (EXCO)

This committee is the link between the Board and the management of the Bank. It assists the Chief Executive Officer in implementing operational plans, the annual budget and periodic review of the Bank's overall strategies.

The Committee comprises of the senior management of the bank.

The Committee is chaired by the Chief Executive Officer of the Bank and meets at a minimum of twice per month unless otherwise notified by the Chairperson to the committee.

RISK MANAGEMENT AND COMPLIANCE COMMITTEE

This Committee assists the board risk management Committee in the discharge of its duties relating to the corporate accountability and associated risks in terms of management, assurance and reporting.

The Committee is chaired by the Risk Officer and members include all the line managers and a representative of the senior management team. In addition, the chair person can invite other members of the bank as may be necessary.

The Committee meets once every quarter as per its terms of reference.

ASSETS AND LIABILITIES COMMITTEE (ALCO)

ALCO is responsible for monitoring and managing the assets and liabilities of the Bank. This includes managing interest rate movements, liquidity, treasury risk management, cost of funds/margins, reviewing and monitoring bank deposit base, foreign exchange exposure and capital adequacy. The Committee also recommends appropriate steps with regards the areas above in line with the CBK/Risk Management guidelines.

The committee comprises mainly of the executive team and is chaired by the Head of Treasury.

The Committee meets at a minimum once a month as per its terms of reference.

CREDIT RISK MANAGEMENT COMMITTEE

The objectives of the Credit Risk Management Committee are to review, oversee, decline and approve the credit facilities in line with the lending policy set by the Board Credit Committee.

The committee also deals with the day to day management of loans and advances as well as off- balance sheet facilities in accordance with the Credit Policies of the Bank.
The committee is chaired by the General Manager in charge of credit. Other members are the senior management team, relationship managers, credit Manager, legal Officer and the committee secretary. The committee reports to the Board Credit Committee.

The Committee meets on monthly basis as per its terms of reference.

ICT STEERING COMMITTEE

ICT Committee's responsibilities include directing the investigation and development of ICT requirements; developing long-term strategies and plans for ICT services; recommending and implementing approved systems, policies and strategies; recommending and approving hardware and software changes; ensuring accurate management information is available on a timely and reliable manner and that appropriate security arrangements are in place including information security.

The Committee is chaired by Chief Executive Officer and membership consists of representatives from senior management, the IT function, Credit Manager, Operations Officer as well as the Project Manager. The Committee meets once every three months as per its terms of reference.

BOARD AND DIRECTORS EVALUATION

The Board, on an annual basis, carries out a self-assessment of its members. Each board member evaluates fellow board members as well as the Chairman of the Board. An evaluation of the performance of the Chief Executive Officer during the period under review is also carried out.

The assessment is broad based and encompasses all aspects of management of the business and particularly the contribution of each board member. Effectiveness, participation, attendance and co-operation amongst directors also form part of the basis of the assessment. Mix of skills and experiences of each director are taken into consideration. All directors and the Chairman will continue making these assessments on an annual basis.

ATTENDANCE AT BOARD MEETINGS - 2017

Name	Jan 17th	Jan 23rd	Feb 23rd	Mar 07th	Mar 23rd	May 11th	Jun 12th	Jul 10th	Sep 12th	Oct 12th	Nov 21st
KD Pattni CHAIRMAN	P	P	P	P	P	P	P	P	P	P	P
Yogesh K Pattni PhD CHIEF EXECUTIVE OFFICER	P	P	P	P	P	P	P	P	P	P	P
S O Kola	P	P	P	P	P	P	P	P	P	P	P
Rajan P Jani (RETIRED 05.10.2017)	P	P	P	P	P	P	P	P	P	R	R
Ketaki Sheth	P	P	P	P	P	P	P	P	P	P	P
Mukesh Shah	P	P	P	P	P	P	P	P	P	P	P

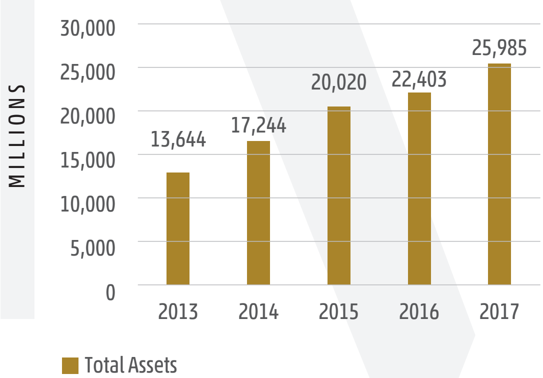
P Present A Absent AP Absent with Apology R Retired


90.2
83.5
+3.5

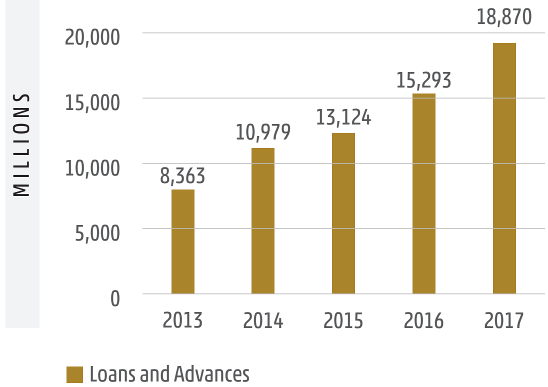
FIVE-YEAR FINANCIAL REVIEW

	2013 Shs'000	2014 Shs'000	2015 Shs'000	2016 Shs'000	2017 Shs'000
BALANCE SHEET					
Assets					
Government securities	1,165,666	2,399,880	2,823,790	2,993,604	2,586,695
Loans and advances to customers	8,363,452	10,979,238	13,124,420	15,292,829	18,870,101
Property and equipment	137,418	185,373	235,466	192,350	174,508
Other assets	3,977,706	3,679,601	3,836,396	3,924,698	4,353,856
Total assets	**13,644,242**	**17,244,092**	**20,020,072**	**22,403,481**	**25,985,160**
Liabilities					
Customer deposits	9,043,645	12,288,662	14,024,406	15,695,947	18,677,388
Long term borrowings	1,482,686	1,387,418	1,305,428	1,519,870	1,382,370
Other liabilities	589,767	692,464	1,178,729	127,627	313,509
Total liabilities	**11,116,098**	**14,368,544**	**16,508,563**	**17,343,444**	**20,373,267**
Shareholder's funds	**2,528,144**	**2,875,548**	**3,511,509**	**5,060,037**	**5,611,893**
Total equity and liabilities	**13,644,242**	**17,244,092**	**20,020,072**	**22,403,481**	**25,985,160**
INCOME STATEMENT					
Interest income	1,375,389	1,754,695	2,379,856	2,450,811	2,558,675
Interest expense	(604,255)	(902,899)	(1,325,394)	(1,302,865)	(1,274,363)
Net interest income	**771,134**	**851,796**	**1,054,462**	**1,147,946**	**1,284,312**
Non- funded income	189,534	204,929	196,042	268,070	358,713
Operating income	**960,668**	**1,056,725**	**1,250,504**	**1,416,016**	**1,643,025**
Credit impairment charge	(7,505)	(10,982)	(20,026)	(12,032)	(35,321)
Other operating expenses	(366,781)	(410,858)	(553,537)	(607,571)	(758,505)
Profit before income tax and exceptional items	**586,382**	**634,885**	**676,941**	**796,413**	**849,199**
Exceptional items	-	-	242,161	-	-
Profit before tax after exceptional items	**586,382**	**634,885**	**919,102**	**796,413**	**849,199**
Income tax expense	(154,479)	(170,540)	(205,302)	(204,018)	(232,022)
Profit for the year	**431,903**	**464,345**	**713,800**	**592,395**	**617,177**
PERFORMANCE RATIOS					
Earnings per share (Shs)	13.42	14.36	21.69	18.60	14.72
Dividend Per share (Shs)	4.50	5.00	3.00	3.00	3.50
Return on average shareholder's funds	25.70%	23.70%	28.78%	20.84%	15.91%
Return on average assets	4.89%	4.11%	4.93%	3.75%	3.50%
Non performing loans to total loans and advances	0%	0%	0%	0%	0%
Net advances to customer deposits (%)	92.48%	89.34%	93.58%	97.43%	101%
CAPITAL STRENGTH					
Core capital to customer deposits	25.40%	21.30%	23.80%	30.90%	28.70%
Core capital to total risk weighted assets	19.80%	18.20%	18.60%	24.70%	22.10%
Total capital to total risk weighted assets	20.40%	19.20%	19.30%	25.50%	22.70%

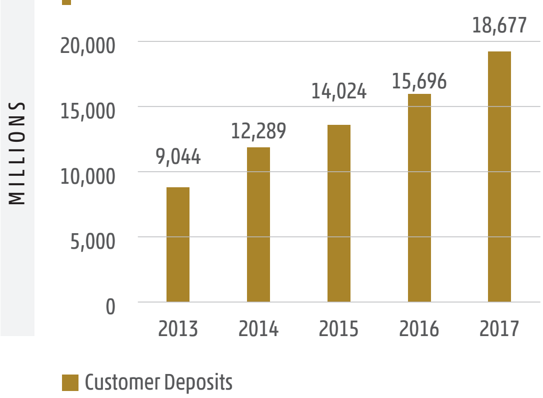
TOTAL ASSETS



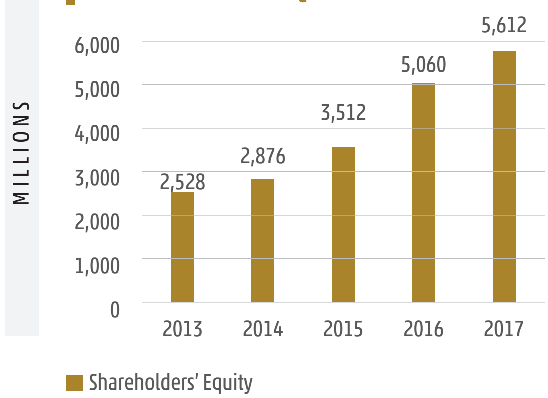
LOANS AND ADVANCES



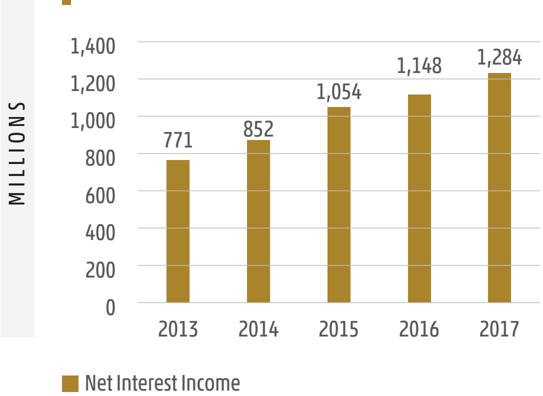
CUSTOMER DEPOSITS



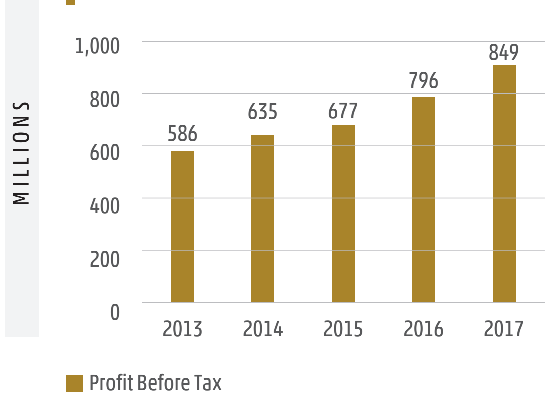
SHAREHOLDERS' EQUITY



NET INTEREST INCOME

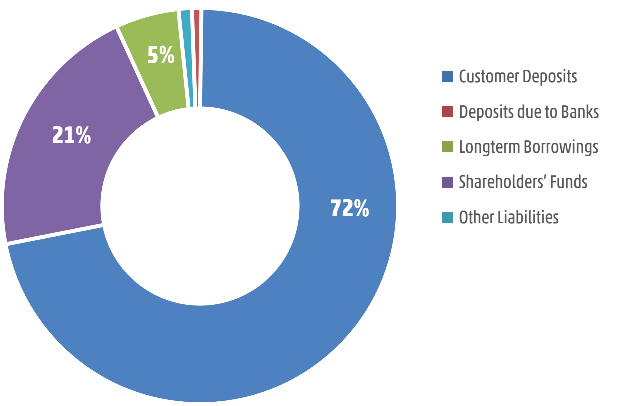


PROFIT BEFORE TAX

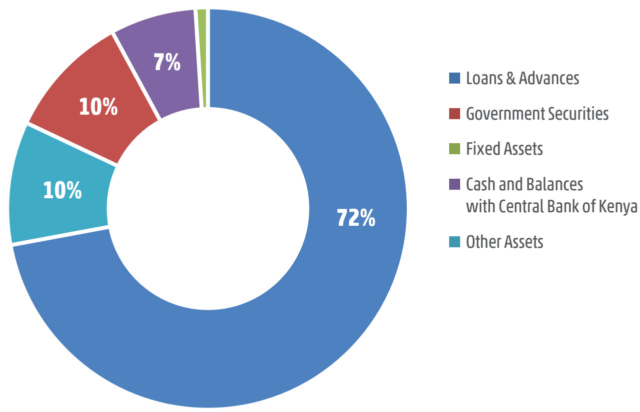


**2015 PBT excludes gains on sale of associate*

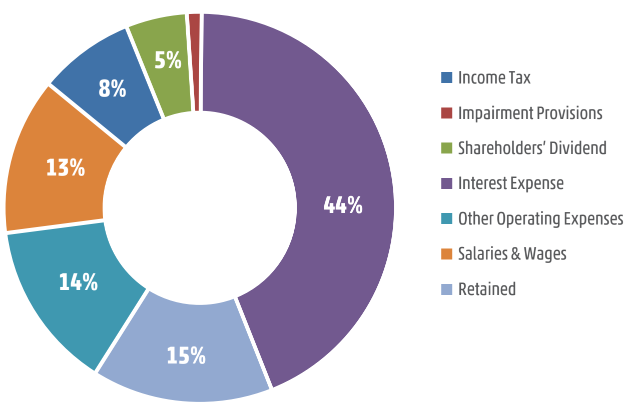
COMPOSITION OF LIABILITIES



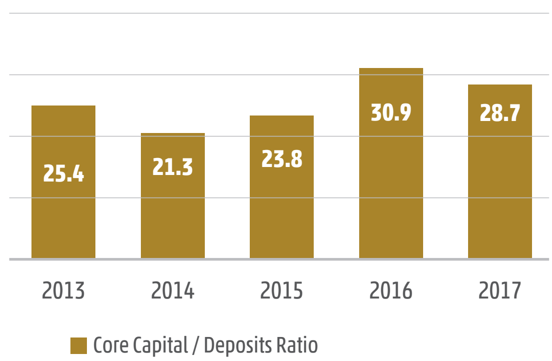
COMPOSITION OF ASSETS



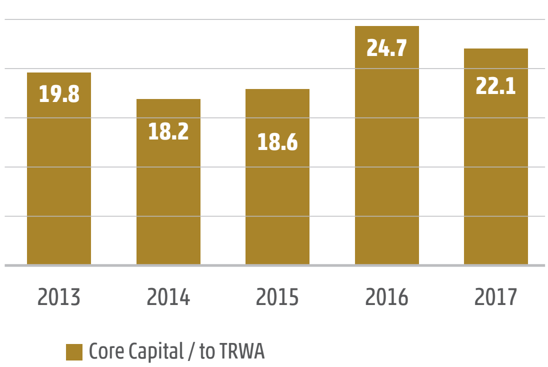
UTILIZATION OF INCOME



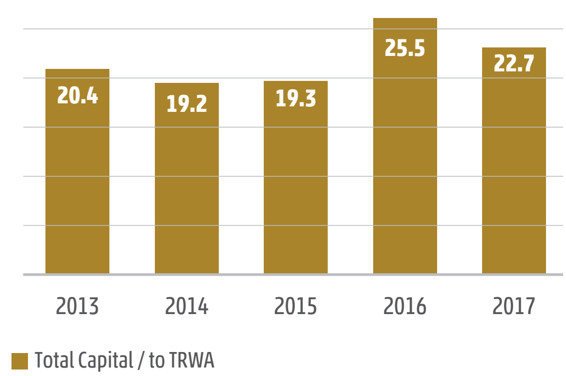
CORE CAPITAL TO DEPOSITS RATIO (%)



CORE CAPITAL TO TOTAL RISK WEIGHTED ASSETS %



TOTAL CAPITAL TO TOTAL RISK WEIGHTED ASSETS %



DIRECTORS' REPORT

The directors submit their report together with the audited financial statements of Victoria Commercial Bank Limited (the "Bank") for the year ended 31 December 2017.

BUSINESS REVIEW

The Bank is engaged in the business of banking and the provision of related services and is licensed under the Banking Act.

A detailed performance review is set out on pages 17 to 19.

DIVIDEND

The net profit for the year of Shs 617,177,000 (2016: Shs 592,395,000) has been added to retained earnings. During the year, the Bank paid an interim dividend of Shs 146,737,000 (2016: Shs 91,125,000). The directors do not recommend payment of a final dividend.

DIRECTORS

Kanji D. Pattni	CHAIRMAN
Yogesh K Pattni PhD	CHIEF EXECUTIVE OFFICER
Rajan P Jani	NON-EXECUTIVE DIRECTOR (Retired On 5 October 2017)
Sylvano O. Kola	NON-EXECUTIVE DIRECTOR
Ketaki Sheth	NON-EXECUTIVE DIRECTOR
Mukesh S. Shah	NON-EXECUTIVE DIRECTOR

DISCLOSURES TO THE AUDITOR

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 company'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 company's auditor is aware of that information.

TERMS OF APPOINTMENT OF THE AUDITOR

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.

By order of the Board

KETAKI SHETH
DIRECTOR /COMPANY SECRETARY

1 March 2018

STATEMENT FOR DIRECTORS' RESPONSIBILITIES

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 as at the end of the financial year and of its profit or loss for the year then ended. 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 1 March 2018 and signed on its behalf by:

Kanji D Pattni
CHAIRMAN

Mukesh S Shah
DIRECTOR

REPORT OF THE INDEPENDENT AUDITOR TO THE SHAREHOLDERS OF VICTORIA COMMERCIAL BANK LIMITED

Report on the audit of the financial statements

Opinion

We have audited the accompanying financial statements of Victoria Commercial Bank Limited (the "Bank") set out on pages 26 to 74 which comprise the statement of financial position at 31 December 2017 and the statements of profit or loss, 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 Victoria Commercial 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.

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way / Chiromo Road, Westlands
PO Box 43963 - 00100 Nairobi, Kenya
T: +254 (20)285 5000 F: +254 (20)285 285 5001 *www.pwc.com/ke*

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 judgement 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.

- 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.

Auditor's responsibilities for the audit of the financial statements

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 20 is consistent with the financial statements.

The engagement partner responsible for the audit resulting in this independent auditor's report is FCPA Richard Njoroge - Practising Certificate No. 1244.

Certified Public Accountants

Nairobi

13 March 2018

2017

ANNUAL REPORT
& FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

SECTION TWO

	Notes	2017 Shs'000	2016 Shs'000
STATEMENT OF PROFIT OR LOSS			
Interest income	5	2,558,675	2,450,811
Interest expense	6	(1,274,363)	(1,302,865)
Net interest income		1,284,312	1,147,946
Credit impairment charge	14	(35,321)	(12,032)
Net interest income after credit impairment charge		**1,248,991**	**1,135,914**
Fee and commission income		301,999	208,521
Fee and commission expense		(30,543)	(11,394)
Net fee and commission income		271,456	197,127
Foreign exchange income		29,587	26,246
Other income		44,637	13,777
Non funded income		**345,680**	**237,150**
Net operating income		**1,594,671**	**1,373,064**
Operating expenses	7	(758,505)	(607,571)
Profit from operations		836,166	765,493
Share of profit from associates	9	13,033	30,920
Profit before income tax		**849,199**	**796,413**
Income tax expense	10	(232,022)	(204,018)
Profit for the year		**617,177**	**592,395**
Earnings per share (Shs per share)			
Basic	11	14.72	18.60
Diluted	11	14.11	17.52

The notes on pages 31 to 74 are an integral part of these financial statements.

	Notes	2017 Shs'000	2016 Shs'000
STATEMENT OF OTHER COMPREHENSIVE INCOME			
Profit for the year		617,177	592,395
Other comprehensive income:			
Items that may be subsequently reclassified to profit or loss			
Fair value gain on available for sale investments	15	42,897	49,996
Release of revaluation reserve on disposal of fixed income security		(10,700)	-
		32,197	**49,996**
Deferred tax on fair valuation of available for sale investments	18	(9,659)	(14,999)
Other comprehensive income for the year, net of tax		22,538	34,997
Total comprehensive income for the year		**639,715**	**627,392**

The notes on pages 31 to 74 are an integral part of these financial statements.

	Notes	2017 Shs'000	2016 Shs'000
STATEMENT OF FINANCIAL POSITION			
ASSETS			
Cash and balances with Central Bank of Kenya	13	1,748,562	1,339,265
Investment securities:			
- available for sale	15	1,619,958	1,273,543
- held to maturity	15	1,429,704	2,084,701
Deposits and balances due from banking institutions	22	1,542,152	1,711,978
Loans and advances to customers	14	18,870,101	15,292,829
Investment in associate	9	297,064	284,031
Property and equipment	16	174,508	192,350
Intangible assets	17	26,186	26,104
Deferred income tax	18	15,435	13,734
Other assets	19	261,490	184,946
Total assets		**25,985,160**	**22,403,481**
LIABILITIES			
Customer deposits	20	18,677,388	15,695,947
Deposits and balances due to banking institutions	21	208,812	-
Long term borrowings	23	1,382,370	1,519,870
Other liabilities	24	97,976	120,475
Current income tax		6,721	7,152
Total liabilities		**20,373,267**	**17,343,444**
EQUITY			
Share capital	25	838,494	829,162
Share premium	25	1,321,289	1,271,743
Fair value reserve		(8,236)	(30,774)
Revaluation reserve		137,000	137,000
Regulatory reserve	26	120,000	105,000
Retained earnings		3,203,346	2,747,906
Shareholders' equity		**5,611,893**	**5,060,037**
Total equity and liabilities		**25,985,160**	**22,403,481**

The financial statements on pages 26 to 74 were approved for issue by the Board of Directors on 1 March 2018 and signed on its behalf by;

Kanji D Pattni
CHAIRMAN

Mukesh S Shah
DIRECTOR

Statement of Changes in Equity

	Notes	Share Capital Shs.'000	Share Premium Shs.'000	Fair Value Reserve Shs.'000	Revaluation Reserve Shs.'000	Regulatory Reserve Shs.'000	Retained Earnings Shs.'000	Total Shs.'000
Year ended 31 December 2016								
At 1 January 2016		607,501	420,393	(65,771)	137,000	98,000	2,314,386	3,511,509
Profit for the year-		-	-	-	-	-	592,395	592,395
Other comprehensive income, net of tax		-	-	34,997	-	-	-	34,997
Total comprehensive income for the year		**-**	**-**	**34,997**	**-**	**-**	**592,395**	**627,392**
Transfer to regulatory reserve	26	-	-	-	-	7,000	(7,000)	-
Transactions with owners								
Bonus Shares	25	60,750	-	-	-	-	(60,750)	-
Issue of new shares	25	160,911	851,350	-	-	-	-	1,012,261
Interim dividend paid	12	-	-	-	-	-	(91,125)	(91,125)
At 31 December 2016		**829,162**	**1,271,743**	**(30,774)**	**137,000**	**105,000**	**2,747,906**	**5,060,037**
At 1 January 2017		829,162	1,271,743	(30,774)	137,000	105,000	2,747,906	5,060,037
Profit for the year		-	-	-	-	-	617,177	617,177
Other comprehensive income, net of tax		-	-	22,538	-	-	-	22,538
Total comprehensive income for the year		**-**	**-**	**22,538**	**-**	**-**	**617,177**	**639,715**
Transfer to regulatory reserve	26	-	-	-	-	15,000	(15,000)	-
Transactions with owners								
Issue of new shares	25	9,332	51,330	-	-	-	-	60,662
Interim dividend paid	12	-	-	-	-	-	(146,737)	(146,737)
Cost of issuing new shares		-	(1,784)	-	-	-	-	(1,784)
At 31 December 2017		**838,494**	**1,321,289**	**(8,236)**	**137,000**	**120,000**	**3,203,346**	**5,611,893**

The notes on pages 31 to 74 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

	Notes	2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Interest receipts		2,530,286	2,450,811
Interest payments		(1,192,199)	(1,361,075)
Net fee and commission receipts		288,525	202,255
Foreign exchange income receipts		29,587	26,246
Other Income received		7,504	2,485
Payments to employees and suppliers		(715,550)	(547,538)
Income tax paid		(243,813)	(215,399)
Cash flows from operating activities before changes in operating assets and liabilities		**704,340**	**557,785**
Changes in operating assets and liabilities:			
- loans and advances		(3,584,203)	(2,180,442)
- cash reserve requirement		(179,244)	(53,684)
- other assets		(76,544)	6,196
- customer deposits		2,899,277	1,729,751
- other liabilities		(22,500)	33,178
Net cash (used in)/ generated from operating activities		**(258,874)**	**92,784**
Cash flows from investing activities			
Purchase of property and equipment	16	(19,167)	(30,947)
Purchase of intangible assets	17	(8,170)	(18,428)
Purchase of investment securities		(102,544)	(222,711)
Proceeds from sale of investment securities		454,129	163,533
Proceeds from sale of property and equipment		11,400	36,036
Dividend received		-	7,500
Net cash utilised in investing activities		**335,648**	**(65,017)**
Cash flows from financing activities			
Borrowings during the year		71,312	-
Borrowings during the year		-	(862,495)
Interim dividend paid	12	(146,737)	(91,125)
Proceeds from issue of new shares	25	60,662	1,012,261
Cost related to issue of new shares		(1,784)	-
Net cash (used in)/ generated from financing activities		**(16,547)**	**58,641**
Net increase in cash and cash equivalents		**60,227**	**86,408**
Cash and cash equivalents at start of year		2,272,169	2,185,761
Cash and cash equivalents at end of year	**28**	**2,332,396**	**2,272,169**

The notes on pages 31 to 74 are an integral part of these financial statements

NOTES

1. General information

Victoria Commercial Bank Limited (the "Bank") is a company domiciled in Kenya. The registered address of the Bank is:

Mezzanine Floor, Victoria Towers
Kilimanjaro Avenue, Upper Hill
PO Box 41114 - 00100 Nairobi

2. Summary of significant accounting policies

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRIC) applicable to companies reporting under IFRS.

(a) Basis of measurement

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

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

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

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- 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.

(b) Use of estimates

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

(c) Changes in accounting policies and disclosures

(i) 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.

(ii) 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', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income (OCI) and fair value through profit or loss (P/L). The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted.

Based on the assessments undertaken to date, the Bank expects a small increase in the loss allowance for loans and advances by approximately Shs 14,452,000 and in relation to debt investments held at amortised cost. These additional provisions will have no significant impact on our Capital adequacy ratio. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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.

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'.

Amendments to IFRS 2 – 'Share-based payments' Clarifying how to account for certain types of share-based payment transactions, effective 1 January 2018. This amendment clarifies the measurement basis for cash-settled, share-based payments and the accounting for modifications that change an award from cash-settled to equity-settled. It also introduces an exception to the principles in IFRS 2 that will require an award to be treated as if it was wholly equity-settled, where an employer is obliged to withhold an amount for the employee's tax obligation associated with a share-based payment and pay that amount to the tax authority.

Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures' on sale or contribution of assets, effective date postponed (initially 1 January 2016). The postponement applies to changes introduced by the IASB in 2014 through narrow-scope amendments to IFRS 10 'Consolidated Financial Statements' and IAS 28 'Investments in Associates and Joint Ventures'. Those changes affect how an entity should determine any gain or loss it recognises when assets are sold or contributed between the entity and an associate or joint venture in which it invests. The changes do not affect other aspects of how entities account for their investments in associates and joint ventures.

The reason for making the decision to postpone the effective date is that the IASB is planning a broader review that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Annual improvements 2014-2016, Annual periods beginning on or after 1 January 2017 and 2018. These amendments impact 2 standards:

• IFRS 1,' First-time adoption of IFRS', regarding the deletion of shortterm exemptions for first-time adopters regarding IFRS 7, IAS 19, and IFRS 10 effective 1 January 2018.
• IAS 28,'Investments in associates and joint ventures' regarding measuring an associate or joint venture at fair value. IAS 28 allows venture capital organisations, mutual funds, unit trusts and similar entities to elect measuring their investments in associates or joint ventures at fair value through profit or loss (FVTPL). The Board clarified that this election should be made separately for each associate or joint venture at initial recognition. Effective 1 January 2018.

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.

2.2 Foreign currency translation

(a) Functional and presentation currency

The accounting records are maintained in the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in

Kenya Shillings, which is the Bank's presentation currency. The figures shown in the financial statements are stated in Kenya Shillings (Shs), rounded to the nearest thousand.

(b) Transactions and balances

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

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

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

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

2.3 Sale and repurchase agreements

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

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

2.4 Financial assets and liabilities

2.4.1 Financial assets

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

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

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

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

The Bank did not have any financial assets in this class at 31 December 2017 (2016: Nil).

(b) Loans and receivables

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

(a) 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;
(b) those that the Bank upon initial recognition designates as available – for – sale; or
(c) 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:

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

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

(d) Available for sale financial assets

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

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

2.4.2 Financial liabilities

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

2.4.3 Determination of fair value

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

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

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

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

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.

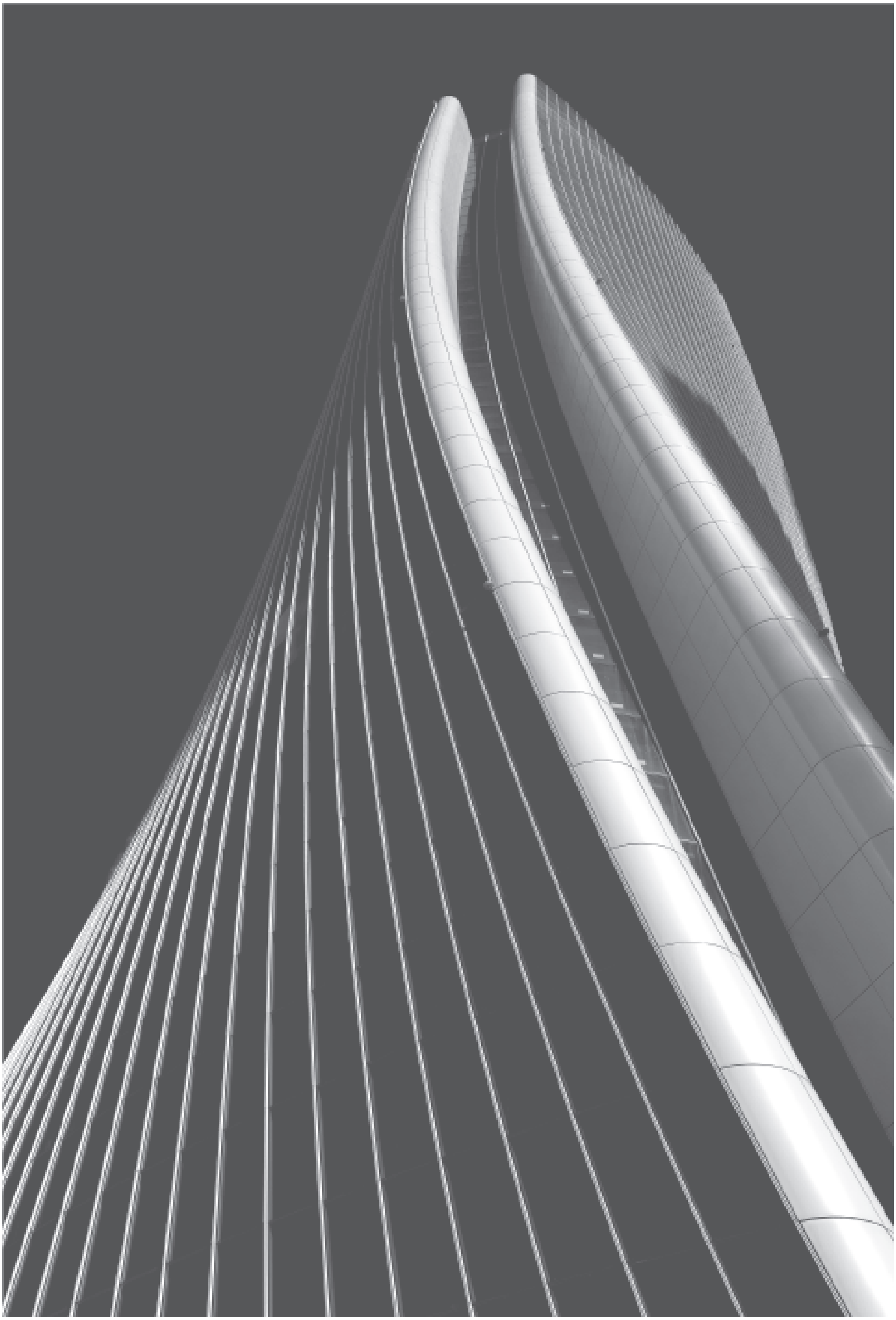
In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

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

2.4.4 Derecognition

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

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



2.4.5 Classes of financial instruments

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

<table>
<tr><th colspan="2">Category (as defined by IAS 39)</th><th colspan="2">Class (as determined by the Bank)</th><th>Subclasses</th></tr>
<tr><td rowspan="17">Financial Asserts and Liabilities</td><td rowspan="7">Loans and receivables</td><td colspan="2">Deposits and balances due from banking institutions</td><td></td></tr>
<tr><td rowspan="5">Loans and advances to customers</td><td rowspan="3">Loans to Individuals (retail)</td><td>Overdrafts</td></tr>
<tr><td>Term Loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="2">Loans to Corporate customers</td><td>Large Corporate Customer</td></tr>
<tr><td>Others</td></tr>
<tr><td colspan="3">Items in the course of collection</td></tr>
<tr><td rowspan="2">Available for Sale Investment</td><td rowspan="2">Investment Securities</td><td>Debt Securities</td><td>Listed</td></tr>
<tr><td>Other Securities</td><td>No-listed</td></tr>
<tr><td rowspan="4">Held to Maturity Investments</td><td rowspan="4">Investment Securities</td><td rowspan="2">Government Securities</td><td>Treasury</td></tr>
<tr><td>Treasury bonds</td></tr>
<tr><td rowspan="2">Other Securities</td><td>Overseas Investments</td></tr>
<tr><td>Local Investments</td></tr>
<tr><td rowspan="4">Financial Liabilities at amortised cost</td><td colspan="2">Deposits and balances due to banking institutions</td><td></td></tr>
<tr><td rowspan="2">Deposits from customers</td><td>Individual (retail) customers</td><td></td></tr>
<tr><td>Corporate customers</td><td></td></tr>
<tr><td colspan="3">Items in the course of collection</td></tr>
<tr><td rowspan="2">Off-balance sheet financial Instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees, acceptances and other financial facilities</td></tr>
</table>

2.5 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) 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;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) 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.

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

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

(b) Assets classified as available for sale

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

2.6 Offsetting of financial instruments

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

2.7 Cash and cash equivalents

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

2.8 Property and equipment

Property and equipment are stated at historical cost less depreciation.

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

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

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

2.9 Intangible assets - software

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

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

2.10 Impairment of non – financial assets

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

2.11 Employee benefits

(a) Retirement benefit obligations

The Bank operates a defined contribution scheme for its employees. The assets of the scheme are held in separate trustee administered fund, which is funded from contributions from both the Bank and employees.

The Bank also contributes to the statutory National Social Security Fund. This is a defined contribution pension scheme registered under the National Social Security Act. The Bank's obligations under the scheme are limited to specific obligations legislated from time to time and are currently limited to a maximum of Shs 200 per month per employee. The Bank contributions in respect of retirement benefit schemes are charged to profit or loss in the year to which they relate.

2.12 Income tax expense

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.

(a) Current income tax

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.

2.13 Dividend payable

Dividends on ordinary shares are charged to equity in the period in which they are declared.

2.14 Share capital

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

Shares issued to the employee share ownership scheme are treated as treasury shares.

2.15 Interest income and expense

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

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

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

2.16 Fee and commission income

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

2.17 Dividend income

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

2.18 Acceptances and letters of credit

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

2.19 Investment in associates

The investment in the associates is accounted for using the equity method. It is initially recorded at cost and the carrying amount is increased or decreased to recognise the Bank's share of the profits or losses of the investee after the acquisition date. Distributions received from the investee reduce the carrying amount of the investment.

On disposal of the investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the profit or loss.

2.20 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.

3. Financial risk management

The Bank's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. Those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the Bank's business, and the financial risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on its financial performance.

Risk management is carried out by the Risk and Compliance unit under policies approved by the Board Risk Management Committee (BRMC). Assets and Liability Committee (ALCO) identifies, evaluates and hedges financial risks in close cooperation with the operating units. The Board provides written principles for overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

3.1 Credit risk

The Bank takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the Bank by failing to pay amounts in full when due. Credit risk is the most 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 off-balance sheet financial instruments, such as loan commitments. Credit risk management and control is centralised in the Credit Risk Management Committee, which reports regularly to the Board Credit Committee (BCC).

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. 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 industry sector are approved regularly by the BCC.

The exposure to any one borrower including banks is further restricted by sub-limits covering on- and off-balance sheet exposures and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored daily.

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 lending limits where appropriate. Exposure to credit risk is also managed in part by obtaining collateral equal or above the loan advanced.

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 assurances that the Bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. Documentary and commercial letters of credit, which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions, are collateralised by the underlying shipments of goods to which they relate and therefore carry less risk than a direct borrowing.

Commitments to extend credit represent unused portions of authorisations 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 commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

Maximum exposure to credit risk before collateral held

	2017 Shs'00	2016 Shs'00
Balances with Central Bank of Kenya (Note 13)	1,660,897	1,271,638
Deposits and balances due from banking institutions (Note 22)	1,542,151	1,711,978
Loans and advances to customers (Note 14)	18,870,101	15,292,829
Government and other securities held to maturity (Note 15)	1,429,704	2,084,701
Available for sale investment securities (Note 15)	1,619,958	1,273,543
Other assets	225,435	145,610
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	2,060,767	1,565,864
- Guarantee and performance bonds	697,218	641,452
- Commitments to lend	2,681,861	1,880,575
	30,788,092	**25,868,190**

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

Loans and advances to customers and off-balance sheet items are secured by collateral in form of charges over land and buildings and/or plant and machinery or corporate guarantees and other collateral acceptable by the Kenyan law. However, there are loans and advances to corporate customers and individuals that are unsecured. Before disbursing any unsecured loan, the Bank undertakes stringent credit risk assessment.

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loan and advances portfolio and debt securities based on the following:

- the Bank exercises stringent controls over the granting of new loans
- 99% of the loans and advances portfolio are neither past due nor impaired
- 92% of held to maturity investments securities are government securities.

Financial assets that are past due or impaired

The Bank aligns the classification of assets that are past due or impaired in line with the Central
Bank of Kenya prudential guidelines. In determining the classification of an account, performance is the primary consideration. Classification of an account reflects judgement about the risk of default and loss associated with the credit facility.

Accounts are classified into five categories as follows:

- Normal
- Watch
- Sub-standard
- Doubtful
- Loss

Loans and advances less than 30 days past due date are not considered to be impaired unless other information is available to indicate otherwise.

Loans and advances are summarised as follows:

	2017 Shs'00	2016 Shs'00
Neither past due nor impaired	18,812,323	15,186,704
Past due but not impaired	180,215	163,125
Impaired	16,855	-
Gross	**19,009,393**	**15,349,829**
Less: allowance for impairment (Note 14)	(92,257)	(57,000)
Interest in suspense	(1,696)	-
Staff loan adjustment	(45,339)	-
Net loans and advances	**18,870,101**	**15,292,829**

No other financial assets are either past due or impaired.

3.2 Contrations of Risk

Economic sector risk concentrations within the customer loan and deposit portfolios were as follows:

	Loand & Advances %	Credit Commitments %
At 31 December 2017		
Manufacturing	26%	18%
Wholesale and retail trade	24%	48%
Transport and communication	1%	0%
Business services	1%	4%
Agricultural	5%	2%
Building and Construction	8%	7%
Real Estate	23%	7%
Other	12%	14%
	100%	**100%**

	Loand & Advances %	Credit Commitments %
At 31 December 2016		
Manufacturing	26%	27%
Wholesale and retail trade	25%	45%
Transport and communication	1%	2%
Business services	2%	0%
Agricultural	5%	1%
Building and Construction	12%	12%
Real Estate	15%	3%
Other	14%	10%
	100%	**100%**

	2017	2016
Customer deposits		
Insurance companies	1%	1%
Private enterprises	35%	39%
Commercial banks	0%	0%
Individuals and non- profit organisations	59%	59%
Non – residents	1%	1%
Others	4%	-
	100%	**100%**

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its payment obligations associated with its financial liabilities as they fall due and to replace funds when they are withdrawn.

The Bank is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, and calls on cash settled contingencies. The Bank does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Central Bank of Kenya requires that the Bank maintain a cash reserve ratio computed as 5.25% of customer deposits of the preceding month. In addition, the Board and Assets and liabilities Committee (ALCO) closely monitors the limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of inter-bank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand. The Treasury department monitors liquidity ratios on a daily basis. The table below details the reported ratios of net liquidity assets to deposits from customer during the year :

	2017 %	2016 %
Customer deposits		
At close of the year	28.60	31.40
Average for the period	30.30	33.08
Maximum for the period	36.90	38.60
Minimum for the period	25.10	25.80

The Bank at all times complies with the regulatory minimum liquidity ratio of 20%.

The table below presents the undiscounted cash flows payable by the Bank under financial liabilities by remaining contractual maturities at the balance sheet date. All figures are in Thousands of Kenya Shillings.

At 31 December 2017

	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total
Liabilities						
Customer deposits	5,405,929	10,128,853	2,879,170	604,358	178	19,018,488
Deposits and balances due to banking institutions	-	-	211,045	-	-	211,045
Long term borrowings	-	966,212	-	-	517,553	1,483,765
Other financial liabilities	104,697	-	-	-	-	104,697
Total financial liabilities (contractual maturity dates)	**5,510,626**	**11,095,065**	**3,090,215**	**604,358**	**517,731**	**20,817,995**

At 31 December 2016

	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Total
Liabilities						
Customer deposits	5,432,317	9,820,378	544,393	118,401	-	15,915,489
Deposits and balances due to banking institutions	-	-	-	-	-	-
Long term borrowings	168,550	944,030	-	-	517,553	1,630,133
Other financial liabilities	127,627	-	-	-	-	127,627
Total financial liabilities (contractual maturity dates)	**5,728,494**	**10,764,408**	**544,393**	**118,401**	**517,553**	**17,673,249**

3.4 Market risk

Market risk is the risk that changes in market prices, which include currency exchange rates and interest rates, will affect the fair value or future cash flows of a financial instrument. Market risk arises from open positions in interest rates and foreign currencies, both of which are exposed to general and specific market movements and changes in the level of volatility. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while optimising the return on risk. Overall responsibility for managing market risk rests with the Assets and Liabilities Committee (ALCO). The Treasury department is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day to day implementation of those policies.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored daily.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December. Included in the table are the Bank 's financial instruments, categorised by currency (all amounts expressed in thousands of Kenya Shillings):

	USD	GBP	Euro	Other	Total
At 31 December 2017					
Assets					
Cash and balances with Central Bank of Kenya	297,844	7,276	32,569	37	337,726
Deposits and balances due from banking institutions	523,275	47,717	59,957	1,402	632,351
Loans and advances to customers	1,080,349	393,576	722,980	-	2,196,905
Investment securities	419,520	-	-	-	419,520
Other assets	8,776	-	-	-	8,776
Total Assets	**2,329,764**	**448,569**	**815,506**	**1,439**	**3,595,278**
Liabilities					
Customer deposits	1,724,424	125,828	178,324	-	2,028,576
Deposits and balances due to banking institutions	208,812	-	-	-	208,812
Long term borrowings	446,155	273,839	662,376	-	1,382,370
Other liabilities	1,761	-	-	-	1,761
Total liabilities	**2,381,152**	**399,667**	**840,700**	**-**	**3,621,519**
Net on-balance sheet position	**(51,388)**	**48,902**	**(25,194)**	**1,439**	**(26,241)**
Net off-balance sheet position	**2,197,407**	**-**	**147,936**	**-**	**2,345,343**
Overall open position	**2,146,019**	**48,902**	**122,742**	**1,439**	**2,319,102**
At 31 December 2016					
Total assets	2,547,067	488,711	746,401	1,522	3,783,701
Total liabilities	2,546,728	473,825	660,078	6	3,680,637
Net on-balance sheet position	**339**	**14,886**	**86,323**	**1,516**	**103,064**
Net off-balance sheet position	**1,613,390**	**5,429**	**157,606**	**-**	**1,776,425**
Overall open position	**1,613,729**	**20,315**	**243,929**	**1,516**	**1,879,489**

The net off-balance sheet position represents the off balance sheet facilities that were held by the Bank.

The table below shows the impact on post tax profit of 10% appreciation or depreciation of the shilling against other major currencies (all amounts expressed in thousands of Kenya Shillings):

	Currency Carrying Amount	Appreciation by 10%	Depreciation by 10%
At 31 December 2017			
Assets			
Cash and balances with Central Bank of Kenya	337,726	(33,773)	33,773
Deposits and balances due from banking institutions	632,351	(63,235)	63,235
Loans and advances to customers	2,196,905	(219,691)	219,691
Investment securities	419,520	(41,952)	41,952
Other assets	8,776	(878)	878
Total assets	**3,595,278**	**(359,529)**	**359,529**
Liabilities			
Customer deposits	2,028,576	202,858	(202,858)
Deposits and balances due to banking institutions	208,812	20,881	(20,881)
Long term borrowings	1,382,370	138,237	(138,237)
Other liabilities	1,761	176	(176)
Total liabilities	**3,621,519**	**362,152**	**(362,152)**
Total (decrease) / increase		2,623	(2,623)
Tax charge 30%		(787)	787
Impact on profits	**-**	**1,836**	**(1,836)**

At 31 December 2017, if the Shilling had weakened/strengthened hypothetically by 10% against the foreign currencies in which the Bank had exposures, with all other variables held constant, post-tax profit for the year would have been higher/lower by Shs 1,836,000 (2016: Shs 3,687,000).

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce or create losses in the event that unexpected movements arise. Management sets limits on the level of mismatch of interest rate re-pricing that may be undertaken, which is monitored daily.

The table below summarises the Bank's exposure to interest rate risks. Included in the table are the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual re-pricing or maturity dates. The Bank does not bear an interest rate risk on off balance sheet items. All figures are in thousands of Kenya Shillings.

	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Non-Interest Bearing	Total
At 31 December 2017							
Assets							
Cash and balances with Central Bank of Kenya	-	-	-	-	-	1,748,562	1,748,562
Investment securities:							
- available for sale	-	-	-	-	1,269,728	350,230	1,619,958
- held to maturity	-	-	100,425	200,966	1,128,313	-	1,429,704
Deposits and balances due from banking institutions	641,539	-	-	-	-	900,613	1,542,152
Loans and advances to customers	1,471,872	991,699	2,427,298	3,830,153	10,149,079	-	18,870,101
Investments in associates	-	-	-	-	-	297,064	297,064
Property and equipment	-	-	-	-	-	174,508	174,508
Intangible assets	-	-	-	-	-	26,186	26,186
Deferred income tax asset						15,435	15,435
Other assets	-	-	-	-	-	261,490	261,490
Total assets	**2,113,411**	**991,699**	**2,527,723**	**4,031,119**	**12,547,120**	**3,774,088**	**25,985,160**
Liabilities & Shareholders' Funds							
Customer deposits	6,642,945	6,706,805	2,766,215	571,411	162	1,989,850	18,677,388
Deposit and Balances due from Banking Institutions	-	-	208,812	-	-	-	208,812
Long term borrowings	-	706,847	-	-	675,523	-	1,382,370
Current income tax	-	-	-	-	-	6,721	6,721
Other liabilities	-	-	-	-	-	97,976	97,976
Shareholders' funds	**-**	**-**	**-**	**-**	**-**	**5,611,893**	**5,611,893**
Total liabilities & shareholders' funds	**6,642,945**	**7,413,652**	**2,975,027**	**571,411**	**675,685**	**7,706,440**	**25,985,160**
Interest sensitivity gap	**(4,529,534)**	**(6,421,953)**	**(447,304)**	**3,459,708**	**11,871,435**	**(3,932,352)**	**-**

	Up to 1 month	1-3 months	3-6 months	6-12 months	Over 1 year	Non-Interest Bearing	Total
At 31 December 2017							
Total assets	3,083,297	1,872,428	1,723,251	2,855,385	9,526,235	3,342,885	22,403,481
Total liabilities	(6,923,416)	(6,798,567)	(523,848)	(111,357)	(421,063)	(7,625,230)	(22,403,481)
Interest sensitivity gap	**(3,840,119)**	**(4,926,139)**	**1,199,403**	**2,744,028**	**9,105,172**	**(4,282,345)**	**-**

Interest rates risk sensitivity analysis

The Bank monitors the impact of risks associated with fluctuations of interest rates. The table below indicate the impact of a hypothetical 100basis points increase or decrease in interest rates on the Bank's financial assets and liabilities:

		At 31 December 2017	
	Carrying Amounts	**1% Increase**	**1% Decrease**
Assets			
Cash and balances with Central Bank of Kenya	1,748,562	-	-
Investment securities :			
-available for sale	1,619,958	-	-
-held to maturity	1,429,704	-	-
Deposits and balances due from banking institutions	1,542,152	-	-
Loans and advances to customers	18,870,101	188,701	(188,701)
Investment in associate	297,064	-	-
Property and equipment	174,508	-	-
Intangible assets	26,186	-	-
Deferred income tax	15,435	-	-
Other assets	261,490	-	-
LIABILITIES & EQUITY			
Customer deposits	16,687,538	(166,875)	166,875
Customer deposits zero rate	1,989,850	-	-
Deposits and balances due to banking institutions	208,812	-	-
Long term borrowings	1,382,370	(13,824)	13,824
Other liabilities	97,976		-
Current income tax	6,721	-	-
Shareholders' equity	5,611,893	-	-
Net interest income increase /(decrease)		**8,002**	**(8,002)**
Tax charge at 30 %		**(2,401)**	**2,401**
Impact on post tax profit		**5,601**	**(5,601)**

At 31 December 2017, assuming all other variables remain constant an increase/decrease of 100 basis point on interest rates would have resulted in an increase/decrease in post-tax profit of Shs 5,601,000 (2016: Shs 18,793,000).

The effective interest rates by major currency for monetary financial instruments at 31 December 2017 and 2016 were in the following ranges:

	2017		2016	
	In Shs	In Other Currencies	In Shs	In Other Currencies
Assets				
Government securities	11.86%	-	11.47%	-
Deposits and balances due from banking institutions	8.28%	-	9.00%	-
Loans and advances to customers	13.93%	7.69%	13.57%	7.62%
Other investment securities	-	5.00%	-	5.00%
Liabilities				
Customer deposits	8.60%	2.22%	7.28%	2.10%
Deposits and balances due to banking institutions	-	4.50%	-	3.33%
Long term borrowings	-	5.94%	-	5.78%

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for banks assets and liabilities ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

3.5 Fair values of financial assets and liabilities

Effective 1 January 2009, the Bank adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Bank's assets that are measured at fair value at 31 December. There were no liabilities measured at fair value through profit and loss for the same period (2016: Nil)

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total Balance Shs'000
As at 31 December 2017				
Assets				
Available for sale financial assets				
– Debt investments	1,269,728	-	248,134	1,517,862
– Equity investments	102,096	-	-	102,096
Total assets	**1,371,824**	**-**	**248,134**	**1,619,958**
As at 31 December 2016				
Assets				
Available for sale financial assets				
– Debt investments	1,022,138	-	251,405	1,273,543
Total assets	**1,022,138**	**-**	**251,405**	**1,273,543**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active 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. The quoted market price used for financial assets held by the Bank is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily foreign corporate bonds and Nairobi Securities Exchange ("NSE") equity investments classified as available for sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.

• The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
• Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

The movement in level 3 during the year are in respect of forex gains.

The fair value of held-to-maturity investment securities listed at NSE as at 31 December 2017 is estimated at Shs 1,245,420,000 (2016: Shs 1,188,712,000) compared to their carrying value of Shs1,237,009,000 (2016: Shs 1,230,000,000). 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.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the balance sheets, are:

• 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 for other stakeholders;
• to maintain a strong capital base to support the development of its business.

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

The Central Bank of Kenya requires each bank to: (a) hold the minimum level of regulatory capital of Shs1 billion; (b) maintain a ratio of total regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.50%; (c) maintain core capital of not less than 8% of total deposit liabilities; and (d) maintain total capital of not less than 14.50% of risk-weighted assets plus risk-weighted off-balance sheet items.

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 capital is limited to 100% of Tier 1 capital.

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

Introduction of Basel II principles in the measurement and assessment of Capital Adequacy Ratios (CARs)

Kenyan banks computed the CARs based on Basel I methodology i.e. restricted to credit risk measurement of assets only. In the revised guideline effective from 2015, some principles of Basel II measurement of capital adequacy have been introduced. This will require Kenyan banks to also take into account capital charges for:

a. Operational risk –using the Basic Indicator Approach
b. Market risk - both specific and general market risks to be calculated using the standardized management approach.

The table below summarises the composition of regulatory capital and the ratios of the Bank at 31 December

	2017 Shs'000	**2016 Shs'000**
Tier 1 capital	5,363,129	4,848,811
Tier 1 + Tier 2 capital	5,517,379	4,988,061
Risk-weighted assets		
Adjusted credit risk weighted assets	20,722,546	16,939,328
Total market risk weighted assets equivalent	697,160	465,468
Total risk weighted assets equivalent for operation risk	2,844,816	2,193,786
Total risk-weighted assets	**24,264,522**	**19,598,582**
Basel ratio		
Core capital to risk – weighted assets (CBK minimum –10.5%	22.10%	24.70%
Total capital to risk– weighted assets (CBK minimum- 14.50%	22.70%	25.50%
Core Capital to deposits (CBK minimum – 8 %)	28.70%	30.90%

4. Critical accounting estimates and judgements in applying accounting policies

The Bank makes estimates and assumptions concerning the future. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment losses on loans and advances

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

(b) Impairment of available for sale equity investments

The Bank determines that an available for sale equity investment is impaired when there has been a significant or prolonged decline in its fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(c) Held to maturity financial assets

The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturing as held to maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such assets to maturity. If the Bank fails to keep these assets to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to classify the entire class as available-for-sale and measure the assets at fair value.

	2017 Shs'000	2016 Shs'000
5. Interest Income		
Loans and advances to customers	2,180,414	2,024,589
Government securities	319,034	355,834
Cash and short term funds	43,387	36,292
Other investments	15,840	34,096
	2,558,675	**2,450,811**
6. Interest expense		
Fixed deposit accounts	930,127	982,259
Current and demand deposits	244,562	211,690
Deposits and balances due to banking institutions	3	7,382
Borrowings	99,671	101,534
	1,274,363	**1,302, 865**
7. Expenses by nature		
The following items are included within operating expenses:		
Employee benefits (Note 8):		
Key management	138,330	109,965
Other employees	241,129	185,121
Depreciation of property and equipment (Note 16)	34,972	35,662
Amortisation of intangible assets (Note 17)	8,088	24,371
Auditor's remuneration (inclusive of value added tax)	4,375	4,110
8. Employee benefits		
The following items are included within employee benefits expense:		
Retirement benefit costs:		
- National Social Security Fund	331	148
- Employer Pension Contribution	16,554	4,874

	2017 Shs'000	2016 Shs'000
9. Investment in associates		
At start of year	284,031	253,111
Share of profit for the year, net of tax	13,033	30,920
At end of year	**297,064**	**284,031**

The Bank owns 24.52% share capital of Victoria Towers Limited. Victoria Towers Limited's profit after tax for 2017 attributable to the owners of the parent was Shs 52,774,365 (2016: Shs 126,101,300). The Bank accounts for its share of associates profit equivalent to its shareholding. The summarised financial information in respect of the associate is set out below;

	2017 Shs'000	2016 Shs'000
Total assets	2,149,416	1,855,210
Total liabilities	(934,360)	(693,186)
Net assets	**1,215,056**	**1,162,024**
Less: Non-controlling interest	(3,537)	(3,279)
Net Assets - Equity holders of the Parent	**1,211,519**	**1,158,745**
Bank's share of net assets of Victoria Towers Limited	**297,064**	**284,031**
Total revenue	105,267	101,932
Profit for the year	52,774	126,101
Bank's share of profit for the year	12,940	30,920
Under provision of prior year share of profit	93	-
Total Bank's share of profit	**13,033**	**30,920**

	2017 Shs'000	2016 Shs'000
10. Income tax expense		
Current income tax	243,382	215,147
Deferred income tax (Note 18)	(11,360)	(4,038)
Over provision of current income tax in prior year	-	(7,091)
	232,022	**204,018**

The tax on the Bank's profit before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

	2017 Shs'000	2016 Shs'000
Profit before income tax	849,199	796,413
Tax calculated at the statutory income tax rate of 30% (2016: 30%)	254,760	238,924
Tax effect of:		
Income not subject to tax	(41,477)	(38,181)
Expenses not deductible for tax purposes	18,739	10,366
Over provision of current income tax in prior year	-	(7,091)
Income tax expense	**232,022**	**204,018**

11. Earnings per share

Basic earnings per share are calculated on the profit attributable to shareholders of Shs 617,177,000 (2016: Shs 592,395,000) and on the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Net profit attributable to shareholders (Shs thousands)	617,177	592,395
Weighted average number of ordinary shares in issue (thousands)	**41,925**	**31,844**
Basic earnings per share (Shs)	**14.72**	**18.60**

The Bank issued a debt instrument that has an option to convert into equity (Note 23).

The dilutive earnings per share is Shs 14.11 (2016: Shs 17.52)

12. Dividends per share

During the year, the Bank paid an interim dividend of Shs 3.50 per share amounting to a total of Shs 146,737,000 (2016: Shs 91,125,000). Payment of dividends is subject to withholding tax at a rate of 5% for resident and 10% for non-resident shareholders.

	2017 Shs'000	2016 Shs'000
13. Cash and balances with Central Bank of Kenya		
Cash in hand	87,665	67,627
Balances with Central Bank of Kenya	1,660,897	1,271,638
	1,748,562	**1,339,265**
14. Loans and advances to customers		
Overdrafts	6,721,194	5,173,721
Loans	11,061,916	9,344,929
Advances under finance lease agreements	1,226,283	831,179
Gross loans and advances	**19,009,393**	**15,349,829**
Less: Provision for impairment of loans and advances		
- Unidentified impairment	(77,000)	(57,000)
- Identified Impairment	(15,257)	-
- Staff loan adjustment	(45,339)	-
- Interest in suspense	(1,696)	
Net loans and advances	**18,870,101**	**15,292,829**

Movements in provisions for impairment of loans and advances are as follows:

	Identified Shs'000	Unidentified Shs'000	Total Shs'000
Year ended 31 December 2016			
At 1 January 2016	-	45,000	45,000
Increase in impairment provision	-	12,000	12,000
At 31 December 2016	**-**	**57,000**	**57,000**
Charge to profit or loss			
Increase in impairment provision (as above)	-	12,000	12,000
Direct write-off of debts	32	-	32
	32	**12,000**	**12,032**

	Identified Shs'000	Unidentified Shs'000	Total Shs'000
Year ended 31 December 2017			
At 1 January 2017	-	57,000	57,000
Increase in impairment provision	15,257	20,000	35,257
At 31 December 2017	15,257	77,000	92,257
Charge/(credit) to profit or loss			
Increase in unidentified impairment provision (as above)	-	20,000	20,000
Direct write-off of debts	64	-	64
Identified provision	15,257	-	15,257
	15,321	**20,000**	**35,321**

All impaired loans are written down to their estimated recoverable amount. The aggregate carrying amount of impaired loans at 31 December 2017 was Shs 16,855,000 (2016: Nil). The loans and advances to customers include finance lease receivables, which may be analysed as follows:

	2017 Shs'000	2016 Shs'000
Net investment in finance leases:		
Not later than 1 year	51,499	55,645
Later than 1 year and not later than 5 years	1,009,002	646,884
Later than 5 years	165,782	128,650
	1,226,283	**831,179**

There were no individually assessed provisions for finance lease receivable as at 31 December 2017 (2016: Nil).

	2017 Shs'000	2016 Shs'000
15. Investment securities		
Available for sale		
Government securities	1,269,728	1,022,138
Foreign securities	282,522	189,914
Other local investments	67,708	61,491
Total securities available for sale	**1,619,958**	**1,273,543**
Held to maturity		
Government securities		
- Maturing within 91 days of the date of acquisition	-	-
- Maturing after 91 days of the date of acquisition	1,316,967	1,971,466
Local corporate bond and investments	12,100	18,146
Foreign investments	100,637	95,089
Total securities held to maturity	**1,429,704**	**2,084,701**
Total investment securities	**3,049,662**	**3,358,244**

The Bank invests in government securities, corporate infrastructure bonds, placements with financial and other institutions Banks as well as various offshore funds. These investments have been classified as either held to maturity or available for sale

	Value at 01/01/2017 Shs.'000	Purchases at cost Shs.'000	Disposals /Maturities Shs.'000	Premium/ Discount Shs.'000	Unearned Interest Shs.'000	Interest Receivable Shs.'000	Forex Gains/Losses Shs.'000	Gain in fair Value Shs.'000	Value at 31/12/2017 Shs.'000
Available for sale									
Government securities	1,022,138	1,800,000	(1,589,538)	-	-	-	-	37,128	1,269,728
Foreign securities	189,914	102,096	(13,851)	-	-	-	4,363	-	282,522
Other local investments	61,491	-	-	-	-	-	448	5,769	67,708
	1,273,543	**1,902,096**	**(1,603,389)**	**-**	**-**	**-**	**4,811**	**42,897**	**1,619,958**
Held to maturity									
Government securities:									
- Maturing within 91 days of the date of acquisition	-	-	-	-	-	-	-	-	-
- Maturing after 91 days of the date of acquisition	1,971,466	600,000	(1,267,970)	(120)	-	13,591	-	-	1,316,967
Local corporate bond and investments	18,146	-	(6,296)	-	-	250	-	-	12,100
Foreign investments	95,089	4,752	(2,043)	-	-	2,147	692	-	100,637
	2,084,701	**604,752**	**(1,276,309)**	**(120)**	**-**	**15,988**	**692**	**-**	**1,429,704**
Total investment securities	**3,358,244**	**2,506,848**	**(2,879,698)**	**(120)**	**-**	**15,988**	**5,503**	**42,897**	**3,049,662**

16. Property and equipment

	Office Premises Shs.'000	Office Improvements Shs.'000	Furniture fittings & Equipment Shs.'000	Motor Vehicles Shs.'000	Total Shs.'000
At 1 January 2016					
Cost	77,246	72,172	137,419	51,732	338,569
Accumulated depreciation	(20,657)	(24,461)	(68,103)	(29,882)	(143,103)
Net book amount	**56,589**	**47,711**	**69,316**	**21,850**	**195,466**
Year ended 31 December 2016					
Opening net book amount	56,589	47,711	69,316	21,850	195,466
Additions	-	461	15,486	31,000	46,947
Net book value of assets traded in	-	-	-	(14,307)	(14,307)
Transfer	-	-	(94)	-	(94)
Depreciation charge	(1,545)	(6,457)	(16,779)	(10,881)	(35,662)
Closing net book amount	**55,044**	**41,715**	**67,929**	**27,662**	**192,350**
At 31 December 2016					
Cost	77,246	72,633	152,905	62,532	365,316
Accumulated depreciation	(22,202)	(30,918)	(84,976)	(34,870)	(172,966)
Net book amount	**55,044**	**41,715**	**67,929**	**27,662**	**192,350**
Year ended 31 December 2017					
Opening net book amount	55,044	41,715	67,929	27,662	192,350
Additions	-	327	3,308	15,532	19,167
Net book value of assets disposed	-	-	-	(2,037)	(2,037)
Depreciation charge	(1,545)	(6,517)	(17,897)	(9,013)	(34,972)
Closing net book amount	**53,499**	**35,525**	**53,340**	**32,144**	**174,508**
At 31 December 2017					
Cost	77,246	72,961	155,616	58,569	364, 392
Accumulated depreciation	(23,747)	(37,436)	(102,276)	(26,425)	(189,884)
Net book amount	**53,499**	**35,525**	**53,340**	**32,144**	**174,508**

Included in office premises are costs related to the floor owned by the Bank at Victoria Towers and the parking bays at the premises. The remaining floors of Victoria Towers are owned by Victoria Towers Limited, an associate of the Bank (Note 9).

	2017 Shs'000	2016 Shs'000
17. Intangible assets		
Opening net book amount	26,104	32,047
Additions	8,170	18,428
Amortisation charge	(8,088)	(24,371)
Closing net book amount	26,186	26,104
Cost	142,113	133,943
Accumulated amortisation	(115,927)	(107,839)
Closing net book amount	**26,186**	**26,104**

18. Deferred income tax

Deferred income tax is calculated using the enacted income tax rate of 30% (2016: 30%).

The movement on the deferred income tax account is as follows:

	2017 Shs'000	2016 Shs'000
At start of year	13,734	24,695
Credit to profit or loss (Note 10)	11,360	4,038
Credit /(charge) to other comprehensive income	(9,659)	(14,999)
At end of year	**15,435**	**13,734**

The deferred income tax asset, deferred income tax charge/(credit) in the income statement is attributable to the following items:

	1.1.2017 Shs.'000	(Charged)/ credited to P&L Shs.'000	Charge to OCI Shs.'000	31.12.2017 Shs.'000
Year ended 31 December 2017				
Provisions for impairment	17,100	11,085	-	28,185
Excess of accounting depreciation over tax allowance	(1,574)	275	-	(1,299)
Fair value gains on available for sale investments	(1,792)	-	(9,659)	(11,451)
Deferred income tax asset	**13,734**	**11,360**	**(9,659)**	**15,435**

	1.1.2016 Shs.'000	(Charged)/ credited to P&L Shs.'000	Charge to OCI Shs.'000	31.12.2016 Shs.'000
Year ended 31 December 2016				
Provisions for impairment	13,500	3,600	-	17,100
Excess of accounting depreciation over tax allowance	(2,012)	438	-	(1,574)
Fair value gains on available for sale investments	13,207	-	(14,999)	(1,792)
Deferred income tax asset	**24,695**	**4,038**	**(14,999)**	**13,734**

The movement on the deferred income tax account is as follows:

	2017 Shs'000	2016 Shs'000
19. Other assets		
Local and upcountry cheques for clearing or collection	109,983	110,947
Other debtors	70,113	34,663
Prepayments	36,055	39,336
Staff loan benefit	45,339	-
	261,490	**184,946**
20. Customer deposits		
Current and demand deposits	1,987,485	2,437,566
Savings accounts	3,416,073	2,994,751
Fixed deposit accounts	13,273,830	10,263,630
	18,677,388	**15,695,947**

	2017 Shs'000	2016 Shs'000
21. Deposits and balances due to banking institutions		
Balances due to foreign banks	208,812	-
22. Deposits and balances due from banking institutions		
Overnight lending	900,613	650,321
Current account balances with other banks	641,539	1,061,657
	1,542,152	**1,711,978**
23. Long term borrowings		
At start of year	1,519,870	1,305,428
Additions	120,800	409,943
Payments during the year	(275,628)	213,390
Accrued interest	17,328	17,889
At end of year	**1,382,370**	**1,519,870**

Included in the above borrowings is a 5year term loans amounting to USD 4 million acquired by the Bank in 2016. The facility attracts interest rate of Libor + 4.36% (Effective rate 5.8% p.a) and is repayable on 30 June 2021. As per the loan agreement, the lender has an option to convert either part, or the whole balance into equity at an agreed price-to-book multiple of 1.7 of the Bank's core capital and noncurrent assets valued at the market value as per the last unaudited financial statements of the Bank preceding the date of conversion.

The remaining balance of the long term borrowings were received from Symnex Limited and Cistenique Investment Fund B.V. in GBP to increase the Bank's capability for lending in foreign currencies. Symnex Limited availed a credit line of USD 15Million for a tenor of 6 years whereas C I F availed a USD 18million credit line for a period of 10years. Both facilities attract interest at a rate of 6 %p.a.

	2017 Shs'000	2016 Shs'000
24. Other liabilities		
Bankers cheques	13,199	10,777
Unclaimed balances	-	3,480
Accrued expenses	46,436	21,530
Rights issue application money received	-	60,662
Other	38,341	24,026
	97,976	**120,475**

25. Share capital

	Number of Shares Shs'000	Share Capital Shs'000	Share Premium Shs'000
Balance at 1 January 2016	30,375	607,501	420,393
Issue of new shares	11,083	221,661	851,350
At 31 December 2016	**41,458**	**829,162**	**1,271,743**
At 1 January 2017	41,458	829,162	1,271,743
Shares relating to 2016 rights issue allotted during the year	467	9,332	51,330
Cost related to 2016 rights issue	-	-	(1,784)
At 31 December 2017	**41,925**	**838,494**	**1,321,289**

26. Regulatory reserve

	2017 Shs'000	2016 Shs'000
At start of year	105,000	98,000
Transfer from retained earnings	15,000	7,000
At end of year	**120,000**	**105,000**

The regulatory reserve represents an appropriation from retained earnings to comply with the Central Bank of Kenya's Prudential Regulations. The balance in the reserve represents the excess of impairment provisions determined in accordance with the Prudential Regulations over the impairment provisions recognised in accordance with the Bank's accounting policy. The reserve is not distributable.

27. Off balance sheet financial instruments, contingent liabilities and commitments

In common with other banks, the Bank conducts business involving acceptances, letters of credit, guarantees, performance bonds and indemnities. The majority of these facilities are offset by corresponding obligations of third parties. In addition, there are other off-balance sheet financial instruments including forward contracts for the purchase and sale of foreign currencies, the nominal amounts for which are not reflected in the balance sheet.

	2017 Shs'000	2016 Shs'000
Contingent liabilities		
Acceptances and letters of credit	2,060,767	1,565,864
Guarantees and performance bonds	697,218	641,452
	2,757,985	**2,207,316**

Nature of contingent liabilities

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

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

In addition, the Bank is a defendant in various legal actions. In the opinion of the Directors after taking appropriate legal advice, the outcome of such actions will not give rise to any significant liabilities.

Contingent liabilities

	2017 Shs'000	2016 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,681,861	1,880,575
Foreign exchange forward contracts	34,712	83,520
	2,716,573	**1,964,095**

Nature of commitments

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

28. Analysis of cash and cash equivalents as shown in the cash flow statement

	2017 Shs'000	2016 Shs'000
Cash and balances with Central Bank of Kenya (Note 13)	1,748,562	1,339,265
Less: Cash reserve requirement	(958,318)	(779,074)
Deposits and balances due from banking institutions (Note 22)	1,542,152	1,711,978
	2,332,396	**2,272,169**

For the purposes of the cash flow statement, cash and cash equivalents comprise balances with less than 91 days maturity from the date of acquisition including: cash and balances with central banks, treasury bills and other eligible bills, and amounts due from other banks. Cash and cash equivalents exclude the cash reserve requirement held with the Central Bank of Kenya.

Banks are required to maintain a prescribed minimum cash balance with the Central Bank of Kenya that is not available to finance the bank's day-to-day activities. The amount is determined as 5.25% (2016: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

29. Assets Pledged as security

The Bank has pledged assets in form of treasury bonds to secure certain trade finance and money market lines. The total assets pledged as at 31 December 2017 was Shs 500,000,000 (2016: Shs 730,000,000)

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

30. Related party transactions

The Bank is owned by a diverse group of shareholders and none of them holds a controlling interest.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions.

(i) Loans and advances to related parties

Advances to customers at 31 December 2017 include an amount of Shs 297,582,000 (2016: Shs 238,957,000) relating to loans to companies controlled by directors or their families, and/ or shareholders of the Bank and Bank employees.

	2017 **Shs'000**	**2016** **Shs'000**
At start of year	238,957	151,488
Additions	92,591	122,569
Payments during the year	(53,325)	(61,982)
Accrued interest	19,359	26,882
At end of year	**297,582**	**238,957**

Out of Shs 297,582,000 that relates to lending to related parties, Shs 117,602,000 (2016: Shs 92,213,000) relates to employee loans. Employees loans are advanced at rates lower than commercial rates but equal or higher than the ruling fringe benefit tax rates. Loans to all other related parties are advanced at commercial rates.

Loans and advances to related parties are 100 % performing and fully secured. No impairment provision has been recognised on loans and advances to related parties during the year

(ii) Related party deposits

At 31 December 2017, customer deposits include deposits due to staff, directors and shareholders or their associates amounting to Shs 879,410,000 (2016: Shs 572,291,000). These deposits attract rates of interest similar to all other deposits.

Purchase of goods and services	**2017 Shs'000**	**2016 Shs'000**
Victoria Towers Limited - rent and service charge	8,073	8,246
Victoria Towers Limited – parking	557	278
	8,630	**8,524**

(iv) Key management compensation6

Salaries and other short-term employee benefits	**138,330**	**109,965**

(v) Directors' remuneration

Fees for services as a director	36,000	31,500
Salaries (included in key management compensation above)	65,495	53,135
	101,495	**84,635**

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FOR THE YEAR ENDED 31 DECEMBER 2017

2017

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