2016
Annual Report

TOGETHER
we will grow

Credit Bank
My Friend, My Bank

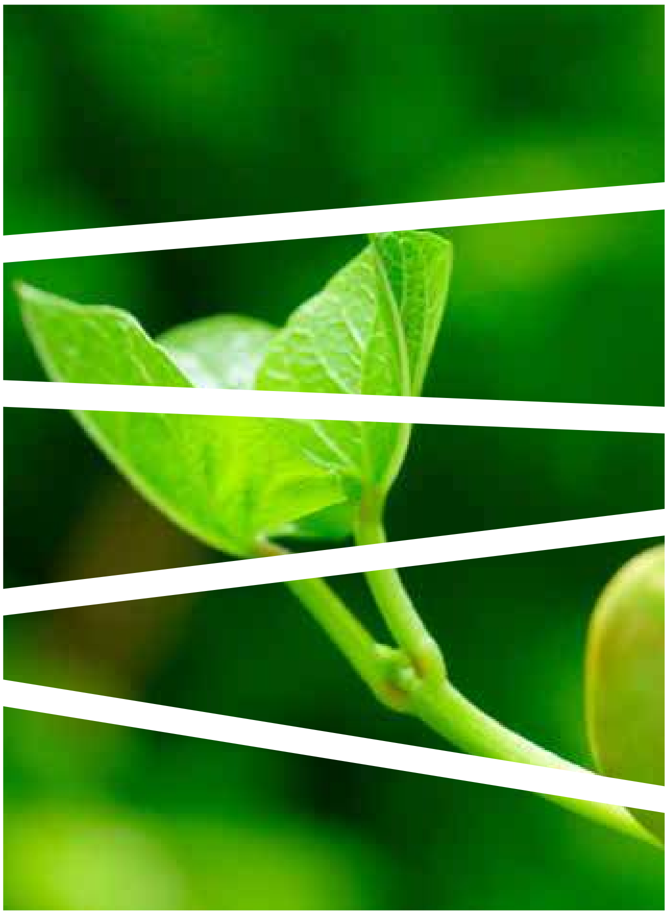
More

a friend for more than banking

Our solutions overflow to more than just banking. We offer Trade Finance Solutions, Treasury Services, Insurance Services, Collection Services, Paybill & Merchant Till Services and so much more...

We have more so you can do more.

CONTENTS



The Companies Act, 2015
No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY FIRST (31ST) ANNUAL GENERAL MEETING OF CREDIT BANK LIMITED WILL BE HELD AT THE ALL SAINTS CATHEDRAL, NAIROBI ON THURSDAY, 22ND JUNE 2017 AT 10.00 AM.

Agenda

Ordinary Business

1. To read the notice convening the meeting and confirm the presence of a quorum.
2. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2016 together with the Directors' and Auditors' Reports thereon.
3. To note that the Directors do not recommend payment of a dividend in respect of the financial year ended 31 December 2016.
4. To re-elect Directors in accordance with the Articles of Association:--
   i. Dr. Margaret Chemengich, having been appointed as a Director since the last Annual General Meeting, retires at this meeting and, being eligible, offers herself for re-election;
   ii. Dr. James Stanley Mathenge, having been appointed as a Director since the last Annual General Meeting, retires at this meeting and, being eligible, offers himself for re-election;
   iii. Mr. Ketan Morjaria retires from office by rotation and, being eligible, offers himself for re-election;
   iv. Mr. Robinson Gachogu retires from office by rotation and, being eligible, offers himself for re-election.
5. To approve the Directors' remuneration for the financial year 2017.
6. To authorise the directors to fix the Auditors' remuneration.
7. To re-appoint the Auditors, PricewaterhouseCoopers who have indicated their willingness to continue in office in accordance with Section 719 (2) of the Companies Act, 2015 and subject to approval by Central Bank of Kenya.

Special Business

8. To consider and, if though fit, to pass the following Special Resolutions:-
   a) Change of Company Name
      "THAT, subject to approval by Registrar of Companies, the name of the Bank be and is hereby changed from Credit Bank Limited to Credit Bank PLC with immediate effect".
   b) Amendment to the Articles of Association of the Bank
      THAT Article 149 of the Company's Articles of Association be amended by inserting the word "electronic" such that henceforth, the Article shall read as follows:
      149. Any notice or other document may be served by the company on any member either personally, by electronic means, by means of a website or by sending it through the post in a prepaid letter addressed to such member at his address in the register. In the case of joint holders whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.

   THAT the following new Article 131 be added immediately following the existing Article 131:
      131 a) The Accounts may be sent or otherwise made available by electronic means to all persons entitled thereto by publishing the Accounts on the Company's official website provided that the Company shall send to every Member or publish a summary of the Financial Statements and Auditors' Report in two daily newspapers with national circulation for two consecutive days drawing attention to the website on which the Accounts in full may be read, and the address to which a request for a printed copy of the Accounts may be submitted.

Issue of Bonus Shares

9. To consider and, if thought fit to pass the following Ordinary Resolution:-

   "THAT an amount of Shs 389,832,600 being part of the amount standing to the credit of the Share Premium Account as at 31 December 2016 be capitalized by issue of 3,898,326 ordinary shares of Shs 100 par value and the directors be authorised to allot such shares to the members appearing in the Company's Share Register as at 31 December 2016 as fully paid up bonus shares in proportion of 1 new ordinary share for every 5 ordinary shares then held and that the Directors be authorised to do all things to give full effect to this resolution, subject always to the Articles of Association of the Company.

BY ORDER OF THE BOARD

Dcdm Registrars.

DCDM Registrars
Company Secretaries
29 MAY 2017

Note:

1. In accordance with Section 298(1) of the Companies Act, 2015, a member entitled to attend and vote at the above meeting is entitled to appoint a proxy to attend and vote on his behalf. A proxy need not be a member.
2. A form of proxy may be obtained from the Bank's website, www.creditbank.co.ke or the Bank's head office, Mercantile House, Koinange Street, Nairobi or any of our branches and should be completed and returned to the Secretary through the following email: secretary@creditbank.co.ke , to arrive not later than 48 hours before the meeting or any adjournment thereof.
3. The Audited Accounts and Financial Statements for the year ended 31 December 2016 may be viewed at the Bank's website, www.creditbank.co.ke or a printed copy be obtained from the Bank's Head Office, Mercantile House, Koinange Street, Nairobi or any of our branches.

Board of Directors

Moses M. Mwendwa

Jay Karia

Ketan Morjaria

Robinson Gachogu

Dr. Margaret Chemengich

Dr. James Mathenge

Hon. Simeon Nyachae
Chairman

Mrs. Grace Nyachae

Chege Thumbi
CEO

Chairman's Report

Dear Shareholders,

On behalf of the Board and Management of the Bank, I wish to welcome you to the 31st Annual General Meeting. This is a particularly momentous meeting as we welcome all the new investors in the bank. This is the first AGM where the bank is hosting a significantly large number of investors and we are especially encouraged by your vote of confidence in the Bank by choosing to invest in it in 2016. Our commitment to the play a major role in the transformation of the Kenyan economy has received an additional impetus by way of your investment and for this we are most grateful.

For this meeting, I wish to give a highlight of the Group's Financial Statements as well as other Key Highlights for the year 2016.

Economic Overview

2016 was a year of many surprises and changes; be it locally or internationally. Internationally, we saw the United Kingdom vote to depart from the European Union while in the United States, there was a change in the government regime. While the true effects of these events are yet to be fully realized, it is anticipated that there will be no adverse changes in the short to medium term as these are regions that have strong political and economic structures. The Kenyan economy is also well diversified and resilient and as projected will continue to perform reasonably well despite of any international shocks.

The local environment on the other hand was characterized by increased Government spending on long term infrastructure projects such as the Road Expansion & SGR Projects. This increased need to fund the huge government budgets has led to an increased appetite for government domestic borrowing thus pushing interest rates on government securities to higher levels making investors to prefer lending to the Government. In addition to this, the regulatory changes implemented directly affected the dynamics of the industry with the interest rate caps resulting in reduced private sector lending, especially to the business community.

Financial Performance

I am glad to report that the Bank experienced growth in all parameters. We were able to turn around the Bank from a loss making position to a position of positive results and we expect more growth going forward. In the year 2016, our Group Profit before Tax grew by 192% to Ksh 163.5 Million, Assets grew by 19% to Ksh 12.2 Billion and shareholders' funds grew 76% to 2.45 Billion from 1.39 Billion.

That this growth occurred despite all the prevailing challenges is not only a testament that we are on the right footing but also an outright indicator of the sound board and management decisions that are currently being implemented in the transformation of the bank's overall strategy.

Capital Raising and Shareholding Structure

2016 saw the bank increase the number of shareholders through a Private Placement offer (PPO) that run from the beginning of the year. As a result of this exercise, we were able to raise over 1 Billion (one Billion shillings) and we are pleased by the overwhelming show of support and confidence in the company, by you, our shareholders.

The primary objective of this capital raising exercise was to fund the bank's growth strategy while banking on our core competencies, embracing new opportunities in the evolving financial sector and strengthen our long term lending capabilities even as we continue to implement rigorous risk management and corporate governance structures. As a Board, we are very mindful of your investments, and undertake to ensure that we operate in an environment of all round operational excellence and strong governance.

We have achieved remarkable steps with regard to the allocation and issue of both the allotment letters and share certificates. As you may be aware, we released all the allotment letters through our partner agents and for those who may not have received their allotment letters for one reason or another can also receive a copy of the same through our contact center. The share certificates have also been dispatched and are ready for collection through our Branch Network and Credit Bank Registered Agents.

Strategic Overview

Allow me to give you a highlight of our strategy as a bank. With the interest rate capping regulation coming into force, there has been a marked reduction in the margins on interest income, we have therefore deliberately been keen on growing our Non-Funded Business and other Short Term Trade Facilities thereby diversifying the income in our books. As a result, we have cemented our expertise and have enhanced our relationships in the key sectors of the economy that exhibited a heightened demand for trade finance products such as the Energy sector and we will continue to stretch our capabilities to other high value sectors such as Agribusiness, Manufacturing, and Mining and Infrastructure development. Our focus will continue to be anchored on understanding our clients' business requirements and providing relevant solutions whether through funded or non-funded facilities.

We have also invested heavily in our digital channels and will continue to do so in order to ensure that we offer value and convenience to our customers. Cross selling opportunities between the various bespoke financial services available at the group shall also be exploited to ensure that we are indeed a one stop shop when it comes to integrated financial services. We will also focus on new products and services that will we offer our clients innovative solutions that add value.

In addition, we have inculcated a culture that ensures that we are not just a customer conveyor belt; that all our customers are unique and at the center of everything we do. That said, we are keen on ensuring we offer solutions that suit the specific customers' situation. The market is big and we are just getting started.

We urge all our investors to visit us at any of our branches and experience the array of solutions that we have as we endeavor to work together to grow your businesses and create wealth for future generations.

Future Outlook

The year ahead tends to point to more challenging economic environment when compared to 2016 .This is as a result of the effects of the interest capping continuing to bite and the expected slowdown in economic production resulting from the political events leading to and culminating in the 2017 general elections in the country. This should however not worry us as we are aware that such situations call for more caution and rigor in our operations and the board and management are clear on these challenges and actions that need to be taken. We remain optimistic that we are heading in the right direction. With the leadership that we have and with the right monitoring tools that we have in place, we are confident 2017 is going to be a positive year for the bank. I am confident that through our disciplined approach to risk and our eye on the constant lookout, we shall not only meet the challenges ahead but also capitalize on all the opportunities that come our way.

Finally, I take this opportunity to thank the Management and Staff for their dedication and commitment. We are also grateful to all the shareholders for their continued confidence, trust and support to Credit Bank and its Management. I wish to express my gratitude to the Board of Directors for their expertise and keen strategic focus that has allowed us to perform well in 2016 and our regulators – Central Bank of Kenya for their continued support. We look forward to playing a pivotal role in the development of our country and to realizing the goal of becoming a middle-income economy by the year 2030.

Nyachae

Hon. Simeon Nyachae.
Chairman.

BANK-TO-BANK transfers

...saahii saahii!

From KES 10/- up to KES 999,999/- instantly, 24/7!

Conveniently transfer money or make payments directly from your account to any bank account in Kenya in real time using mobile banking.

Pesa Link
Easy . Affordable . Instant .

Link Your Phone Today!
For More Information Call +254-20-2283000 or
Email customerservice@creditbankltd.co.ke

CEO's Report

Ladies and Gentlemen,

I take this opportunity to thank you for taking the time to be here. I am glad to report that 2016 was a very encouraging year for Credit Bank despite the economic turbulence experienced in the country as a whole and within banking sector in particular during the year. As highlighted by the Chairman, the bank reported group profits of Kshs 163.5m. Allow me to take you through some of the highlights and achievements of the year 2016.

The Operating Environment

2016 was a challenging year for the banking sector. We saw one financial institution placed under statutory management shortly after the collapse of two financial institutions in the previous year. Further, we witnessed the passing of The Banking Amendment Act of 2016 which capped lending rates at 4.0% above the Central Bank Rate (CBR) and also introduced a floor on interest on deposits at 70% of the CBR. While a lot has been said about the effects of this law, I would like to reiterate that as a financial institution, we are committed to working with our customers and to ensuring that we comply with the law fully.

While, the effects of interest capping, which cannot be understated, are still being felt in the banking industry and the economy as a whole, we have been resilient and have managed to weather that particular storm by leveraging on our expertise in the offering of non-funded business solutions to our customers whilst adhering to austerity measures in the operational aspects of our institution.

Financial Highlights

The bank experienced exponential growth. Some of the major highlights I would like to point out include;

- Group profit before tax grew by 192% to Kshs. 163.5 Million
- Customer deposits grew by 26% to Kshs. 9.1 Billion.
- Net loan book grew by 11% to Kshs 7.89 Billion
- Investments in GOK treasury bonds grew by 75% to Kshs 2.17Billion
- Cost to Income ratio experienced a 35% drop from 122% in 2015 to 87.20% in 2016 and management has a clear focus to reduce this further by use of digital channels and other cost reducing measures.
- Net Interest Income grew by 30% to Kshs. 802 Million resulting from the increase in Net Loan and Advances which grew by 11% to Kshs. 7.8 Billion.
- Non-interest income grew by 119% to Kshs. 442 Million, with the major component being commissions on non-funded business registering growth of 202% to Kshs 127 Million, a clear indication that our focus on providing Short Term trade facilities is bearing fruit.

2016 Achievements

Our growth strategy in the years ahead is anchored on building strong partnerships with customers and service providers. We welcome all shareholders to join us in building Credit Bank to be the bank of the future.

In early 2016 we engaged Interswitch to replace the bank's proprietary cards with the more secure and reliable Chip & PIN Visa Debit cards with Paywave technology. Paywave is the latest in secure contactless technology that allows customers to use their cards by just 'waving to pay' meaning that the customer will always be in control of the card at all times during the transaction. In this partnership, Interswitch will manage and process the issuance of the Visa Proprietary cards. Our customers can now access all VISA branded ATM's in the country and around the world as well as use the card to pay for goods and services at any Point of Sale.

We expanded our network with 3 more branches in Meru, Ngong Road and Mombasa Town. It is our intention to ensure that we are closer to our customers providing solutions to Kenyans in every part of this country. The bank continues to see increasing business potential for the future and as such will continue to find sustainable ways of meeting the demands of devolution and of bringing services closer to the people.

We streamlined and operationalized our Insurance Agency Subsidiary, MyFriend Insurance Agency and I am happy to report that in the year 2016, the agency contributed 3.75 million to the Group's bottom line. The potential is enormous with initiatives such as the operationalization of Marine Insurance Cover in Kenya and we have poised the teams to ensure we take every advantage.

We also launched our Customer Experience Centre open to serving the needs of both our customers and shareholders. The Centre is open every day from 7.00am to 7.00pm and we encourage all of you to engage us through this channel.

At Credit Bank, we believe in our customers, in serving and treating our customer's right and we will also continue on leverage on partnerships that will add value to our customers. We will also continue celebrating our customers and to being the friendly bank around the corner that you can always count on.

2017 Expectations

We have and will continue to focus on achieving the key strategic objectives of strengthening our capital as well as customer base. Some of the initiatives that are beginning to bear fruit for the year 2017 include;

- The launch of PesaLink, an Instant bank account to bank account payments solution developed by Integrated Payments Service Limited (IPSL); a technology solutions subsidiary of the Kenya Bankers Association (KBA) in which Credit Bank was one of the Pioneer institutions to adopt and operationalise the solution to customers.
- The launch of the Impact Hub to spearhead mentorship and entrepreneurship initiatives to our SME Clientele.
- Enhancing our customers' experience through dedicated Relationship Management; a concept that we have emphasized and embedded to ensure an all-round and enhanced customer experience.
- The continuous streamlining of our inter-departmental interactions, processes and operations.

Further and with regard to the environment, the effects of the interest capping will continue to strain the banking sector and with 2017 being an election year, we expect to experience a slowdown in the economy especially in these months leading up to the election; however, as a bank, we are confident that we will overcome these hiccups. We have put in place the right mechanisms and I am confident in the board, management and staff of the bank. We are fully cognizant that more work is still required to get the bank to top tier status.

Let me take this opportunity to also thank the Board of Directors for the support and direction provided during the year and the Management & Staff members of the bank for their commitment and support. Finally, I wish to thank God Almighty for making it all possible for us.

Thank you and God bless you all.

Chege Thumbi.
Chief Executive Officer.

Management Team

Chege Thumbi
Chief Executive Officer

Eric Maina Nyachae
Senior Chief Manager, Business Development

Betty Korir
Chief Manager, Credit

Charles Kibara
Head of Internal Audit

Isaac Nduvi
Head of Risk & Compliance

Jackson Njenga
Chief Finance Officer

Pamela Mutembei
Head of Sales

Azmina Mulji
Head of Human Resource & Administration

Isaac King'ori Mwangi
Senior Manager, Corporate & SME

Hannah Maina
Head of Branches

James Muigai
Head of Operations and ICT

John Mwika
Head of Treasury

Francis Ngaruiya
Legal Manager

Celebrating with our customers

Customer Service Week

We turned 30 in style

Unlimited growth, exceptional results

We opened three new branches in Meru, Mombasa Town and along Ngong Road (Nairobi)

Credit Bank and Interswitch signing, a partnership to replace all cards with the secure and reliable chip and PIN VISA debit cards

Think BUSINESS

Knowledge for a Competitive Edge

BANKING AWARDS 2017

This Certificate is Awarded to

CREDIT BANK

for emerging SPECIAL RECOGNITION

Category BEST BANK IN TRADE FINANCING

Chief Judge

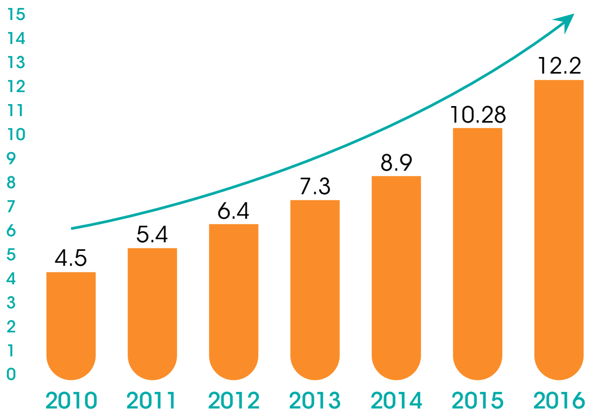
Judging Process Partner

Chairman

Financial Highlights

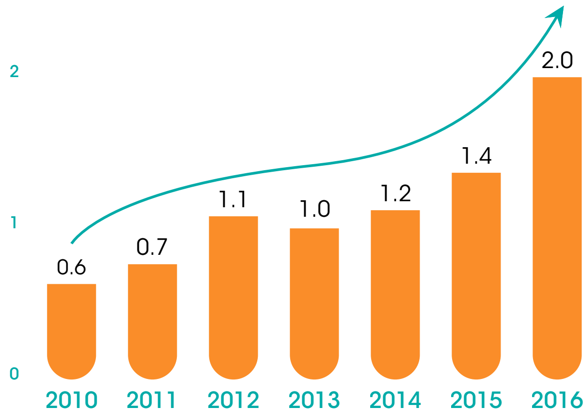
Total Assets

BILLIONS



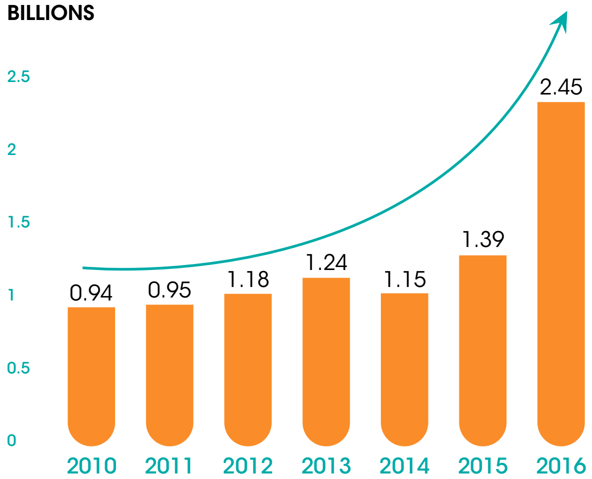
Total Income (Gross)

BILLIONS



Shareholders Funds

BILLIONS



163.5M

GROUP PROFIT 2016

KES **7.9B**

GROSS LOAN BOOK

9.14B DEPOSITS

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31 December 2016 in accordance with Section 22 of the Banking Act and section 147 to 163 of the repealed companies Act Cap 486, which remain inforce under the transition rules contained in the sixth schedule, the transition and saving provisions of the companies Act 2015 which discloses the state of affairs of Credit Bank Limited and its subsidiary My Friend Insurance Agency (the "Group") and of Credit Bank Limited (the "Bank").

Principal Activity

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

Results and Dividend

The profit for the year of Shs 109,605,000 (2015: Loss of Shs 59,282,000) has been added to retained earnings (2015: accumulated losses). The directors do not recommend payment of a dividend (2015: Nil).

Board Evaluation

Evaluation of the directors of the Board and the Board committees was done during the year and found to be effective. The Board is fully aware of the latest developments in the regulatory environment, risk management and market conditions. The directors maintained excellent communication amongst themselves and with the senior management.
Attendance of Board meetings during the year is summarised below:

Name	*22 Mar 2016*	*07 Jun 2016*	*20 Sep 2016*	*06 Dec 2016*
Hon. Simeon Nyachae	AP	P	P	P
Chege Thumbi	P	P	P	P
Mrs. Grace Nyachae	AP	P	P	P
Ketan D. Morjaria	P	P	P	P
Moses M. Mwendwa	P	P	P	P
Jay Karia	P	P	P	P
Robinson N. Gachogu	P	P	P	P
Dr. Margaret Chemengich	N/A	N/A	P	P
Dr. James S. Mathenge	N/A	N/A	N/A	P

P = Present, A = Absent, AP=Apology

Board of Directors

The directors who held office during the year and to the date of this report were:

Hon. Simeon Nyachae **(Chairman)**
Chege Thumbi **(Chief Executive Officer)**

Mrs. Grace Nyachae
Moses M. Mwendwa
Robinson N. Gachogu
Dr James S Mathenge (*Appointed on 29 September 2016*)
Ketan D. Morjaria
Jay Karia
Dr. Margaret Chemengich (*Appointed on 29 August 2016*)

Auditor

The Group's auditor, PricewaterhouseCoopers, continues in office in accordance with Section 159 (2) of the repealed Companies Act (Cap 486) and section 24(1) of the Banking Act (Cap 488 Laws of Kenya).

By order of the Board
SECRETARY
21 March 2017

Corporate Governance

The Board of Directors of Credit Bank Limited (or the "Board") is committed to ensuring compliance with all guidelines on corporate governance issued by the Centre for Corporate Governance and the Central Bank of Kenya ("CBK").

The Bank conducts business ensuring compliance with the code of conduct for Directors and senior management as per the CBK prudential guidelines, best practice and professional ethics.

The Bank has a Board Charter which outlines the principal role of the Board, the demarcation of the roles, functions, responsibilities and powers of the Board, various Board committees of the Bank and matters reserved for final decision-making or pre-approval by the Board; and the policies and practices of the Board in conducting its business.

Shareholders

The shareholders appoint the Directors of the Bank and hold the Board accountable and responsible for efficient and effective governance of the Bank. It is also their role to appoint the statutory auditors of the Bank.

Board of Directors

The Board consists of Chief Executive Officer and eight non-executive directors as listed on page 15 of the annual report. The directors have diverse professional and business background and experience, and have provided valuable stewardship for the Bank. The Board meets at quarterly intervals in the year or as and when need arises. During the year, the Board held four meetings.

To ensure that the Board remains efficient and effective while discharging its responsibilities, annual Board assessment and peer review on performance is undertaken.

The Board has delegated the authority of day to day management to the Chief Executive Officer but retains the overall responsibility for financial and operating decisions as indicated in the 'Statement of directors responsibilities'. The Board has access to the Company Secretary who attends Board meetings on a regular basis and has set up various sub Board committees which operate in accordance with clearly set terms of reference. These sub committees report to the Board on periodic intervals and on circulation basis. They include the Board Credit Committee, the Board Audit Committee, the Board Risk Committee, the Board Executive Committee and Board Nominations & Remuneration Committee. All Board committees consist of at least two non-executive directors one of whom is the Chair.

Board Credit Committee

The Board Credit Committee reviews and oversees the overall lending of the Bank by ensuring compliance to Bank's lending policy guidelines and limit structures. The committee also ensures adequate credit impairment provisions are held in line with the CBK prudential guidelines and oversees reviews of overall lending policies and limit structures of the Bank.

Board Audit Committee

The role of the Board Audit Committee is to enhance effectiveness of internal and external audit functions, monitoring management's compliance with relevant legislations and regulatory requirements. It also monitors the effectiveness and compliance of the Bank's approved policies and procedures with the objective of strengthening the management information systems and internal controls. The committee meets at quarterly intervals.

Board Risk Committee

The committee is responsible for devising policies and procedures for identification, measurement, monitoring and control of all risk categories. The committee ensures that the Bank has clear, comprehensive and well-documented policies and procedure guidelines relating to all areas of operation and the relevant staff fully understand those policies. The committee identifies, analyses and evaluates risks, formulates appropriate responses, ensures tracking and reporting of risks to provide assurance regarding the achievement of objectives within the risk levels accepted by the Board. The committee meets at quarterly intervals.

Board Executive Committee

The Board Executive Committee has an oversight role on Management committees over execution of Board's policy directives and strategy. The Committee reviews and monitors progress on the bank's strategic plans, operational initiatives, marketing and Business development as approved by the Board and ensures that the Bank adheres to CBK prudential guidelines on capital adequacy, liquidity and market risk management.

Board Nominations & Remuneration Committee

The Board Nominations & Remuneration committee responsible for all aspects of appointment of the Bank's directors and Senior Management. It also oversees the compensation system's design and operation on behalf of the Board of Directors. The committee is constituted to enable it exercise competent and independent judgment on compensation policies and practices with majority of its members being independent non-executive directors with substantial knowledge about compensation arrangements. The Committee strategizes on the Bank's human resources development and optimisation in line with the Board's objectives and human capital management.

For effective delegation, the Chief Executive Officer has also set up various committees made up of senior officers of the Bank entrusted with different responsibilities which operate within prescribed terms of reference duly approved by the Board. These committees include Management Executive Committee (EXCO), Assets & Liabilities Committee (ALCO), Management Credit Committee, Procurement Committee, IT Steering Committee, Risk Management Committee and Product Development Committee. Open and clear communication channels between management and the Board is maintained through the office of the Chief Executive Officer.

The Bank fully complies with the Banking Act, CBK's prudential guidelines and the Kenyan Companies Act. The Bank ensures that the shareholders and other stakeholders are fully informed of the Bank's performance and activities by distributing its annual report and financial statements and also publishing quarterly reports and notices in the national dailies.

Hon S Nyachae, EGH
Chairman
21 March 2017

Director's Responsibilities

The Company's 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 Group and Bank at the end of the financial year and its financial performance for the year then ended. The directors are responsible for ensuring that the Group and Bank keep proper accounting records that are sufficient to show and explain the transactions of the Group and Bank; disclose with reasonable accuracy at any time the financial position of the Group and Bank; and that enables them to prepare financial statements of the Group and Bank that comply with prescribed financial reporting standards and the requirements of the Company's Act. They are also responsible for safeguarding the assets of the company 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 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 Group and 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 Group and 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 **21 March 2017** and signed on its behalf by:

Director	Director

Independent Auditor's Report

Our Opinion

We have audited the accompanying financial statements of Credit Bank Limited (the Bank) and its subsidiary (together, the Group) set out on pages 24 to 82 which comprise the consolidated statement of financial position at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, together with the separate statement of financial position of the Bank at 31 December 2016 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Group and the Bank at 31 December 2016 and of the financial performance and cash flows of the Group and Bank for the year then ended in accordance with International Financial Reporting Standards and 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 company 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.

When we read the other information included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and those Charged with Governance for the Group and Bank 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 Group and 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 Group or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for overseeing the Group and Bank's financial reporting process

Auditor's Responsibilities for the Audit of the Group and Bank Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group and 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 Group and 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 Group and/ or 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.

We communicate with those charged with governance 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 Legal and Regulatory Requirements

As required by the Kenyan Companies Act 2015 we report to you, based on our audit, that:

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

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

Certified Public Accountants
Nairobi
23 March 2017

pwc

Extra

Going the extra mile.

Credit Bank has established a strong brand name in Trade Finance and employs innovative tools to offer superior products and services. We understand the dynamic business environment and the need for appropriate financial products and services that suit domestic, regional and international trade business needs. This is to assist our customers tender, perform contracts, expand business activity and provide working capital for import and export transactions as well as logistical support.

Financial Reports

Consolidated Statement of Profit or Loss	Notes	Year Ended 31 December 2016 Shs'000	 2015 Shs'000
Interest income	5	1,574,490	1,218,480
Interest expense	6	(771,692)	(599,825)
Net interest income		802,798	618,655
Fee and commission income		284,448	169,451
Fee and commission expense		(2,499)	(2,184)
Net fee and commission income		281,949	167,267
Foreign exchange income		36,347	26,476
Other income	7	121,172	4,267
		157,519	30,743
Credit impairment charges	16	(150,400)	(223,120)
Net operating income		1,091,866	593,546
Employee benefits	8	(428,381)	(348,893)
Other operating expenses	9	(352,041)	(284,535)
Directors' expenses		(50,065)	(42,327)
Depreciation of property and equipment	19	(45,043)	(50,674)
Amortisation of intangible assets	20	(52,824)	(44,958)
Operating expenses		(928,354)	(771,387)
Profit/(loss) before income tax		163,513	(177,841)
Income tax (expense) / credit	10	(53,908)	118,559
Profit / (loss) for the year		109,605	(59,282)

The notes on pages 33 to 82 are an integral part of these financial statements.

Bank Statement of Profit or Loss	Notes	Year Ended 31 December 2016 Shs'000	2015 Shs'000
Interest income	5	1,574,490	1,218,480
Interest expense	6	(771,797)	(599,825)
Net interest income		802,693	618,655
Fee and commission income		274,855	167,095
Fee and commission expense		(2,499)	(2,184)
Net fee and commission income		272,356	164,911
Foreign exchange income		36,347	26,476
Other income	7	121,172	4,267
		157,519	30,743
Credit impairment charges	16	(150,400)	(223,120)
Net operating income		1,082,168	591,189
Employee benefits	8	(424,550)	(347,311)
Other operating expenses	9	(351,670)	(284,535)
Directors' expenses		(50,065)	(42,327)
Depreciation of property and equipment	19	(45,028)	(50,667)
Amortisation of intangible assets	20	(52,720)	(44,897)
Operating expenses		(924,033)	(769,737)
Profit / (loss) before income tax		158,135	(178,548)
Income tax (expense) / credit	10	(52,296)	118,753
Profit / (loss) for the year		105,839	(59,795)

The notes on pages 33 to 82 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income	Notes	Year ended 31 December 2016 Shs'000	 2015 Shs'000
Profit /(loss) for the year		109,605	(59,282)
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on available-for-sale financial assets, net of tax	26	3,286	1,443
Total comprehensive profit/(loss) for the year		112,891	(57,839)

Bank Statement of Comprehensive Income	Notes	Year ended 31 December 2016 Shs'000	 2015 Shs'000
Profit /(loss) for the year		105,839	(59,795)
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on available-for-sale financial assets, net of tax	26	3,286	1,443
Total comprehensive profit/(loss) for the year		109,125	(58,352)

The notes on pages 33 to 82 are an integral part of these financial statements.

Consolidated Statement of Financial Position	Notes	As at 31 December 2016 Shs'000	2015 Shs'000
ASSETS			
Cash and balances with Central Bank of Kenya	12	838,008	707,798
Financial assets available-for-sale	13	732,443	258,650
Financial assets held-to-maturity	14	1,470,111	1,022,901
Deposits and balances due from banking institutions	15	437,550	574,160
Loans and advances to customers	16	7,899,394	7,087,728
Other assets and prepaid expenses	17	297,236	117,766
Property and equipment	19	305,043	247,358
Intangible assets	20	133,039	131,236
Deferred income tax	18	125,065	142,629
Current income tax		-	7,287
Total assets		12,237,889	10,297,513
LIABILITIES			
Deposits and balances due to banking institutions	21	315,305	1,494,209
Customer deposits	22	9,135,301	7,267,037
Other liabilities	23	295,252	143,799
Current income tax		28,178	-
Total liabilities		9,774,036	8,905,045
SHAREHOLDERS' EQUITY			
Share capital	24	1,949,163	1,339,745
Share Premium	24	457,977	108,901
Regulatory reserve	25	44,497	57,921
Retained earnings /(Accumulated losses)		20,362	(102,667)
Fair value reserve	26	(8,146)	(11,432)
Shareholders' equity		2,463,853	1,392,468
Total equity and liabilities		12,237,889	10,297,513

The financial statements on pages 33 to 82 were approved for issue by the Board of Directors on 21 March 2017 and signed on its behalf by:

Hon. Simeon Nyachae - Chairman

Jay Karia – Director

Moses M. Mwendwa – Director

Secretary

Bank Statement of Financial Position	Notes	2016 Shs'000	2015 Shs'000
		As of 31 December	
ASSETS			
Cash and balances with Central Bank of Kenya	12	826,749	706,608
Financial assets available-for-sale	13	732,443	258,650
Financial assets held-to-maturity	14	1,470,111	1,022,901
Deposits and balances due from banking institutions	15	437,550	574,160
Loans and advances to customers	16	7,899,394	7,087,728
Other assets and prepaid expenses	17	271,950	108,856
Property and equipment	19	305,013	247,315
Intangible assets	20	132,682	130,775
Deferred income tax	18	125,076	142,629
Investment in Subsidiary		1,000	-
Current income tax		-	7,463
Total assets		12,201,968	10,287,085
LIABILITIES			
Deposits and balances due to banking institutions	21	315,305	1,494,209
Customer deposits	22	9,135,301	7,267,037
Other liabilities	23	264,927	133,884
Current income tax		26,861	-
Total liabilities		9,742,394	8,895,130
SHAREHOLDERS' EQUITY			
Share capital	24	1,949,163	1,339,745
Share Premium	24	457,977	108,901
Regulatory reserve	25	44,497	57,921
Retained earnings /(Accumulated losses)		16,083	(103,180)
Fair value reserve	26	(8,146)	(11,432)
Shareholders' equity		2,459,574	1,391,955
Total equity and liabilities		12,201,968	10,287,085

The financial statements on pages 33 to 82 were approved for issue by the Board of Directors on 21 March 2017 and signed on its behalf by:

Hon. Simeon Nyachae - Chairman

Jay Karia – Director

Moses M. Mwendwa – Director

Secretary

Credit Bank My Friend, My Bank

Consolidated Statement of Changes in Equity

	Notes	Share capital Shs'000	Share Premium	Retained earnings/ (accumulated losses) Shs'000	Regulatory reserve Shs'000	Fair value reserve Shs'000	Total Shs'000
At 1 January 2015		1,150,000	-	(38,385)	52,921	(12,875)	1,151,661
Total comprehensive income for the year							
Loss for the year		-	-	(59,282)	-	-	(59,282)
Fair value movement on available for sale assets		-	-	-	-	1,443	1,443
Total comprehensive loss for the year		-	-	(59,282)	-	1,443	(57,839)
Transfer from retained earnings	25	-	-	(5,000)	5,000	-	-
Transactions with owners							
Additional share capital	24	189,745	108,901	-	-	-	298,646
At 31 December 2015		1,339,745	108,901	(102,667)	57,921	(11,432)	1,392,468
At 1 January 2016		1,339,745	108,901	(102,667)	57,921	(11,432)	1,392,468
Total comprehensive income for the year							
Profit for the year		-	-	109,605	-	-	109,605
Fair value movement on available for sale assets		-	-	-	-	3,286	3,286
Total comprehensive income for the year		-	-	109,605	-	3,286	112,891
Transfer from retained earnings	25	-	-	13,424	(13,424)	-	-
Transactions with owners							
Additional share capital	24	609,418	349,076	-	-	-	958,494
At 31 December 2016		1,949,163	457,977	20,362	44,497	(8,146)	2,463,853

The notes on pages 33 to 82 are an integral part of these financial statements.

Bank Statement of Changes in Equity	Notes	Share capital Shs'000	Share Premium	Retained earnings/ (accumulated losses)	Regulatory reserve Shs'000	Fair value reserve Shs'000	Total Shs'000
At 1 January 2015		1,150,000	-	(38,385)	52,921	(12,875)	1,151,661
Total comprehensive income for the year							
Loss for the year		-	-	(59,795)	-	-	(59,795)
Fair value movement on available for sale assets		-	-	-	-	1,443	1,443
Total comprehensive income for the year		-	-	(59,795)	-	1,443	(58,352)
Transfer from retained earnings	25	-	-	(5,000)	5,000	-	-
Transactions with owners							
Additional share capital	24	189,745	108,901	-	-	-	298,646
At 31 December 2015		1,339,745	108,901	(103,180)	57,921	(11,432)	1,391,955
At 1 January 2016		1,339,745	108,901	(103,180)	57,921	(11,432)	1,391,955
Total comprehensive income for the year							
Profit for the year		-	-	105,839	-	-	105,839
Fair value movement on available for sale assets		-	-	-	-	3,286	3,286
Total comprehensive income for the year		-	-	105,839	-	3,286	109,125
Transfer from retained earnings	25	-	-	13,424	(13,424)	-	-
Transactions with owners							
Additional share capital	24	609,418	-	-	-	-	609,418
Share Premium		-	349,076	-	-	-	349,076
At 31 December 2016		1,949,163	457,977	16,083	44,497	(8,146)	2,459,574

The notes on pages 33 to 82 are an integral part of these financial statements.

Consolidated Statement of Cash Flows	Notes	Year ended 31 December 2016 Shs'000	2015 Shs'000
Cash flows from operating activities			
Interest receipts		1,574,596	1,218,480
Net fees and commissions receipts		281,949	167,266
Interest paid		(771,797)	(599,824)
Foreign exchange income		36,347	26,476
Recoveries on loans previously written off		72,453	19,083
Payments to employees and suppliers		(807,433)	(645,755)
Income tax paid		(460)	(17)
Other income received		48,578	4,213
Cash flows from operating activities before changes in operating assets and liabilities		434,233	159,921
Changes in operating assets and liabilities:			
- gross loans and advances to customers	16	(1,002,839)	(1,797,695)
- other assets and prepaid expenses		(178,469)	(3,267)
- Central Bank of Kenya cash reserve requirement	29	(49,582)	(43,163)
- deposits and balances due to banking institutions		(1,178,904)	1,165,805
- customer deposits		1,868,263	53,961
- other liabilities		151,453	(26,906)
Net cash generated from/(used in) operating activities		44,155	(491,344)
Cash flows from investing activities			
Net proceeds from financial assets held-to-maturity		(154,503)	279,012
Net (purchase) / proceeds from sale of financial assets available-for-sale		(473,793)	109,300
Purchase of property and equipment	19	(103,011)	(15,559)
Proceeds from disposal of property and equipment		141	54
Purchase of intangible assets	20	(54,628)	(48,922)
Net cash (used in) / generated from investing activities		(785,794)	323,885
Cash flows from financing activities			
Proceeds from issue of shares	24	958,494	298,646
Net cash flows from issue of shares		958,494	298,646
Net increase in cash and cash equivalents		216,855	132,431
Cash and cash equivalents at start of year		910,177	777,746
Cash and cash equivalents at end of year	29	1,127,032	910,177

The notes on pages 33 to 82 are an integral part of these financial statements.

Bank Statement of Cash Flows	Notes	Year ended 31 December 2016 Shs'000	2015 Shs'000
Cash flows from operating activities			
Interest receipts		1,574,490	1,218,480
Net fees and commissions receipts		272,356	164,911
Interest paid		(771,797)	(599,825)
Foreign exchange income		36,347	26,476
Recoveries on loans previously written off		72,453	19,083
Payments to employees and suppliers		(803,230)	(674,173)
Income tax paid		-	-
Other income received		48,578	4,213
Cash flows from operating activities before changes in operating assets and liabilities		429,197	159,165
Changes in operating assets and liabilities:			
- gross loans and advances to customers	16	(1,002,839)	(1,797,695)
- other assets and prepaid expenses		(163,091)	(3,267)
- Central Bank of Kenya cash reserve requirement	29	(49,582)	(43,163)
- deposits and balances due to banking institutions		(1,178,904)	1,165,805
- customer deposits		1,868,264	53,961
- other liabilities		131,043	(26,758)
Net cash generated from / (used in) operating activities		34,088	(491,952)
Cash flows from investing activities			
Net proceeds from financial assets held-to-maturity		(154,503)	279,012
Net (purchase)/proceeds from sale of financial assets available-for-sale		(473,793)	109,300
Purchase of property and equipment	19	(103,011)	(15,509)
Proceeds from disposal of property and equipment		141	54
Purchase of intangible assets	20	(54,628)	(48,400)
Net cash (used in) / generated from investing activities		(785,794)	324,457
Cash flows from financing activities			
Proceeds from issue of shares	24	958,494	298,646
Net cash flows from issue of shares		958,494	298,646
Net increase in cash and cash equivalents		206,788	131,151
Cash and cash equivalents at start of year		908,987	777,746
Cash and cash equivalents at end of year	29	1,115,773	908,987

The notes on pages 33 to 82 are an integral part of these financial statements.

Notes on Financial Statements

1. General information

Credit Bank Limited (the "Bank") is incorporated and domiciled in Kenya as a limited liability company. The address of its registered office is:

Plot L.R No 12081/10, Sameer Business Park
Block C, Unit C1, 1st Floor
Mombasa Road
PO Box 10032-00100, Nairobi

2. Summary of Significant Accounting Policies

The principal accounting policies adopted 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.

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 (ie as prices) or indirectly (ie derived from prices); and

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.

2. Summary of Significant Accounting Policies (Continued)

b) Changes in Accounting Policies and Disclosures

i) New and Amended Standards Adopted By The Bank

Amendment to IAS 1 Presentation of Financial Statements (IAS 1) effective 1 January 2016

The amendment to IAS 1 clarifies that materiality applies to the whole set of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. The amendment further explains that professional judgement should be used in determining where and in what order information should be presented in the financial statements. During the year the Bank reviewed its financial statements to identify disclosures that were considered to be immaterial as well as to consider ways of better presenting financial information. 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) Standards, Amendments and Interpretations to Existing Standards that are not yet Effective and have not been early Adopted by the Bank

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these financial statements. The following standards and ammendments set out below, are expected to have a significant effect on the financial statements of the Bank;

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. The standard is effective for accounting periods beginning on or after 1 January 2017. Early adoption is permitted. The Bank is in the process of determining IAS 12 full impact.

Amendment to IAS 7 – Cash flow statements, in January 2016, the International Accounting Standards Board (IASB) issued an amendment to IAS 7 introducing 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. The standard is effective for accounting periods beginning on or after 1 January 2017. Early adoption is permitted. The Bank is in the process of determining IAS 7 full impact.

Amendments to IFRS 2 - Classification and measurement of share-based payment transactions. The IASB issued an amendment to IFRS 2, 'Share-based Payment', addressing three classification and measurement issues.The amendment addresses the accounting for cash-settled, share-based payments and equity-settled awards that include a 'net settlement' feature in respect of withholding taxes. The 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. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Bank is in the process of determining IFRS 2 full impact.

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

2. Summary of Significant Accounting Policies (Continued)

b) Changes in Accounting Policies and Disclosures (Continued)

ii) Standards, Amendments and Interpretations to Existing Standards that are not yet Effective and have not been early Adopted by the Bank (Continued)

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. The Bank is in the process of determining IFRS 9's full impact.

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. The Bank is assessing the impact of IFRS 15.

IFRS 16 – Leases, IASB and FASB they decided that lessees should be required to recognise assets and liabilities arising from all leases (with limited exceptions) on the balance sheet. Lessor accounting has not substantially changed in the new standard. The model reflects that, at the start of a lease, the lessee obtains the right to use an asset for a period of time and has an obligation to pay for that right. The application of the standard is however exempt for short-term leases (less than 12 months), and leases for which the underlying asset is of low value (such as laptops and office furniture).

A lessee measures lease liabilities at the present value of future lease payments. A lessee measures lease assets, initially at the same amount as lease liabilities, and also includes costs directly related to entering into the lease. Lease assets are amortised in a similar way to other assets such as property, plant and equipment. This approach will result in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed.

c) Consolidation

The consolidated financial statements incorporate the financial statements of Credit Bank Limited and its subsidiary; My friend Insurance Agency. The financial statements have been made up to 31 December 2016.

i) Subsidiaries

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

The Group applies the acquisition method to account for business combinations. The consideration transferred for the

2. Summary of Significant Accounting Policies (Continued)

c) Consolidation (Continued)

i) Subsidiaries (Continued)

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

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

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

The excess of the consideration transferred the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform to the Group's accounting policies.

ii) Changes in Ownership Interests in Subsidiaries without Change of Control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

iii) Disposal of Subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss.
The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

d) Foreign Currency Translation

i) Functional and Presentation Currency

Items included in the Bank's financial statements are measured using the currency of the primary economic environment in which the Bank operates (the "Functional Currency"). The financial statements are presented in Kenya shillings (Shs), which is the Bank's presentation currency.

2. Summary of Significant Accounting Policies (Continued)

d) Foreign Currency Translation (Continued)

ii) Transactions and Balances

Foreign currency transactions are translated into the Functional Currency using the exchange rates prevailing at the dates of the transactions.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. If several exchange rates are available, the forward rate is used at which the future cash flows represented by the transaction or balance could have been settled if those cash flows had occurred. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

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

Changes in the fair value of monetary assets denominated in foreign currency classified as at-fair-value are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, are recognised in other comprehensive income.

e) Sales and Repurchase Agreements

Securities sold subject to repurchase agreements ('repos') are reclassified 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 deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

f) Financial Assets and Liabilities

Financial Assets

The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss; loans, advances and receivables; held-to-maturity financial assets; and available-for-sale financial assets. Management determines the appropriate classification of its financial assets at initial recognition.

i) 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:

2. Summary of Significant Accounting Policies (Continued)

f) Financial Assets and Liabilities (Continued)

i) Financial Assets at Fair Value through Profit or Loss (Continued)

- 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 consist of debt host and an embedded derivative that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/ (losses) on financial instruments classified as held for trading'. Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'net interest income' or 'dividend income', respectively.

Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in 'net gains on financial instruments designated at fair value through profit or loss'.

ii) Loans, Advances 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
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.

iii) Held-to-maturity Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the directors have the 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.

iv) Available-for-sale 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 and cumulated in a separate reserve in equity, revaluation reserve, until the financial asset is derecognised. 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 profit or loss.

2. Summary of Significant Accounting Policies (Continued)

f) Financial Assets and Liabilities (Continued)

Financial Liabilities

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

Determination of Fair Value

For financial instruments traded in active markets, the determination of fair values of financial instruments is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on the Nairobi Securities Exchange. 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. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques existing at the reporting dates. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

Classes of Financial Instruments

<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="14">Financial Assets</td><td rowspan="2">Held to maturity</td><td colspan="2" rowspan="2">Investment securities - Debt securities</td><td>Treasury bonds</td></tr>
<tr><td>Treasury bills</td></tr>
<tr><td rowspan="7">Loans, advances and receivables</td><td colspan="3">Deposits and balances from banking institutions</td></tr>
<tr><td rowspan="6">Loans and advances to customers</td><td rowspan="3">Loans to individuals (retails)</td><td>Overdrafts</td></tr>
<tr><td>Term loans</td></tr>
<tr><td>Mortgages</td></tr>
<tr><td rowspan="3">Loans to corporate entities</td><td>Large corporate customers</td></tr>
<tr><td>SMEs</td></tr>
<tr><td>Others</td></tr>
<tr><td rowspan="2">Available-for- sale financial assets</td><td colspan="2" rowspan="2">Investment securities – debt securities</td><td>Treasury bonds</td></tr>
<tr><td>Corporate bonds</td></tr>
<tr><td rowspan="3">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>Retail customers</td><td></td></tr>
<tr><td>Corporate customers</td><td></td></tr>
<tr><td rowspan="2">Off- balance sheet financial Instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="2">Guarantees, acceptances and other financial facilities</td><td colspan="2"></td></tr>
</table>

2. Summary of Significant Accounting Policies (Continued)

f) Financial Assets and Liabilities (Continued)

Impairment of Financial Assets

i) Assets Carried at Amortized Cost

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

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the Bank granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;
d) it becoming 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 group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

- adverse changes in the payment status of borrowers in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The estimated period between a loss occurring and its identification is determined by the directors for each identified portfolio. In general, the periods used vary between 3 and 12 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.

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 asset'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 profit or loss.

If a loan or held-to-maturity investment 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 collateralized 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.

2. Summary of Significant Accounting Policies (Continued)

f) Financial Assets and Liabilities (Continued)

Impairment of Financial Assets (Continued)

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 banks and customers are classified in loan impairment charges whilst impairment charges relating to investment securities (held-to-maturity and loans and receivables categories) are classified in `net gains/ (losses) on investment securities'.

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 profit or loss.

ii) Assets Classified as Available-for-sale

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 profit or loss. Impairment losses recognised in profit or loss on equity instruments are not reversed through 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 profit or loss.

g) Offsetting 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 set off the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

h) 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 balances with 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. Summary of Significant Accounting Policies (Continued)

i) Property and Equipment

Property and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of these assets. Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repair and maintenance costs are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated on the straight line basis to write down the costs of the property, plant and equipment to their residual value over their estimated useful lives as follows:

Leasehold improvements	12.5 years
Motor vehicles	4 years
Office equipment	8 years
Computers and electronic equipment	3.33 years
Furniture and fittings	8 years

Property and equipment are reviewed annually for impairment. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

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

j) Intangible Assets

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Bank are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed five years.

k) 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

2. Summary of Significant Accounting Policies (Continued)

k) Impairment of Non-Financial Assets (Continued)

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.

l) Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

m) Income tax

i) Current Income Tax

The tax expense for the period comprises current and deferred income tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax laws and rates enacted or substantively enacted at the reporting date. The directors periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. They establish provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

ii) Deferred Income Tax

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from 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 substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different taxable entities where there is an intention to settle the balances on a net basis.

2. Summary of Significant Accounting Policies (Continued)

n) Employee Benefits

i) Post-employment Benefits

The Bank operates a defined contribution post-employment benefit scheme for all its employees. The scheme is administered by an insurance company and is funded by contributions from both the Bank and employees. The Bank and its employees also contribute to the statutory National Social Security Fund, which is a defined contribution scheme.

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

The Bank's contributions to both these defined contribution schemes are charged to profit or loss in the year to which they fall due. The Bank has no further obligation once the contributions have been paid. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

ii) Other Entitlements

The estimated monetary liability for employees' including annual leave entitlement at the balance sheet date is recognised as an expense accrual.

o) Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including pre-payments, made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease.

The total payments made under operating leases are charged to 'other operating expenses' on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

p) 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 profit and loss 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 used to discount the future cash flows for the purpose of measuring the impairment loss.

q) Fees and Commission Income

Fees and commission income is generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Fees and commissions expense are generally recognised on an accrual basis when incurred.

2. Summary of Significant Accounting Policies (Continued)

r) Dividend Income

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

s) Dividends payable

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

t) Regulatory Reserve

Where impairment losses required by Central Bank of Kenya Prudential guidelines exceed those computed under IFRS, the excess is recognised as a regulatory reserve and is accounted for as an appropriation of retained earnings. The regulatory reserve is non-distributable.

u) 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

v) Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet 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. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

3 Financial Risk Management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance. The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

Risk management is carried out by different departments under policies approved by the Board of Directors. Departmental heads identify and evaluate risks in close cooperation with the operating units. The Board provides guidance on overall risk management, as well as written policies covering specific areas such as foreign exchange risk, interest rate risk, credit risk, use of financial instruments. The most important types of risk are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency risk, interest rate and other price risk.

a) 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 risk arises mainly from commercial and consumer loans and advances, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, endorsements and acceptances. The Bank is also exposed to other credit risks arising from investments in debt securities.

3 Financial Risk Management (Continued)

a) Credit Risk (Continued)

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 in light with the changing market and economic conditions.

Exposure to credit risk is also managed through specific control and mitigation measures including;

i) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties.
- Charges over business assets such as premises inventory and accounts receivable.
- Charges over financial instruments such as debt securities and equities.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Longer-term finance and lending to corporate entities are generally secured. In addition, in order to minimize the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

ii) Financial Covenants (for Credit Related Commitments and Loan Books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit 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 authorizing a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

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.

3 Financial Risk Management (Continued)

a) Credit Risk (Continued)

Maximum Exposure to Credit risk Before Collateral Held	2016 Shs'000	2015 Shs'000
Group		
Balances with Central Bank of Kenya (Note 12)	534,460	452,911
Deposits and balances due from banking institutions (Note 15)	437,550	574,160
Financial assets held-to-maturity (Note 14)	1,470,111	1,022,901
Financial assets available-for-sale (Note 13)	732,443	258,650
Other assets (Note 17)	297,236	86,766
Loans and advances to customers (Note 16)	7,899,394	7,087,728
	11,371,194	9,483,116
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	598,636	549,771
- Guarantee and performance bonds	2,509,512	957,370
- Commitments to lend	2,309,010	1,570,247
- Un-utilised Guarantees	2,561,463	-
	19,349,815	12,560,504
Bank	**2016 Shs'000**	**2015 Shs'000**
Balances with Central Bank of Kenya (Note 12)	534,460	452,911
Deposits and balances due from banking institutions (Note 15)	437,550	574,160
Financial assets held-to-maturity (Note 14)	1,470,111	1,022,901
Financial assets available-for-sale (Note 13)	732,443	258,650
Other assets (Note 17)	271,950	86,766
Loans and advances to customers (Note 16)	7,899,394	7,087,728
	11,345,908	9,483,116
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	598,636	549,771
- Guarantee and performance bonds	2,509,512	957,370
- Commitments to lend	2,309,010	1,570,247
- Un-utilised Guarantees	2,561,463	-
	19,324,529	12,560,504

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2016 and 2015, 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 statement of financial position.

As shown above 40% of the total maximum exposure is derived from loans and advances to customers (2014: 56%). 2016 : 11% (2015: 10%) represents investments in held-to-maturity and available-for-sale financial assets.

Loans and advances to customers and off-balance sheet items are secured by collateral in the form of charges over land and buildings and/or plant and machineries. No collateral is held for 'other assets'.

3 Financial Risk Management (Continued)

Group

The sectoral analysis of loans and advances and other assets is as below:

As at 31 December 2016	Financial Institutions Shs'000	Manufacturing Shs'000	Real Estate Shs'000	Wholesale and Retail trade Shs'000	Building and construction Shs'000	Other industries Shs'000	Individuals Shs'000	Total Shs'000
Balances with Central Bank of Kenya	534,460	-	-	-	-	-	-	534,460
Deposits and balances due from banking institutions	437,550	-	-	-	-	-	-	437,550
Loans to individuals:								
-Overdrafts	4,415	-	-	1,047	-	-	37,332	42,794
-Term loans	-	-	112,293	63,652	-	-	728,788	904,733
-Mortgages	-	-	-	-	-	-	213,767	213,767
Loans to corporate entities:								
-Large corporate customers	407,532	468,411	453,509	602,969	346,005	1,203,117	-	3,481,543
-SMEs	114,663	36,780	225,746	1,635,308	425,241	818,819	-	3,256,557
	526,610	505,191	791,548	2,302,976	771,246	2,021,936	979,887	7,899,394
Other assets	266,267	-	-	-	-	-	-	266,267
Financial assets available-for-sale	696,235	-	-	-	-	36,208	-	732,443
Financial assets held-to-maturity	1,470,111	-	-	-	-	-	-	1,470,111
As at 31 December 2016	3,931,233	505,191	791,548	2,302,976	771,246	2,058,144	979,887	11,340,225
Credit risk exposures relating to off-balance sheet items are as follows:								
Guarantees and letters of credit	1,075,050	268,410	35,037	917,529	462,448	349,524	150	3,108,148
As at 31 December 2016	1,075,050	268,410	35,037	917,529	462,448	349,524	150	3,108,148

3 Financial Risk Management (Continued)

Group

The sectoral analysis of loans and advances and other assets is as below:

As at 31 December 2015	Financial Institutions Shs'000	Manufacturing Shs'000	Real Estate Shs'000	Wholesale and Retail trade Shs'000	Building and construction Shs'000	Other industries Shs'000	Individuals Shs'000	Total Shs'000
Balances with Central Bank of Kenya	452,911	-	-	-	-	-	-	452,911
Deposits and balances due from banking institutions	574,160	-	-	-	-	-	-	574,160
Loans to individuals:								
-Overdrafts	-	-	4,987	-	-	2,468	7,634	15,089
-Term loans	-	-	22,863	-	-	39,969	581,430	644,262
-Mortgages	-	-	-	-	-	-	174,573	174,573
Loans to corporate entities:								
-Large corporate customers	289,234	223,444	771,337	607,559	888,239	1,023,238	-	3,803,051
-SMEs	61,398	46,026	250,924	1,390,850	130,673	570,882	-	2,450,753
	350,632	269,470	1,050,111	1,998,409	1,018,912	1,636,557	763,637	7,087,728
Other assets	86,466	-	-	-	-	-	-	86,466
Financial assets available-for-sale	212,288	-	-	-	-	46,362	-	258,650
Financial assets held-to-maturity	1,022,901	-	-	-	-	-	-	1,022,901
As at 31 December 2015	2,699,358	269,470	1,050,111	1,998,409	1,018,912	1,682,919	763,637	9,482,816
Credit risk exposures relating to off-balance sheet items are as follows:								
Guarantees and letters of credit	356,594	-	1,075	100,445	323,441	520,364	205,222	1,507,141
As at 31 December 2015	356,594	-	1,075	100,445	323,441	520,364	205,222	1,507,141

Credit Bank
My Friend, My Bank

3 Financial Risk Management (Continued)

a) Credit Risk (Continued) - Bank

The sectoral analysis of loans and advances and other assets is as below:

As at 31 December 2016	Financial Institutions Shs'000	Manufacturing Shs'000	Real Estate Shs'000	Wholesale and Retail trade Shs'000	Building and construction Shs'000	Other industries Shs'000	Individuals Shs'000	Total Shs'000
Balances with Central Bank of Kenya	534,460	-	-	-	-	-	-	534,460
Deposits and balances due from banking institutions	437,550	-	-	-	-	-	-	437,550
Loans to individuals:								
-Overdrafts	4,415	-	-	1,047	-	-	37,332	42,794
-Term loans	-	-	112,293	63,652	-	-	728,788	904,733
-Mortgages	-	-	-	-	-	-	213,767	213,767
Loans to corporate entities:								
-Large corporate customers	407,532	468,411	453,509	602,969	346,005	1,203,117	-	3,481,543
-SMEs	114,663	36,780	225,746	1,635,308	425,241	818,819	-	3,256,557
	526,610	431,631	791,548	2,302,976	771,246	2,021,936	979,887	7,899,394
Other assets	240,981	-	-	-	-	-	-	240,981
Financial assets available-for-sale	696,235	-	-	-	-	36,208	-	732,443
Financial assets held-to-maturity	1,470,111	-	-	-	-	-	-	1,470,111
As at 31 December 2016	3,905,947	431,631	791,548	2,302,976	771,246	2,058,144	979,887	11,314,939
Credit risk exposures relating to off-balance sheet items are as follows:								
Guarantees and letters of credit	1,075,050	268,410	35,037	917,529	462,448	349,524	150	3,108,148
As at 31 December 2016	1,075,050	268,410	35,037	917,529	462,448	349,524	150	3,108,148

3 Financial Risk Management (Continued)

a) Credit Risk (Continued) - Bank

The sectoral analysis of loans and advances and other assets is as below:

As at 31 December 2015	Financial Institutions Shs'000	Manufacturing Shs'000	Real Estate Shs'000	Wholesale and Retail trade Shs'000	Building and construction Shs'000	Other industries Shs'000	Individuals Shs'000	Total Shs'000
Balances with Central Bank of Kenya	452,911	-	-	-	-	-	-	452,911
Deposits and balances due from banking institutions	574,160	-	-	-	-	-	-	574,160
Loans to individuals:								
-Overdrafts	-	-	4,987	-	-	2,468	7,634	15,089
-Term loans	-	-	22,863	-	-	39,969	581,430	644,262
-Mortgages	-	-	-	-	-	-	174,573	174,573
Loans to corporate entities:								
-Large corporate customers	289,234	223,444	771,337	607,559	888,239	1,023,238	-	3,803,051
-SMEs	61,398	46,026	250,924	1,390,850	130,673	570,882	-	2,450,753
	350,632	269,470	1,050,111	1,998,409	1,018,912	1,636,557	763,637	7,087,728
Other assets	86,466	-	-	-	-	-	-	86,466
Financial assets available-for-sale	212,288	-	-	-	-	46,362	-	258,650
Financial assets held-to-maturity	1,022,901	-	-	-	-	-	-	1,022,901
As at 31 December 2015	2,699,358	269,470	1,050,111	1,998,409	1,018,912	1,682,919	763,637	9,482,816
Credit risk exposures relating to off-balance sheet items are as follows:								
Guarantees and letters of credit	356,594	-	1,075	100,445	323,441	520,364	205,222	1,507,141
As at 31 December 2015	356,594	-	1,075	100,445	323,441	520,364	205,222	1,507,141

3 Financial Risk Management (Continued)

a) Credit Risk (Continued)

Group and Bank Analysis of loans and advances	2016 Shs'000	2015 Shs'000
Neither past due nor impaired	6,663,219	4,448,176
Past due but not impaired	1,100,916	2,466,020
Impaired	531,592	452,422
Gross	8,295,727	7,366,618
Portfolio allowance	(41,102)	(41,102)
Individually impaired	(355,231)	(237,788)
Net	7,899,394	7,087,728

Loans advances neither past due nor impaired

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the classification adopted by the Bank in conformity with the prudential guidelines of Central Bank of Kenya:

Group and Bank	*Individual (retail customers)*			*Corporate entities*			Total loans and advances to customers
	Overdrafts Shs'000	Term loans Shs'000	Mortgage Shs'000	Large corporate customers Shs'000	SMEs Shs'000	Other Shs'000	Shs'000
31 December 2016 Neither past due nor impaired	23,145	782,966	203,188	3,046,000	2,607,838	-	6,666,137
31 December 2015 Neither past due nor impaired	8,750	463,079	175,617	2,139,838	1,660,892	-	4,448,176

(ii) Loans and Advances Past due but not Impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances less than 90 days past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

3 Financial Risk Management (Continued)

a) Credit Risk (Continued)

(ii) Loans and Advances Past due but not Impaired (Continued)

Group and Bank	Individual (Retail Customers)		
	Overdrafts Shs'000	Term loans Shs'000	Total Shs'000
31 December 2016			
Past due up to 30 days	7,746	39,201	46,947
Past due 30 - 90 days	6,906	34,228	41,134
Past due 60 - 90 days	580	23,768	24,348
Total	15,232	97,197	112,429

Group and Bank	Corporate Entities		
	Large Corporate customers Shs'000	SMEs Shs'000	Total Shs'000
Past due up to 30 days	307,314	274,097	581,411
Past due 30 - 90 days	128,664	144,672	273,336
Past due 60 - 90 days	3,492	130,330	133,822
Total	439,470	549,099	988,569

Group and Bank	Individual (Retail Customers)		
	Overdrafts Shs'000	Term loans Shs'000	Total Shs'000
31 December 2015			
Past due up to 30 days	5,490	117,462	122,952
Past due 30 - 90 days	863	904	1,767
Past due 60 - 90 days	-	7,269	7,269
Total	6,353	125,635	131,988

Group and Bank	Corporate Entities		
	Large Corporate customers Shs'000	SMEs Shs'000	Total Shs'000
Past due up to 30 days	1,395,269	669,093	2,064,362
Past due 30 - 90 days	218,446	15,890	234,336
Past due 60 - 90 days	-	35,333	35,333
Total	1,613,715	720,316	2,334,031

3 Financial Risk Management (Continued)

a) Credit Risk (Continued)

iii) Loans and Advances Individually Impaired

Group and Bank

Of the total gross amount of impaired loans, the following amounts have been individually assessed net of interest in suspense:

	Individuals			Corporate Entities		
	Overdrafts Shs'000	Term loans Shs'000	Mortgage Shs'000	Large Corporate customers Shs'000	SMEs Shs'000	Total loans and advances to customers Shs'000
31 December 2016 Gross amount of individually impaired loans	15,409	128,352	8,131	90,148	289,552	531,592
31 December 2015 Gross amount of individually impaired loans	11,936	57,244	-	164,827	218,415	452,422

b) Market Risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

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. Market risk measurement and monitoring technique adopted by the bank includes use various stress tests in its day to day operations.

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank Treasury include interest rates stress test, liquidity stress test: and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by senior management and the Assets and liabilities committee and by the Board of Directors. The stress testing is tailored to the business and typically uses scenario analysis.

i) Foreign Exchange Risk

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

3 Financial Risk Management (Continued)

b) Market Risk (Continued)

i) Foreign Exchange Risk (Continued)

At December 2016, if the shilling had weakened/strengthened by 5% against the foreign currencies in which the Bank had exposures, with all other variables held constant, pre-tax loss would have been higher/lower by Kshs 6,064,000 (2015: Kshs 19,834,000)

ii) Currency Risk

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2016. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency (all amounts expressed in thousands of Kenya Shillings).

	USD	GBP	Euro	Other	Total
As at 31 December 2016					
Assets					
Cash and balances with Central Bank of Kenya	165,929	19,521	101,024	-	286,474
Deposits and balances due from banking institutions	72,127	43,896	16,075	-	132,098
Loans and advances to customers	940,151	110,176	-	-	1,050,327
Total assets	1,178,207	173,593	117,099	-	1,468,899
Liabilities					
Customer deposits	1,151,692	172,057	104,600	-	1,428,349
Deposits and balances due to banking Institutions	153,893	-	-	-	153,893
Other Liabilities	4,655	3,281	-	-	7,936
Total liabilities	1,310,240	175,338	104,600	-	1,590,178
Net on-balance sheet position	(132,033)	(1,745)	12,499	-	(121,279)
Net off-balance sheet position	8,635	-	(8,565)	-	70
Overall net position	(123,398)	(1,745)	3,934	-	(121,209)
As at 31 December 2015					
Total assets	826,936	198,528	121,174	3,514	1,150,152
Total liabilities	880,813	193,790	98,034	921	1,173,558
Net on-balance sheet position	(53,877)	4,738	23,140	2,593	(23,406)
Net off-balance sheet position	64,853	(4,250)	(23,447)	-	37,156
Overall net position	10,976	488	(307)	2,593	13,750

3 Financial Risk Management (Continued)

b) Market Risk (Continued)

(iii) Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates.

The Bank's interest bearing financial assets and liabilities are loans and advances to customers and customer deposits, which are at variable rate, and on which it is therefore exposed to cash flow interest rate risk. The Bank regularly monitors financing options available to ensure optimum interest rates are obtained. At December 2016, an increase/decrease of 1% would have resulted in an increase/decrease in pre tax loss of Kshs 4,844,000 (2015: Kshs 8,592,300)

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

Group ASSETS	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
As at 31 December 2016						
Cash and balances with Central Bank of Kenya	-	-	-	-	838,008	838,008
Financial assets held- to-maturity	292,707	43,189	-	1,134,215	-	1,470,111
Deposits and balances due from banking institutions	93,892	343,657	-	-	-	437,549
Financial assets available-for-sale	-	-	12,416	720,027	-	732,443
Other assets and prepaid expenses	-	-	-	-	297,236	297,236
Loans and advances to customers	7,899,394	-	-	-	-	7,899,394
Property and equipment and Intangible assets	-	-	-	-	438,082	438,082
Deferred income tax	-	-	-	-	125,065	125,065
Total assets	**8,285,993**	**386,846**	**12,416**	**1,854,242**	**1,698,391**	**12,237,889**

3 Financial Risk Management (Continued)

b) Market Risk (Continued)

(iii) Interest Rate Risk (Continued)

	Up to 1 month Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
LIABILITIES AND SHAREHOLDERS' FUNDS						
Customer deposits	672,588	4,260,958	1,776,014	641,327	1,784,414	9,135,301
Deposits and balances due to banking institutions	23,777	263,493	-	28,035	-	315,305
Other liabilities	-	-	-	-	295,252	295,252
Current income tax	-	-	-	-	28,178	28,178
Shareholders' equity	-	-	-	-	2,463,853	2,463,853
Total liabilities and shareholders' equity	**696,365**	**4,524,451**	**1,776,014**	**669,362**	**4,571,697**	**12,237,889**
Interest sensitivity gap	7,589,629	(4,137,605)	(1,763,598)	1,184,880	(2,873,306)	-
As at 31 December 2015						
Total assets	7,235,557	446,201	129,882	1,131,799	1,343,646	10,287,085
Total liabilities and shareholders' funds	4,742,926	2,325,848	1,608,151	84,321	1,525,839	10,287,085
Interest sensitivity gap	2,492,631	(1,879,647)	(1,478,269)	1,047,478	(182,193)	-

3 Financial Risk Management (Continued)

b) Market Risk (Continued)

Bank ASSETS	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Non-interest bearing Shs'000	Total Shs'000
As at 31 December 2016						
Cash and balances with Central Bank of Kenya	-	-	-	-	826,749	826,749
Financial assets held- to-maturity	292,707	43,189	-	1,134,215	-	1,470,111
Deposits and balances due from banking institutions	93,892	343,657	-	-	-	437,549
Financial assets available-for-sale	-	-	12,416	720,027	-	732,443
Other assets and prepaid expenses	-	-	-	-	271,950	271,950
Loans and advances to customers	7,899,394	-	-	-	-	7,899,394
Property and equipment and Intangible assets	-	-	-	-	437,695	437,695
Deferred income tax	-	-	-	-	125,076	125,076
Investment in subsidiary	-	-	-	-	1,000	1,000
Total Assets	8,285,993	386,846	12,416	1,854,242	1,662,470	12,201,968
LIABILITIES AND SHAREHOLDERS' FUNDS	**Up to 1 month Shs'000**	**1-3 months Shs'000**	**4-12 months Shs'000**	**Over 1 year Shs'000**	**Non-interest bearing Shs'000**	**Total Shs'000**
Customer deposits	2,457,002	4,260,958	1,776,014	641,327	-	9,135,301
Deposits and balances due to banking institutions	23,777	263,493		28,035	-	315,305
Other liabilities	-	-	-	-	264,927	264,927
Current income tax	-	-	-	-	26,862	26,862
Shareholders' equity	-	-	-	-	2,459,574	2,459,574
Total liabilities and shareholders' equity	2,480,779	4,524,451	1,776,014	669,362	2,751,363	12,201,968
Interest sensitivity gap	5,805,214	(4,137,605)	(1,763,598)	1,184,880	(1,089,096)	-
As at 31 December 2015						
Total assets	7,235,557	446,201	129,882	1,131,799	1,343,646	10,287,085
Total liabilities and shareholders' funds	4,742,926	2,325,848	1,608,151	84,321	1,525,839	10,287,085
Interest sensitivity gap	2,492,631	(1,879,647)	(1,478,269)	1,047,478	(182,193)	-

3 Financial Risk Management (Continued)

c) Liquidity Risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities or margin calls for derivatives. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the statement of financial position and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the statement of financial position against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Bank Treasury also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit and guarantees.

The table below analyses assets and liabilities into relevant maturity groupings based on the remaining period at 31 December 2016 to the contracted maturity date. All figures are in thousands of Kenya shillings.

3 Financial Risk Management (Continued)

c) Liquidity Risk (Continued)

Group ASSETS	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Over 5 years Shs'000	Total Shs'000
As at 31 December 2016						
Cash and balances with Central Bank of Kenya	838,008	-	-	-	-	838,008
Financial assets held- to-maturity	-	335,896	-	574,450	559,765	1,470,111
Deposits and balances due from banking institutions	93,892	343,658	-	-	-	437,550
Financial assets available-for-sale	732,443	-	-	-	-	732,443
Other assets and prepaid expenses	84,058	125,306	57,098	30,774	-	297,236
Loans and advances to customers	1,704,549	555,047	798,071	3,588,029	1,253,698	7,899,394
Property and equipment and Intangible assets	-	-	-	-	438,082	438,082
Deferred income tax	-	-	-	-	125,065	125,065
Total assets	3,552,950	1,359,907	855,169	4,193,253	2,376,610	12,237,889
LIABILITIES AND SHAREHOLDERS' FUNDS	**Up to 1 month Shs'000**	**1-3 months Shs'000**	**4-12 months Shs'000**	**Over 1 year Shs'000**	**Over 5 years Shs'000**	**Total Shs'000**
Customer deposits	2,457,002	4,260,958	1,776,014	641,327	-	9,135,301
Deposits and balances due to banking institutions	43,494	343,776	-	28,035	-	315,305
Other liabilities	105,221	157,208	28,923	3,900	-	295,253
Current income tax	-	28,182	-	-	-	28,182
Shareholders' equity	-	-	-	-	2,463,849	2,463,849
Total liabilities and shareholders' equity	**2,605,707**	**4,790,124**	**1,804,937**	**673,262**	**2,463,849**	**12,237,889**
Net liquidity gap	947,243	(3,430,217)	(949,768)	3,519,991	(87,239)	-
As at 31 December 2015						
Total assets	2,408,075	1,147,172	849,082	4,517,941	1,364,815	10,287,085
Total liabilities and shareholders' funds	4,845,070	2,327,973	1,633,675	88,412	1,391,955	10,287,085
Net liquidity gap	(2,436,995)	(1,180,801)	(784,593)	4,429,529	(27,140)	-

3 Financial Risk Management (Continued)

c) Liquidity Risk (Continued)

Bank ASSETS	Up to 1 months Shs'000	1-3 months Shs'000	4-12 months Shs'000	Over 1 year Shs'000	Over 5 years Shs'000	Total Shs'000
As at 31 December 2016						
Cash and balances with Central Bank of Kenya	826,749	-	-	-	-	826,749
Financial assets held- to-maturity	-	335,896	-	574,450	559,765	1,470,111
Deposits and balances due from banking institutions	93,892	343,657	-	-	-	437,549
Financial assets available-for-sale	732,443	-	-	-	-	732,443
Other assets and prepaid expenses	84,058	99,761	57,098	31,033	-	271,950
Loans and advances to customers	1,704,549	555,047	798,071	3,588,029	1,253,698	7,899,394
Deferred income tax	-	-	-	-	125,076	125,076
Property and equipment and Intangible assets	-	-	-	-	437,695	437,695
Investment in subsidiary	-	-	-	-	1,000	1,000
Total assets	**3,441,691**	**1,334,361**	**855,169**	**4,193,512**	**2,377,236**	**12,201,968**
LIABILITIES AND SHAREHOLDERS' FUNDS	**Up to 1 month Shs'000**	**1-3 months Shs'000**	**4-12 months Shs'000**	**Over 1 year Shs'000**	**Over 5 years Shs'000**	**Total Shs'000**
Customer deposits	2,457,002	4,260,958	1,776,014	641,327	-	9,135,301
Deposits and balances due to banking institutions	43,494	343,776	-	28,035	-	315,305
Other liabilities	105,221	129,803	26,003	3,900	-	264,927
Current income tax	-	26,861	-	-	-	26,861
Shareholders' equity	-	-	-	-	2,459,574	2,459,574
Total liabilities and shareholders' equity	2,605,717	4,661,398	1,802,017	673,262	2,459,574	12,201,968
Net liquidity gap	835,974	(3,427,037)	(946,848)	3,520,250	(82,338)	-
As at 31 December 2015						
Total assets	2,408,075	1,147,172	849,082	4,517,941	1,364,815	10,287,085
Total liabilities and shareholders' funds	4,845,070	2,327,973	1,633,675	88,412	1,391,955	10,287,085
Net liquidity gap	(2,436,995)	(1,180,801)	(784,593)	4,429,529	(27,140)	-

3 Financial Risk Management (Continued)

c) Liquidity Risk (Continued)

The Bank holds a diversified portfolio of cash and high-quality highly-liquid securities to manage liquidity risk and support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise of cash and balances with Central Bank of Kenya, certificates of deposit, government securities and other securities that are readily acceptable in repurchase agreements with the Central Bank of Kenya.

d) Fair Value Hierarchy

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
As at 31 December 2016				
Assets				
Available-for-sale financial assets				
– Debt investments	732,443	-	-	732,443

	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
As at 31 December 2015				
Assets				
Available-for-sale financial assets				
– Debt investments	258,650	-	-	258,650

e) 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 Central Bank of Kenya for supervisory purposes. The required information is filed with the Central Bank of Kenya on a monthly basis.

The Central Bank of Kenya requires each bank to:

a) hold the minimum level of regulatory capital of Shs 1 billion;
b) maintain a ratio of core regulatory capital to the risk-weighted assets plus risk-weighted off-balance sheet assets (the 'Basel ratio') at or above the required minimum of 10.5% (2015: 10.5%);
c) maintain core capital of not less than 8% of total deposit liabilities; and
d) maintain total capital of not less than 14.5% (2015: 14.5%) 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.

3 Financial Risk Management (Continued)

e) Capital Management (Continued)

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

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

	2016 Shs'000	2015 Shs'000
Tier 1 capital	2,423,222	1,345,466
Tier 1 + Tier 2 capital	2,467,718	1,403,387
Risk-weighted assets		
On-balance sheet	8,556,401	7,493,493
Off-balance sheet	2,244,400	1,470,476
Total risk-weighted assets	10,800,801	8,963,969
Basel ratio		
Core capital to total risk weighted assets (CBK minimum – 10.5% (2015: 10.5%)	22.4%	14.2%
Total capital to total risk weighted assets (CBK minimum – 14.5% (2015: 14.5%)	22.8%	14.9%

There were changes in the computation of regulatory ratios effective 1 January 2015

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continuously evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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 profit or loss, 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 Bank.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

b) Held-to-Maturity Investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies (Continued)

b) Held-to-Maturity Investments (Continued)

investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be so reclassified, the carrying value would decrease by Shs 114 million (2015: Shs 146 million) with a corresponding entry in the fair value reserve in shareholders' equity.

5. Interest Income

	2016 Shs'000	2015 Shs'000
Group and Bank		
Loans and advances	1,382,773	1,066,398
Financial assets held-to-maturity	111,952	83,275
Financial assets available-for-sale	60,961	44,638
Deposits and balances due from banking institutions	18,804	24,169
	1,574,490	1,218,480

6. Interest Expense

	2016 Shs'000	2015 Shs'000
Group		
Customer deposits	724,279	557,148
Deposits and balances due to banking institutions	47,413	42,677
	771,692	599,825
Bank		
Customer deposits	724,384	557,148
Deposits and balances due to banking institutions	47,413	42,677
	771,797	599,825

7. Other Income

	2016 Shs'000	2015 Shs'000
Group and Bank		
Gain / (loss) on sale of financial assets available-for-sale	38,466	(6,454)
Other income	82,565	10,667
Gain on disposal of property and equipment	141	54
	121,172	4,267

8. Employee Benefits

	2016 Shs'000	2015 Shs'000
Group		
Salaries and allowances	373,078	305,871
Medical insurance	20,187	19,124
Training and development	4,327	1,060
Travelling and accommodation	1,550	464
Retirement benefits costs		
- Defined contribution scheme	17,085	15,330
- National Social Security Fund	459	407
Other costs	11,696	6,637
	428,381	348,893

The number of persons employed by the Group at the year-end was 199 (2015: 174).

	2016 Shs'000	2015 Shs'000
Bank		
Salaries and allowances	369,641	304,471
Medical insurance	19,991	19,018
Training and development	4,315	1,060
Travelling and accommodation	1,550	464
Retirement benefits costs		
- Defined contribution scheme	16,949	15,278
- National Social Security Fund	455	406
Other costs	11,649	6,614
	424,550	347,311

The number of persons employed by the Bank at the year-end was 197 (2015: 172).

9. Other Operating Expenses

	2016 Shs'000	2015 Shs'000
Group		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	37,498	31,598
Auditor's remuneration	4,505	3,814
Rental expenses	84,088	75,355
Other costs	225,950	173,768
	352,041	284,535
Bank		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	37,498	31,598
Auditor's remuneration	3,569	3,814
Rental expenses	84,088	75,355
Other costs	226,515	173,768
	351,670	284,535

10. Income Tax Expense

		2016 Shs'000	2015 Shs'000
Group			
Current income tax		36,344	-
Deferred income tax charge / (credit)	(Note 18)	17,564	(56,248)
Over provision of deferred tax in the prior years (Note 18)		-	(62,311)
		53,908	(118,559)

The tax on the Group's profit /(loss) before income tax differs from the theoretical amount that would arise using the statutory income tax rate as follows:

10. Income Tax Expense (Continued)

	2016 Shs'000	2015 Shs'000
Group		
Profit / (loss) before income tax	163,513	(177,841)
Tax calculated at a tax rate of 30% (2013: 30%)	49,054	(53,352)
Tax effect of:		
- income not subject to tax	(20,689)	(21,071)
- expenses not deductible for tax purposes	19,040	18,175
- over/ (under) provision of deferred tax in prior years	6,503	(62,311)
Income tax expense / (credit)	53,908	(118,559)
Bank		
Current income tax	34,744	-
Deferred income tax charge / (credit) (Note 18)	17,552	(56,442)
Over provision of deferred tax in the prior years (Note 18)	-	(62,311)
	52,296	(118,753)

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

	2016 Shs'000	2015 Shs'000
Profit/(loss) before income tax	158,135	(178,548)
Tax calculated at a tax rate of 30% (2013: 30%)	47,441	(53,564)
Tax effect of:		
- income not subject to tax	(20,689)	(21,071)
- expenses not deductible for tax purposes	25,544	18,193
- over/(under) provision of deferred tax in prior years	-	(62,311)
Income tax expense/(credit)	52,296	(118,753)

11. Proposed Dividends

Proposed dividends are accounted for as a separate component of equity until they have been ratified at the annual general meeting.

Payment of dividends is subject to withholding tax at a rate of either 5% or 10% depending on the residence status of the respective shareholders.

The directors do not propose payment of any dividends for the year 2016 (2015: Nil).

12. Cash and Balances with Central Bank of Kenya

	2016 Shs'000	2015 Shs'000
Group		
Cash in hand	303,548	254,887
Balances with Central Bank of Kenya	534,460	452,911
	838,008	707,798
Bank		
Cash in hand	292,289	253,697
Balances with Central Bank of Kenya	534,460	452,911
	826,749	706,608

13. Financial Assets Available-for-sale

	2016 Shs'000	2015 Shs'000
Group and Bank		
Infrastructure bond	405,464	113,137
Government of Kenya treasury bonds	290,770	99,151
Corporate bond	36,209	46,362
	732,443	258,650

The securities are traded on the Nairobi Securities Exchange.

14. Financial Assets Held-to-maturity

	2016 Shs'000	2015 Shs'000
Group and Bank		
Maturing after 90 days of the date of acquisition	1,177,404	1,003,031
Maturing within 90 days from the date of acquisition	292,707	19,870
	1,470,111	1,022,901

15. Deposits and Balances from Banking Institutions

	2016 Shs'000	2015 Shs'000
Group and Bank		
Overnight lending	218,504	446,200
Balances with local banks	125,154	-
Balances with banks abroad	93,892	127,960
	437,550	574,160

16. Loans and Advances to Customers

Group and Bank Retail customers	2016 Gross Shs'000	2016 Impairment allowance Shs'000	2016 Carrying amount Shs'000	2015 Gross Shs'000	2015 Impairment allowance Shs'000	2015 Carrying amount Shs'000
Mortgage lending	211,281	(5,512)	205,769	175,617	(1,044)	174,573
Personal unsecured	126,152	(57,014)	69,138	72,822	(3,463)	69,359
Personal secured Loans	929,338	(50,112)	879,226	580,422	(45,488)	534,934
Corporate customers						
Commercial term loans	5,787,006	(252,113)	5,534,893	5,081,475	(158,171)	4,923,304
Overdraft facilities	1,241,949	(31,581)	1,210,368	1,456,282	(70,724)	1,385,558
Total	8,295,726	(396,332)	7,899,394	7,366,618	(278,890)	7,087,728

	Retail		Corporate		Total	
	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000	2016 Shs'000	2015 Shs'000
Individually assessed						
At start of year	57,498	25,686	180,290	203,130	237,788	228,816
Charge for the year	40,142	36,207	110,083	194,741	150,225	230,948
Write offs	(11,015)	(4,395)	(21,767)	(217,581)	(32,782)	(221,976)
End of the year	86,625	57,498	268,606	180,290	355,231	237,788
Collectively assessed						
Start of the year	4,682	4,717	36,420	27,359	41,102	32,076
Charge for the year	-	(35)	-	9,061	-	9,026
End of the year	4,682	4,682	36,420	36,420	41,102	41,102
Totals	91,307	62,180	305,026	216,710	396,333	278,890

Recoveries of bad debts of Shs 72,453,000 (2015: 19,083,000) were made in the year. Provisions of Shs. 150,225,000 (2015: 239,974,000) were charged to the profit or loss in addition to Shs 174,000 (2015: 2,227,000) relating to additional provisions on write offs in arriving at the credit impairment loss.

17. Other Assets & Prepaid Expenses

	2016 Shs'000	2015 Shs'000
Group		
Items in transit	75,580	67,844
Prepaid expenses	26,798	18,903
Stationery stocks	4,428	3,487
Others	190,430	27,532
	297,236	117,766
Bank		
Items in transit	50,294	57,934
Prepaid expenses	26,798	18,903
Stationery stocks	4,428	3,487
Others	190,430	28,532
	271,950	108,856

18. Deferred Income Tax

Deferred income tax is calculated, in full, on all temporary differences under the liability method using the enacted income tax rate of 30% (2015: 30%). The movement on the deferred income tax account is as follows:

		2016 Shs'000	2015 Shs'000
Group			
At start of year		142,629	23,876
(Charge) / Credit to profit or loss account	(Note 10)	(11,061)	56,442
Under provision in the prior years		(6,503)	62,311
		125,065	142,629

18. Deferred Income Tax (Continued)

The net deferred income tax asset in the statement of financial position, deferred income tax credit in the profit or loss and charge to other comprehensive income (OCI) are attributable to the following items:

	(Dr)/Cr to P&L		Dr to OCI	
	1.1.2016 Shs'000	31.12.2016 Shs'000	1.1.2016 Shs'000	31.12.2016 Shs'000
Group				
Property and equipment	(23,404)	20,492	-	(2,912)
Provisions	122,367	(7,430)	-	114,937
Available for sale securities - fair value Movement	5,518	1,408	-	6,926
Unrealised exchange losses	-	6,114	-	6,114
Tax losses	38,148	(38,148)	-	-
Net deferred income tax asset/(liability)	142,629	(17,564)	-	125,065

	(Dr)/Cr to P&L		Dr to OCI	
	1.1.2015 Shs'000	31.12.2015 Shs'000	1.1.2015 Shs'000	31.12.2015 Shs'000
Group				
Property and equipment	(24,010)	606	-	(23,404)
Other Provisions	42,368	79,999	-	122,367
Available for sale securities - fair value Movement	5,518	-	-	5,518
Tax losses	-	38,148	-	38,148
Net deferred income tax asset/(liability)	23,876	118,753	-	142,629

		2016 Shs'000	2015 Shs'000
Bank			
At start of year		142,629	123,876
(Charge)/credit to profit or loss account	(Note 10)	(11,050)	56,442
Under provision in the prior years		(6,503)	62,311
		125,076	142,629

18. Deferred Income Tax (Continued)

The net deferred income tax asset in the statement of financial position, deferred income tax credit in the profit or loss and charge to other comprehensive income (OCI) are attributable to the following items:

	(Dr)/Cr to P&L		Dr to OCI	
	1.1.2016 Shs'000	31.12.2016 Shs'000	1.1.2016 Shs'000	31.12.2016 Shs'000
Bank				
Property and equipment	(23,404)	20,503	-	(2,901)
Provisions	122,367	(7,430)	-	114,937
Available for sale securities - fair value Movement	5,518	1,408	-	6,926
Unrealised exchange losses	-	6,114	-	6,114
Tax losses	38,148	(38,148)	-	-
Net deferred income tax asset/(liability)	142,629	(17,553)	-	125,076

	(Dr)/Cr to P&L		Dr to OCI	
	1.1.2015 Shs'000	31.12.2015 Shs'000	1.1.2015 Shs'000	31.12.2015 Shs'000
Bank				
Property and equipment	(24,010)	606	-	(23,404)
Other Provisions	42,368	79,999	-	122,367
Available for sale securities - fair value Movement	5,518	-	-	5,518
Tax losses	-	38,148	-	38,148
Net deferred income tax asset/(liability)	23,876	118,753	-	142,629

19. Property and Equipment

Group	Leasehold improvements Shs'000	Motor vehicles Shs'000	Office equipment Shs'000	Computer and electronic equipment Shs'000	Furniture and fittings Shs'000	Total Shs'000
At 1 January 2015						
Cost	219,138	20,057	134,854	110,374	29,890	514,313
Accumulated depreciation	(42,701)	(18,774)	(40,612)	(91,255)	(19,455)	(212,797)
Net book amount	176,437	1,283	94,242	19,119	10,435	301,516
Year ended 31 December 2015						
Opening net book amount	176,437	1,283	94,242	19,119	10,435	301,516
Additions	849	-	3,798	9,572	1,340	15,559
Adjustments	(18,950)	-	-	-	(50)	(19,000)
Depreciation charged	(15,384)	(567)	(16,567)	(15,528)	(2,640)	(50,674)
Closing net book amount	142,952	716	81,473	13,163	9,085	247,358
At 31 December 2015						
Cost	201,037	20,057	138,652	119,896	31,180	510,822
Accumulated depreciation	(58,085)	(19,341)	(57,179)	(106,776)	(22,083)	(263,464)
Net book amount	142,952	716	81,473	13,120	9,097	247,358
Year ended 31 December 2016						
Opening net book amount	142,952	716	81,473	13,120	9,097	247,358
Additions	40,157	-	50,386	5,376	7,092	103,010
Disposals (NBV)	-	-	-	-	(285)	(285)
Depreciation charged	(16,545)	(486)	(17,855)	(7,403)	(2,752)	(45,043)
Closing net book amount	166,564	230	114,004	11,093	13,152	305,043
At 31 December 2016						
Cost	241,192	20,057	192,138	122,161	37,164	612,712
Accumulated depreciation	(74,628)	(19,827)	(78,134)	(111,068)	(24,012)	(307,669)
Net book amount	(166,564)	230	114,004	11,093	13,152	305,043

19. Property and Equipment (Continued)

Bank	Leasehold improvements Shs'000	Motor vehicles Shs'000	Office equipment Shs'000	Computer and electronic equipment Shs'000	Furniture and fittings Shs'000	Total Shs'000
At 1 January 2015						
Cost	219,138	20,057	134,854	110,374	29,840	514,263
Accumulated depreciation	(42,701)	(18,774)	(40,612)	(91,255)	(19,448)	(212,790)
Net book amount	176,437	1,283	94,242	19,119	10,392	301,473
Year ended 31 December 2015						
Opening net book amount	176,437	1,283	94,242	19,119	10,392	301,473
Additions	849	-	3,798	9,522	1,340	15,509
Adjustments	(18,950)	-	-	-	(50)	(19,000)
Depreciation charged	(15,384)	(567)	(16,567)	(15,521)	(2,628)	(50,667)
Closing net book amount	142,952	716	81,473	13,120	9,054	247,315
At 31 December 2015						
Cost	201,037	20,057	138,652	119,896	31,130	510,772
Accumulated depreciation	(58,085)	(19,341)	(57,179)	(106,776)	(22,076)	(263,457)
Net book amount	142,952	716	81,473	13,120	9,054	247,315
Year ended 31 December 2016						
Opening net book amount	142,952	716	81,473	13,120	9,054	247,315
Additions	40,157	-	50,386	5,376	7,092	103,011
Disposals (NBV)	-	-	-	-	(285)	(285)
Depreciation charged	(16,545)	(486)	(17,855)	(7,403)	(2,739)	(45,028)
Closing net book amount	166,564	230	114,004	11,093	13,122	305,013
At 31 December 2016						
Cost	241,192	20,057	192,138	122,161	37,113	612,661
Accumulated depreciation	(74,628)	(19,827)	(78,134)	(111,068)	(23,991)	(307,648)
Net book amount	166,564	230	114,004	11,093	13,122	305,013

20. Intangible Assets – Computer Software Licences

	2016 Shs'000	2015 Shs'000
Group		
At start of the year	131,236	129,733
Additions	27,833	6,293
Adjustment	-	(2,461)
Work in progress	26,794	42,629
Amortisation	(52,824)	(44,958)
At end of the year	133,039	131,236
Bank		
At start of the year	130,775	129,733
Additions	27,833	5,771
Adjustment	-	(2,461)
Work in progress	26,794	42,629
Amortisation	(52,720)	(44,897)
At end of the year	132,682	130,775

21. Deposits and Balances due to Banking Institutions

Group and Bank	2016 Shs'000	2015 Shs'000
Current accounts	1,918	1,840
Deposits from other banks	159,398	306,876
Overnight borrowing	153,990	1,185,493
	315,305	1,494,209

22. Customer Deposits

	2016 Shs'000	2015 Shs'000
Group and Bank		
Retail customers:		
Current and demand deposits	493,149	475,328
Fixed deposits	2,949,762	2,931,110
Savings accounts	416,397	360,260
Corporate customers:		
Current and demand deposits	1,380,334	1,042,788
Fixed deposits	3,895,659	2,457,551
	9,135,301	7,267,037

23. Other Liabilities

	2016 Shs'000	2015 Shs'000
Group		
Items in transit	5,191	2,587
Bills payable	18,274	11,718
Unclaimed balances	15,808	15,376
Other payables	255,979	122,420
	295,252	143,799
Bank		
Items in transit	5,191	2,587
Bills payable	18,274	11,718
Unclaimed balances	15,808	15,376
Other payables	225,654	104,203
	264,927	133,884

24. Share Capital

Group and Bank	Number of shares (thousands)	Ordinary shares Shs'000	Share premium Shs'000
Year ended 31 Dec 2015			
At the start of the year	11,500	1,150,000	
Issue of shares	1,897	189,745	108,901
As at 31 December 2015	13,397	1,339,745	108,901
Year ended 31 Dec 2016			
At the start of the year	13,397	1,339,745	108,901
Issue of shares	6,094	609,418	349,076
As at 31 December 2016	19,491	1,949,163	457,977

As at 31st December 2016, the Banks authorised share capital was 30,000,000 ordinary shares of Shs' 100 each (2015: 30,000,000). During the year an additional 6,094,182 shares were issued at a premium. 19,491,628 shares are issued and fully paid (2015: 13,397,446).

25. Regulatory Reserve

	2016 Shs'000	2015 Shs'000
At start of year	57,921	52,921
Transfer from retained earnings	(13,424)	5,000
At end of year	44,497	57,921

The regulatory reserve represents an appropriation from retained earnings to comply with the CBK's Prudential guidelines. The balance in the reserve represents the excess of impairment provisions determined in accordance with the CBK's Prudential guidelines over the impairment provisions recognised in accordance with the International Financial Reporting Standards. This reserve is not distributable.

26. Fair Value Reserve

Group and Bank	2016 Shs'000	2015 Shs'000
At start of year	(11,432)	(12,875)
Revaluation – Available-for-sale assets	4,694	2,061
Deferred income tax	(1,408)	(618)
At end of year	(8,146)	(11,432)

Fair value reserve comprises the cumulative net change in the fair value of available-for-sale investments until the investment is derecognised or impaired.

27. Off-balance Sheet Financial Instruments, Contingent Liabilities and Commitments

Group and Bank

In common with other banks, the Bank conducts business involving acceptances, 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, whose nominal amounts are not reflected in the statement of financial position. At the year end, the contingent items were as follows:

27. Off-balance Sheet Financial Instruments, Contingent Liabilities and Commitments (Continued)

Contingent Liabilities	2016 Shs'000	2015 Shs'000
Acceptances and letters of credit	598,636	549,771
Guarantees and performance bonds	2,509,512	957,370
	3,108,148	1,507,141
Clients' investments		
Clients' treasury bonds	17,920	4,400
Clients' treasury bills	-	7,800
	17,920	12,200

The Bank invests in Government of Kenya treasury bills and treasury bonds on behalf of its clients. These investments are held in Bank's clients account with the Central Bank of Kenya separate from the Bank's own investments. These investments are recognised as client investments and as off balance sheet assets in the Bank's books.

Nature of Contingent Liabilities

Group and Bank

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, but 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.

Commitments

a) Operating Lease Commitments

Operating Lease Commitments	2016 Shs'000	2015 Shs'000
Not later than one year	97,244	75,089
Later than 1 year and not later than 5 years	282,451	248,174
	379,695	323,263

The Bank leases a number of branch and office premises under operating leases. The leases typically run for a period of up to six years, with an option to renew the lease after that date. The lease payments have escalation clauses at different interval periods to reflect market rentals.

27. Off-balance Sheet Financial Instruments, Contingent Liabilities and Commitments

b) Legal Proceedings

There were a few of legal proceedings outstanding against the Bank at 31 December 2016.

Claims and counter claims against the Bank regarding collaterals held by the Bank have been lodged. The Bank considers the cases as without merit and is defending them vigorously.

c) Capital Commitments

At 31 December 2016, the Bank had capital commitments of Kshs 18,587,000 (2015: Nil) in respect of software, buildings and equipment purchases.

d) Other Commitments

	2016 Shs'000	2015 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	4,870,473	1,570,247

Nature of Commitments

Commitments to lend are agreements to advance 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. Assets Pledged as Security

As at 31 December 2016 treasury bonds valued at Shs 399,620,000 (2015: Shs 310,000,000), USD 1,500,000 (2015: USD 2,600,000), Euros 200,000(2015:Nil) and GBP 350,000 (2015: GBP 600,000) were pledged to secure trade finance lines with various banks.

The contingent liabilities outstanding under these facilities at 31 December 2016 amounted to Shs 594,654,000 (2015: Shs 140,058,000).

29. Analysis of Cash and Cash Equivalents as Shown in the Cash Flow Statement

		2016 Shs'000	2015 Shs'000
Group			
Cash and balances with Central Bank of Kenya	(Note 12)	838,008	707,798
Less: cash reserve requirement (see below)		(441,233)	(391,651)
Deposits and balances due from banking institutions	(Note15)	437,550	574,160
Treasury bills with less than 91 days maturity	(Note14)	292,707	19,870
		1,127,032	910,177

		2016 Shs'000	2015 Shs'000
Bank			
Cash and balances with Central Bank of Kenya	(Note 12)	826,749	706,608
Less: cash reserve requirement (see below)		(441,233)	(391,651)
Deposits and balances due from banking institutions	(Note15)	437,550	574,160
Treasury bills with less than 91 days maturity	(Note14)	292,707	19,870
		1,115,773	908,987

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 to and 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% (2015: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

30. Related Parties Transactions

Group and Bank

Transactions with Key Management Personnel

Key management personnel and their immediate relatives have transacted with the Bank during the year as follows:

	2016 Shs'000 Maximum balance	2016 Shs'000 Closing balance	2015 Shs'000 Maximum balance	2015 Shs'000 Closing balance
Mortgage lending and other secured loans	223,757	213,254	345,548	345,548
Other loans	11,234	15,100	5,349	5,349

30. Related Parties Transactions (Continued)

Transactions with Key Management Personnel (Continued)

Interest rate charged to staff is at preferential rate whereas rates to Directors and related parties are at arm's length transaction. The mortgages and secured loans granted are secured over property of the respective borrowers. Other balances are not secured and no guarantees have been obtained.

No impairment losses have been recorded against balances outstanding during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel and their immediate relatives at the period end.

Key management personnel compensation for the year comprised

	2016 Shs'000	2015 Shs'000
Key management compensation		
Salaries and other short-term employment benefits	177,811	144,605
Directors' remuneration		
- fees for services as directors	7,561	6,786
- other emoluments (included in key management compensation above)	42,504	35,541
	50,065	42,327

Loans and Advances to Directors and their Associates

Group and Bank

At 31 December 2016 advances to companies where the Bank's directors or their families exert significant influence amounted to 238,308,000 (2015: Shs 199,014,000).

At 31 December 2016 advances to employees amounted to Shs 482,855,000 (2015: Shs 428,184,000). The movement in advances to related parties is as shown below:

Loans and Advances to Staff Group and Bank	2016 Shs'000	2015 Shs'000
At start of year	428,184	357,058
Issued during the year	200,845	184,020
Repaid during the year	(146,174)	(112,894)
At end of year	482,855	428,184

Interest earned on staff loans during the year amounted to Shs 37,890,000 (2015: Shs 26,269,000).

30. Related Parties Transactions (Continued)

The Bank has entered into transactions with its directors and associates as follows:

	2016 Shs'000	2015 Shs'000
At start of year	199,014	246,944
Interest charged	35,825	41,238
Loans disbursed	54,053	-
Repaid during the year	(15,990)	(73,332)
Net movement in overdraft balances	(3,177)	(15,836)
At end of year	238,308	199,014
	2016 **Shs'000**	**2015** **Shs'000**
Interest income earned on these advances	35,825	41,238

No provisions have been recognised in respect of loans given to related parties (2015: nil).

At 31 December 2016, customer deposits include deposits due to directors or their families and employees of Shs 867,821,000 (2015: Shs 670,598,000).

Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 38,842,000 (2015: Shs 37,790,000).

PROXY FORM

To: **The Secretary**
Credit Bank Limited
P O Box 61064 – 00200
NAIROBI

I/We ____

of address ____

____

being a member/members of CREDIT BANK LIMITED (the Company) hereby appoint:

____

of address ____

or failing him/her ____

of ____

as my/our proxy to vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held on 22 June 2017 at the Bomas of Kenya, Nairobi and at any adjournment thereof.

I / We authorize my/our Proxy to cast the votes according to my/our intentions as follows:

1. To receive and adopt the audited Balance Sheet and Financial Statements for the year ended 31 December 2016 together with the Directors' and Auditors' Reports thereon.

   ☐ Approve ☐ Disapprove ☐ Abstain

2. To note that the Directors do not recommend the payment of a dividend in respect of the financial year ended 31 December 2016.

   ☐ Approve ☐ Disapprove ☐ Abstain

3. To re-elect Directors in accordance with the Articles of Association:-
   a. Margaret Chemengich, having been appointed as a Director since the last Annual General Meeting, retires at this meeting and, being eligible, offers herself for re-election;

      ☐ Approve ☐ Disapprove ☐ Abstain

   b. James Stanley Mathenge, having been appointed as a Director since the last Annual General Meeting, retires at this meeting and, being eligible, offers himself for re-election:

      ☐ Approve ☐ Disapprove ☐ Abstain

   c. Ketan Morjaria retires from office by rotation and, being eligible, offers himself for re-election;

      ☐ Approve ☐ Disapprove ☐ Abstain

   d. Robinson Gachogu retires from office by rotation and, being eligible, offers himself for re-election.

      ☐ Approve ☐ Disapprove ☐ Abstain

4. To approve the Directors' remuneration for the financial year 2017.

   ☐ Approve ☐ Disapprove ☐ Abstain

PROXY FORM

5. To authorise the directors to fix the Auditors' remuneration.

☐ Approve ☐ Disapprove ☐ Abstain

6. To re-appoint the Auditors, PricewaterhouseCoopers who have indicated their willingness to continue in office in accordance with the Companies Act (cap 486) and subject to approval by Central Bank of Kenya.

☐ Approve ☐ Disapprove ☐ Abstain

7. **"THAT,** subject to approval by Registrar of Companies, the name of the Bank be and is hereby changed from Credit Bank Limited to **Credit Bank PLC** with immediate effect".

☐ Approve ☐ Disapprove ☐ Abstain

8. **THAT** Article 149 of the Company's Articles of Association be amended by inserting the word "electronic" such that henceforth, the Article shall read as follows:

149. Any notice or other document may be served by the company on any member either personally, by electronic means, by means of a website or by sending it through the post in a prepaid letter addressed to such member at his address in the register. In the case of joint holders whose name stands first in the register and notice so given shall be sufficient notice to all the joint holders.

☐ Approve ☐ Disapprove ☐ Abstain

9. **THAT** the following new Article 131 a be added immediately following the existing Article 131:

131a).The Accounts may be sent or otherwise made available by electronic means to all persons entitled thereto by publish ing the Accounts on the Company's official website provided that the Company shall send to every Member or publish a summary of the Financial Statements and Auditors' Report in two daily newspapers with national circulation for two consecutive days drawing attention to the website on which the Accounts in full may be read, and the address to which a request for a printed copy of the Accounts may be submitted.

☐ Approve ☐ Disapprove ☐ Abstain

10. **Issue of Bonus Shares**

To consider and, if thought fit to pass the following Ordinary Resolution Resolution:-

"THAT an amount of Shs 389,832,600 being part of the amount standing to the credit of the Share Premium Account as at 31 December 2016 be capitalized by issue of 3,898,326 ordinary shares of Shs 100 par value and the directors be authorised to allot such shares to the members appearing in the Company's Share Register as at 31 December 2016 as fully paid up bonus shares in proportion of 1 new ordinary share for every 5 ordinary shares then held and that the Directors be authorised to do all things to give full effect to this resolution, subject always to the Articles of Association of the Company."

☐ Approve ☐ Disapprove ☐ Abstain

Dated this ______________ day of ________________________

SIGNED: ______________________________ SIGNED: ______________________________

Note: 1. In the case of a member being a corporation, the proxy must be under the Common Seal or under the hand of an officer or attorney duly authorised.

2. The proxy form should be completed and returned to the secretary through the email, secretary@creditbank.co.ke not later than 48 hours before the meeting or any adjournment thereof.

Value

more value for shareholders

At Credit Bank, you can experience more value as our shareholder. We not only offer solutions that speak to our customers, we have a variety of solutions suited for all your individual and business needs. We are the friend you can bank on.

Credit Bank
My Friend, My Bank

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