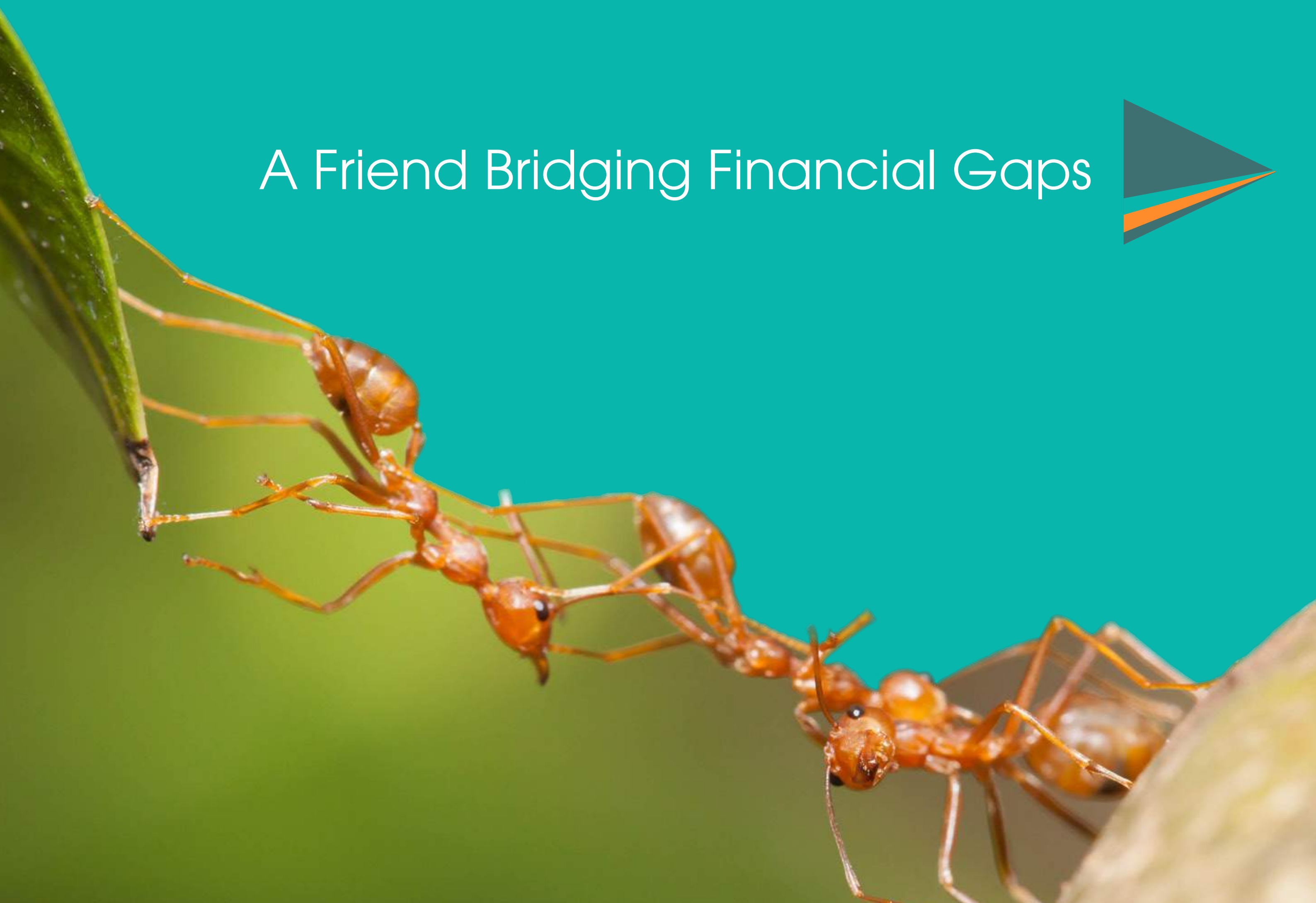
Pushing New **Frontiers**

ANNUAL
REPORT
17

Credit Bank
My Friend, My Bank

CONTENTS

A Friend Bridging Financial Gaps



The Companies Act, 2015

No. 23/90

NOTICE IS HEREBY GIVEN THAT THE THIRTY SECOND (32ND) ANNUAL GENERAL MEETING OF CREDIT BANK PLC WILL BE HELD AT CATHOLIC UNIVERSITY OF EASTERN AFRICA, NAIROBI ON 28TH OF JUNE 2018 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 2017 together with the Directors' and Auditors' Reports thereon.

3 To declare a dividend of Kshs 1.09 per share in respect of the financial year ended 31 December 2017 as recommended by the Directors.

4 To re-elect Directors in accordance with the Articles of Association:-

i) Mrs Grace Nyachae, retires from office by rotation and, being eligible, offers herself for re-election;

ii) Mr Moses M Mwendwa retires from office by rotation and, being eligible, offers himself for re-election;

iii) Mr Jay Karia retires from office by rotation and, being eligible, offers himself for re-election.

5 To approve the Directors' remuneration for the financial year 2018.

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) Increase of nominal share capital

THAT the Nominal Share Capital of the Company be increased from Shs 3,000,000,000 divided into 30,000,000 ordinary shares of Shs 100 each to Shs 5,000,000,000 divided into 50,000,000 ordinary shares of Shs 100 each by the creation of an additional 20,000,000 new ordinary shares of Shs 100 each.

b) Creation of new class of shares

To authorize the Board of Directors to enter into discussions with potential investors for placement of the newly created shares in the Company to the new investors, including creation of a new class of shares on terms and conditions as they deem fit.

c) Amendment to the Articles of Association of the Bank

THAT following the increase in share capital, Article 5 of the Company's Articles of Association be amended as follows:

5. The share capital of the Company is Kenya Shillings five billion (Kshs. 5,000,000,000/=) divided into fifty million (50,000,000) shares of Kenya Shillings One Hundred (Kshs. 100/=) each, with power for the company to increase or reduce such capital and divide any shares in its capital for the time being into several classes and to attach thereto several classes and to attach thereto respectively any preferential, deferred, qualified or other rights, privileges, restrictions or conditions and to issue all or any part of such original, increased or reduced capital with or subject to such preferential, deferred, qualified or other rights, privileges, restrictions or conditions.

By Order Of The Board

Dcdm Registrars.

DCDM Registrars
Company Secretaries

28th May 2018

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 and should be completed and returned to the Secretary, 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 2017 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.

Board of Directors

Hon. Simeon Nyachae
Chairman

Betty Korir
CEO

Mrs. Grace Nyachae

Moses M. Mwendwa

Ketan Morjaria

Jay Karia

Robinson Gachogu

Dr. Margaret Chemengich

Dr. James Mathenge

Chairman's Report

Dear Shareholders,

On behalf of the Board and Management of Credit Bank, I take this opportunity to welcome you to the 32nd Annual General Meeting. It's yet another year that we celebrate growth as a financial institution. Allow me to give a summary of the group's financial performance as well as other key highlights for the year 2017.

Economic and Regulatory Environment

2017 was a challenging year. Economic growth decelerated to a 5-year low of an estimated 4.8 percent from 5.8 percent in 2016. This was as a result of the political and election-induced uncertainty which weighed down on the country's economic activity for more than 6 months, during the period leading up to the August election and the re-run in October 2017. Poor rains and a slowdown in credit growth to the private sector also contributed greatly to this drop.

On the regulatory front, the Central Bank of Kenya sustained the Central Bank Rate at 10.0% during the year thereby continuing to suppress the extent of credit risk absorbable by the industry players. The CBR has now dropped to 9.5%. As a result, micro, small and medium-sized enterprises (SMEs) have encountered greater challenges in access to finance with private sector credit growth falling from its peak of about 25% in mid-2014 to 2.4% in December 2017. This rate cap continues to have a spiraling effect on the industry with some of the players undertaking to downsize their operations.

To us however, 2017 was a year that we demonstrated our resilience in spite of a tough operating environment.

Financial Performance

Despite the aforementioned challenges faced in 2017, I am happy to report that the Bank continued to experience growth in its financial parameters. Our Group Profit before Tax grew by 13.27% to Ksh 185.22 Million, Assets grew by 18.57% to Ksh 14.51 Billion and shareholders' funds grew 8.51% to Kshs 2.67 Billion from 2.46 Billion. We are also committed to maintaining our staff compliment, lean and efficient.

Dividends

Last year, we gave our shareholders 1 bonus share for every 5 shares held, and in our commitment to give our shareholders continued value, the Board has proposed to give a dividend of Kshs. 1.09 per share in 2017, subject to your approval. This is a show that we are committed to growing the value of your investments with us.

Strategic Overview

Credit Bank is now in the third year of its 5-year strategic plan which focuses on the following key areas; Continuously improving the financial health of the Bank, Enhancing strategic partnerships and stakeholder engagements that yield value to our customers, Enriching the product offering to propel revenue and profit growth, Providing our customers an all-round enriched experience at every touch point and Sustaining robust risk management and corporate governance practices.

As a Bank, we target to support the Small and Medium Businesses to thrive and this will continue to be our key focus area with specialized Trade Finance solutions taking center stage.

Future Outlook

A solid capital base is essential for the Bank to succeed in our strategy and capture growth opportunities. For this reason, the Board and Management is seeking to raise more capital to accentuate growth.

Looking ahead to 2018, we project better revenues, supported by expected economic growth in the country and modest economic recovery in international markets. We have had a very promising start to the year and our progress should become even more visible as we implement our key strategies, continue to modernize our technology and further strengthen our controls. We have started 2018 from a much stronger base, thanks to the loyalty of our clients and the tireless efforts of our staff.

As a Bank, we remain positive that with strong Board oversight, leadership and the strategies we have set in place, will see the Bank rise to even greater heights.

Allow me at this point to inform you that we appointed a new Chief Executive Officer, Mrs. Betty Korir to steer this Bank forward. Mrs. Korir is an all-round, experienced and talented banker who has been with Credit Bank for the last 4 years. As the Chairman and a representative of the Board members, I am confident she will continue to build on the Bank's profitability and reputation for integrity and innovation. We are looking forward to achieving and celebrating great milestones under her stewardship.

I also wish to express my gratitude to the Board of Directors for their support, commitment and expertise. Let me also express my heartfelt thanks to Central Bank of Kenya for their continued support.

We are making progress toward our goal of building a better Credit Bank: a Bank which enables growth in the economy and exists to create a positive impact for our clients, our customers, the communities in which we operate and for you, our shareholders.

Hon. Simeon Nyachae

Chairman.

CEO's Report

Ladies and Gentlemen,

Thank you for taking the time to be here. I am happy to report that despite the challenges that faced the industry in 2017, Credit Bank emerged as one of the financial institutions that grew in its profitability.

I'm grateful for the appointment as Credit Bank's CEO and I look forward to steer the Bank forward.

As a financial institution, we take pride in our ability to support our customers and their businesses by driving tailored and innovative solutions for the various industries that we seek to stamp our footprint in. The technology that we have adopted provides innovative solutions to our customers' ever changing needs while making the day to day operations for both the Bank and our customers easy to accomplish.

2017 was a year of many achievements for Credit Bank, having been voted best Trade Finance Bank special category in 2017. We have also recently won the following accolades: Best Recovery Award; 1st runners up Bank with Lowest Charges for SMEs and 2nd runners up Best Bank in SME in the 2018 Think Business Awards. I would like to share our multiple successes with you, our shareholders.

Financial Highlights

Credit Bank was one of the few Banks that continued to experience growth during the 2017 financial year. As highlighted by the Chairman in his report, the Bank reported a group Profit Before Tax of Kshs. 185.22 Million in 2017 up from Kshs. 163.51 Million in 2016 reporting a 13.27% growth.

Some of the highlights that I would like to point out include the following;

- Customer deposits grew by 19.75 % from Kshs. 9.13 Billion to Kshs. 10.94 Billion.
- Net loan book grew by 22.77% from Kshs 7.89 Billion to Kshs 9.69 Billion
- Investments in GOK treasury bonds grew by 3.55% from Kshs 2.17 Billion to Kshs 2.24 Billion
- Non-interest income grew by 28.64% from Kshs. 441.96 Million to Kshs 571.11 Million, with the major component being commissions on non-funded business registering growth of 45.87% from Kshs 126.87 Million to Kshs 185.07 Million. Trade Finance business remains our key growth area.

2017 Achievements

Last year, Credit Bank was able to achieve and build on its strategy of providing customers with value adding, consistent and superior services.

Lack of mentorship, mismanagement and poor strategy implementation are just some of the causes of business failure with statistics showing that close to 400,000 Kenyan small businesses terminate their operations annually. As part of our strategy, Credit Bank seized the opportunity and took the responsibility of helping SMEs achieve their growth and still remain sustainable in their operations, through a unique club known as the "Entrepreneurs Hub". The club is keen on providing informative educational forums to business leaders. The club managed to host a number of education forums in 2017 and is looking to launch this same concept to the regions in 2018.

In 2017, the Bank upgraded its Core Banking System to offer unique and technologically advanced solutions that are adaptable and scalable enough as we prepare to step into the next frontier of Banking. The new system offers a stable platform for innovation, thereby ensuring that the Bank remains a versatile, respected, financial services provider of choice.

Still in line with technological advancement, Credit Bank was one of the six pioneer financial institutions to adopt PesaLink, an instant interbank payments solution developed by Integrated Payments Service Limited (IPSL), a technology solutions subsidiary of the Kenya Bankers Association (KBA).

In line with the Government's Big 4 agenda for Medical Care, we have forged a strategic partnership with Stitching Medical Credit Fund (MCF), a Netherlands based firm with the aim of increasing access to better healthcare services in Kenya. This partnership will see private healthcare medical institutions access technical assistance and affordable financial support with the aim of improving the quality of healthcare they deliver.

In the spirit of instilling excellence and winning awards, 2017 not only saw Credit Bank recognised in the category of Best Bank in Trade Finance by Think Business, but also for being the Best Correspondent Bank with Straight through Processes by Standard Chartered Bank. In addition, Visa International recognised the Bank for the Best Product Launch for its Platinum Visa Debit Card.

I am happy to be part of an organization that has been at the forefront of championing innovation and one that has been courageous enough in taking the first bold steps in most of the industrial developments taking place around us. I look forward to the day when we will be able to put Credit Bank on the world map as one of the pioneering institutions that seeks to implement the best financial solutions.

As a Bank, we are happy to explore and take calculated risks provided it is for the end benefit of our customers and our shareholders.

2018 Expectations

It is my aim to have the Bank's tier status improved in the coming years. Accordingly, focusing on the customers' specific need is at the core of everything.

Some of the initiatives planned for the year 2018 include;

- The upgrading of our Internet Banking and Mobile Banking platforms
- Expanding the reach and the benefits of the Entrepreneurs Hub to the upcountry regions.
- Leveraging on activities that will grow and expand our customer network.
- Entrenching a research oriented culture into uncharted waters to enable Credit Bank forge pioneering and ground-breaking solutions for our customers.

We are confident that 2018 looking into 2019 will only get better. With GDP projected to recover to 5.5 percent in 2018, and steadily rise to 6.1 percent by 2020, we are positive that this will have positive impact on the organization and the industry as a whole.

As I close, I am humbled and honoured to be given an opportunity by Credit Bank's Board to lead this great institution. I am grateful to the staff and management of Credit Bank, a great and talented pool of individuals who have proven capable of re-defining Credit Banks' space in the Banking Industry to one that is both great and solid.

I also wish to thank the Board Members for the support and insights they have offered while in office and to all the shareholders, I take this opportunity to assure you that the Bank is now geared to moving to even greater heights.

Finally, I thank all the Bank's customers for making Credit Bank a Bank of their choice.

Betty Korir

Chief Executive Officer

Management Team

Betty Korir
Chief Executive Officer

Eric Maina Nyachae
Executive Officer, Business and Strategy

Jackson Njenga
Chief Finance Officer

Pamela Mutembei
Head of Banking Business

Isaac Nduvi
Head of Risk & Compliance

Charles Kibara
Head of Internal Audit

Azmina Mulji
Head of HR & Administration

Hannah Maina
Head of Branches

Isaac King'ori Mwangi
Senior Manager, Corporate & SME

John Mwika
Head of Treasury

Francis Ngaruiya
Head of Legal

John Gichuki
Head of Trade Finance

Zadock Ogambi
Head of Credit

Activities

Awards

The bank was recognized for being the Best Correspondent Bank with Straight Through Processes by Standard Chartered Bank, and by Visa International for being the Bank with the Best Product Launch for its Platinum Visa Debit Card.

MCF

Credit Bank partnered with a Netherlands based organization, Stitching Medical Credit Fund (MCF). The partnership will see customers with private healthcare medical institutions access technical assistance and affordable financial support with the aim of improving the quality of healthcare they deliver, thereby increasing access to better healthcare services in Kenya.

Ehub Launch

The bank launched a leadership forum dubbed the 'Entrepreneurs Hub' ; a unique forum that seeks to draw business leaders together from a wide array of industries for purposes of learning and growth. It offers engagement sessions that seek to bridge the knowledge gap between the emerging SMEs and the already established industry leaders.

T24 R17

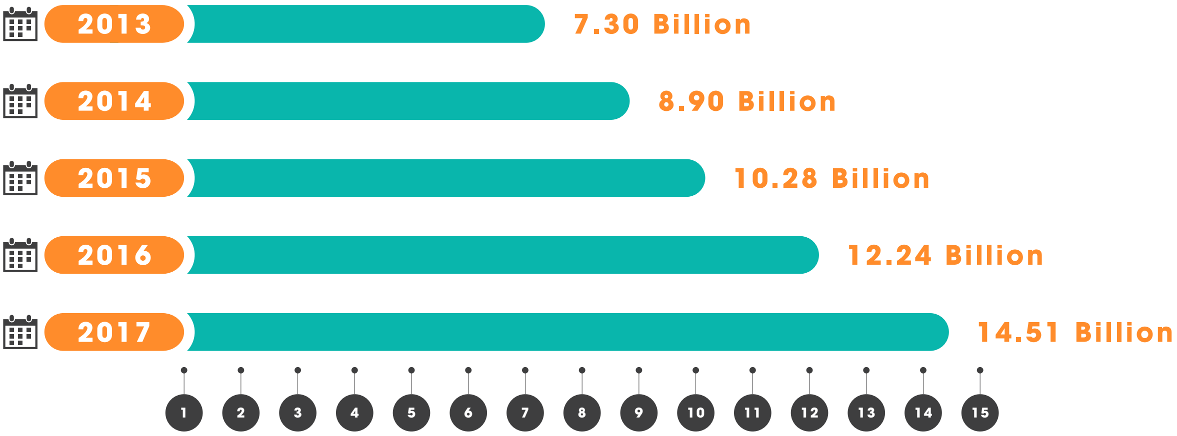
The bank celebrated the handover of the upgraded Core Banking System. The new system is the most technologically advanced banking system available today, as it combines the most comprehensive and flexible business functionality with cutting-edge technology in an easily upgradable application giving the bank unprecedented power to meet the challenges of today and scale to the opportunities of tomorrow.

Visa Cocktails

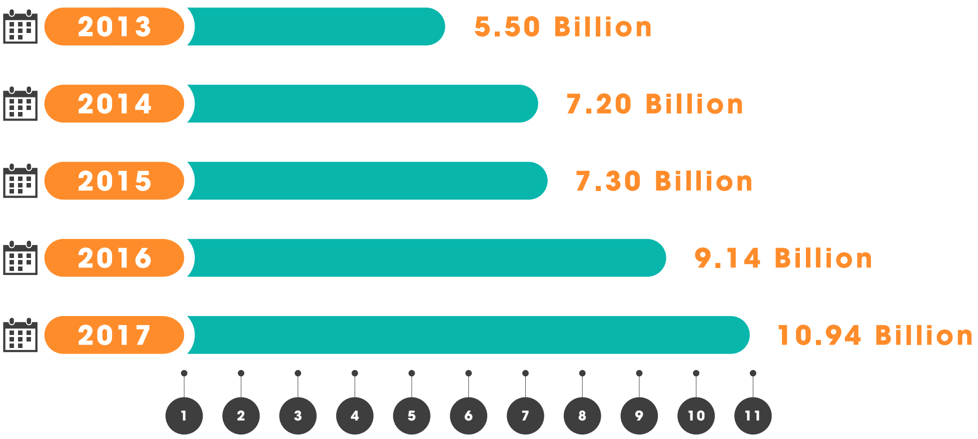
Customers across the country were hosted to appreciation forums. The events also sought to educate our customers on the benefits attached to the Credit Bank Visa Platinum Card.

FINANCIAL HIGHLIGHTS

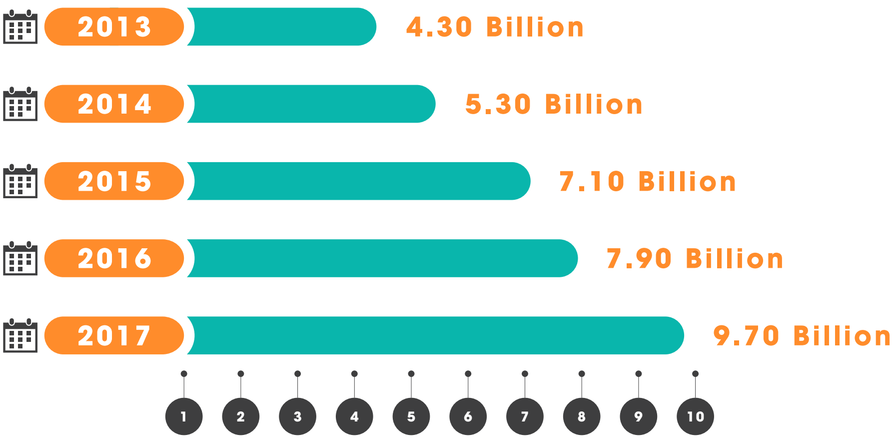
BALANCE SHEET SIZE (TOTAL ASSETS)



CUSTOMER DEPOSITS

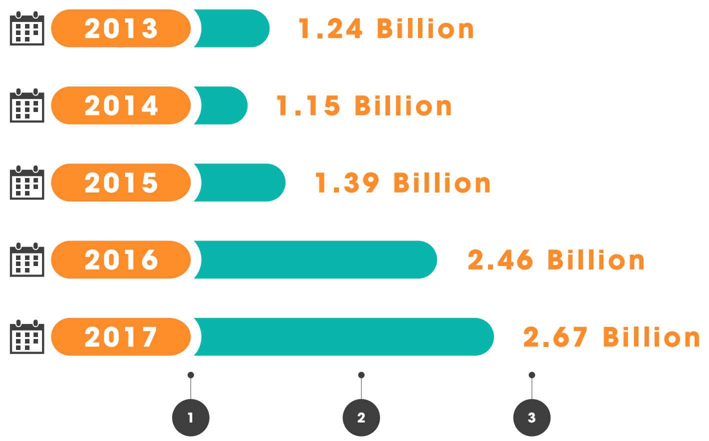


LOAN BOOK (NET)

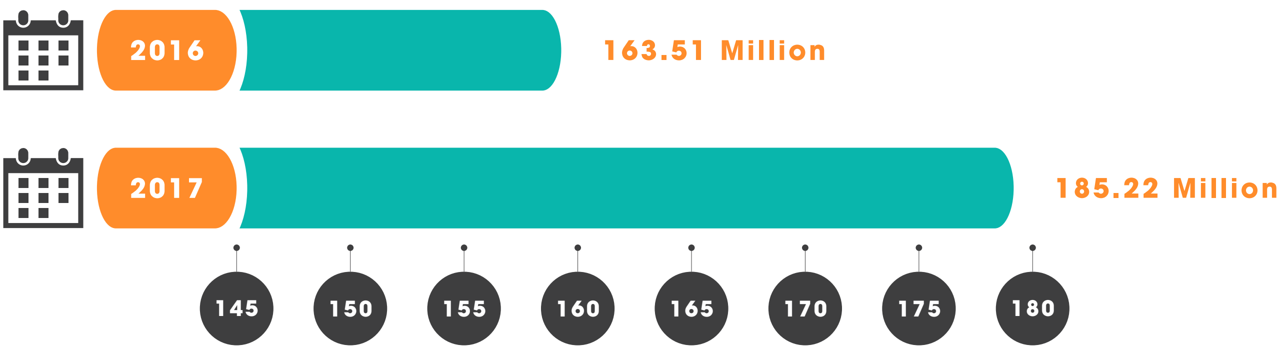


FINANCIAL HIGHLIGHTS

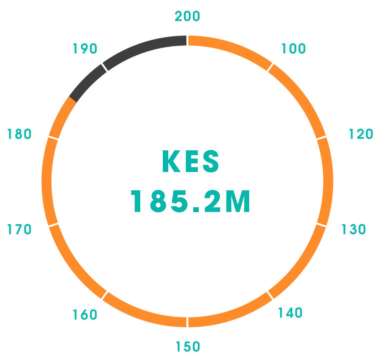
SHAREHOLDERS' FUNDS



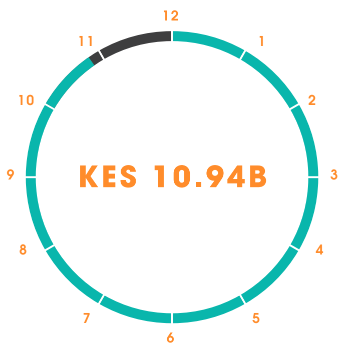
PROFIT BEFORE TAX



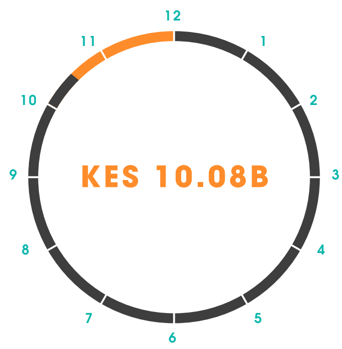
OUTLOOK ACROSS THE FINANCIAL HIGHLIGHTS



2017 GROUP PROFIT BEFORE TAX



2017 DEPOSITS



GROSS LOAN BOOK

Director's Report

The directors submit their report together with the audited financial statements for the year ended 31 December 2017.

Business Review

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

The bank operated in an environment where interest capping law implemented in September 2016 suppressed the net interest margin. However, focus to non-funded business mitigated the reduction of net interest margin amid stiff competition. Other drivers leading to the growth included deliberate cost management strategies, increased use of digital channels and innovative products and services tailor made for various customers. There was heavy investment in technology as key enabler for effective and efficient customer service. The Bank upgraded its core banking software to accommodate higher business volumes and new innovative products and grant higher scalable capacity to on-board other systems relevant to offering and support excellent customer service.

The Group also operated in an environment with increased competition from innovations and inventions in financial technological development companies that have aggressively edged the Banking space and disrupting the traditional banking. The Bank however take up this challenge positively through strategic partnership with the telecommunication companies to afford convenience to customers leading to financial inclusion which is working well for the bank.

Regulatory requirements have also increased the cost of compliance coupled with cybercrime risk both local and internationally. The prolonged presidential election slowed down the business as most customers adopted a wait and see attitude.

During the year, the Group's balance sheet grew by 19% from 2016 mainly on account of growth in net loan book of 19%, deposits growth of 20% and shareholders' funds of 9%. The Group maintained a return on asset of 1% (2016:1%), improved the return of equity to 7% (2016: 5%) and the cost to income ratio of 86% (2016: 87%).

Dividend

The net profit for the year of Kshs 134,080,000 (2016: Kshs 109,605,000) has been added to retained earnings. The directors recommend payment of a dividend of Kshs 1.09 per share amounting to Shs 26,060,000. (2016: Nil).

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) Resigned on 21.07.2017
Mrs Betty Korir	(Chief Executive Officer) Appointed on 19.09.2017
Mrs. Grace Nyachae	
Ketan D. Morjaria	
Moses M. Mwendwa	
Jay Karia	
Robinson N. Gachogu	
Dr. Margaret Chemengich	
Dr James S Mathenge	

Auditor

Disclosures to Auditors

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

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

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

Terms of Appointment of Auditors

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

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

By Order of the Board
CPS Robert Ndungu (DCDM Registrars)

Secretary

DCDM Registrars Secretaries

20th March 2018

Statement of 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 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	20 Mar 2017	21 Jun 2017	19 Sep 2017	14 Dec 2017
Hon. Simeon Nyachae	P	AP	P	P
Chege Thumbi	P	P	N/A	N/A
Betty Korir	N/A	N/A	P	P
Grace Nyachae	P	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
Margaret Chemengich	P	P	P	P
James S Mathenge	P	P	P	P

P = Present, A = Absent, AP=Apology

Board of Directors

The Board consists of Chief Executive Officer and eight non-executive directors as listed on page 1 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 Simeon Nyachae, EGH

Chairman

20th March 2018

Statement of Directors' Responsibilities

The Kenyan Companies Act 2015 requires the directors to prepare financial statements for each financial year which give a true and fair view of the financial position of the Group and Bank at the end of the financial year and its profit or loss 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 Kenyan Companies Act 2015. 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 Kenyan Companies Act 2015. They also accept responsibility for:

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

In preparing the financial statements, the directors have assessed the 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 20th March 2018 and signed on its behalf by:

Hon. Simeon Nyachae, EGH

Chairman

Betty Korir

Chief Executive Officer

Report of the Independent Auditor to the Shareholders of Credit Bank PLC

Report on the Audit of the Group and Bank Financial Statements

Opinion

We have audited the accompanying financial statements of Credit Bank Limited (the Bank) and its subsidiary (together, the Group) set out on pages 28 to 85 which comprise the consolidated statement of financial position at 31 December 2017 and the consolidated statement of profit or loss, consolidated statement of other 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 2017 and the statements of profit or loss, other comprehensive income, changes in equity and cash flows for the Bank 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 2017 and of their financial performance and cash flows 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.

Responsibilities of the Directors for the Financial Statements

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

In preparing the financial statements, the directors are responsible for assessing the 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

PricewaterhouseCoopers CPA. PwC Tower, Waiyaki Way/Chiromo Road, Westlands
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T: +254 (20)285 5000 F: +254 (20)285 5001 www.pwc.com/ke

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

accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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 Matters Prescribed by the Kenyan Companies Act, 2015

In our opinion the information given in the report of the directors on pages 18 and 19 is consistent with the financial statements.

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

PricewaterhouseCoopers

Certified Public Accountants
Nairobi
22nd March 2018

Award Winning

Bank

Financial Statements

Synergy

Consolidated Statement of Profit or Loss

	Notes	Year Ended 31st December 2017 Shs'000	2016 Shs'000
Interest income	5	1,533,317	1,574,490
Interest expense	6	(739,499)	(771,692)
Net interest income		793,818	802,798
Credit impairment charge	16	(136,272)	(150,400)
Net interest income after credit impairment charge		657,546	652,398
Fee and commission income		423,843	284,448
Fee and commission expense		(2,580)	(2,499)
Net fee and commission income		421,263	281,949
Foreign exchange income		58,428	36,347
Other income	7	88,840	121,172
		147,268	157,519
Net operating income		1,226,077	1,091,866
Employee benefits	8	(470,607)	(428,381)
Other operating expenses	9	(415,280)	(352,041)
Directors' expenses		(50,620)	(50,065)
Depreciation of property and equipment	19	(58,335)	(45,043)
Amortisation of intangible assets	20	(46,017)	(52,824)
Operating expenses		(1,040,859)	(928,354)
Profit before income tax		185,218	163,513
Income tax expense		(51,138)	(53,908)
Profit for the year		134,080	109,605

Consolidated Statement of Other Comprehensive Income	Notes	Year Ended 31st December 2017 Shs'000	2016 Shs'000
Profit for the year		134,080	109,605
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on available-for-sale financial assets, net of tax	27	3,302	3,286
Total comprehensive profit for the year		137,382	112,891

Bank Statement of Profit or Loss	Notes	Year Ended 31st December 2017 Shs'000	2016 Shs'000
Interest income	5	1,533,317	1,574,490
Interest expense	6	(740,194)	(771,797)
Net interest income		793,123	802,693
Credit impairment charge	16	(136,272)	(150,400)
Net interest income after credit impairment charge		656,851	652,293
Fee and commission income		412,802	274,855
Fee and commission expense		(2,580)	(2,499)
Net fee and commission income		410,222	272,356
Foreign exchange income		58,428	36,347
Other income	7	88,840	121,172
		147,268	157,519
Net operating income		1,214,341	1,082,168
Employee benefits	8	(466,189)	(424,550)
Other operating expenses	9	(414,240)	(351,670)
Directors' expenses		(50,620)	(50,065)
Depreciation of property and equipment	19	(58,323)	(45,028)
Amortisation of intangible assets	20	(45,913)	(52,720
Operating expenses		(1,035,285)	(924,033)
Profit before income tax		179,056	158,135
Income tax expense	10	(49,210)	(52,296)
Profit for the year		129,846	105,839

Bank Statement of Other Comprehensive Income	Notes	Year Ended 31st December 2017 Shs'000	2016 Shs'000
Profit for the year		129,846	105,839
Items that may be subsequently reclassified to profit or loss			
Net fair value movements on available-for-sale financial assets, net of tax	27	3,302	3,286
Total comprehensive profit for the year		133,148	109,125

Consolidated Statement of Financial Position	Notes	As At 31st December 2017 Shs'000	2016 Shs'000
Assets			
Cash and balances with Central Bank of Kenya	12	995,565	838,008
Financial assets available-for-sale	13	503,680	732,443
Financial assets held-to-maturity	14	1,763,334	1,470,111
Deposits and balances due from banking institutions	15	637,705	437,550
Loans and advances to customers	16	9,698,546	7,899,394
Other assets and prepaid expenses	17	318,692	297,236
Property and equipment	19	291,203	305,043
Intangible assets	20	187,202	133,039
Deferred income tax	18	114,750	125,065
Total assets		14,510,677	12,237,889
Liabilities			
Deposits and balances due to banking institutions	22	544,887	315,305
Customer deposits	23	10,939,796	9,135,301
Other liabilities	24	352,349	295,252
Current income tax		59	28,178
Total liabilities		11,837,091	9,774,036
Shareholders' Equity			
Share capital	25	2,390,786	1,949,163
Share Premium	25	88,705	457,977
Regulatory reserve	26	49,541	44,497
Retained earnings		149,398	20,362
Fair value reserve	27	(4,844)	(8,146)
Shareholders' equity		2,673,586	2,463,853
Total equity and liabilities		14,510,677	12,237,889

The financial statements on pages 28 to 85 were approved for issue by the Board of Directors on 20th March 2018 and signed on its behalf by:

Hon. Simeon Nyachae, EGH
Chairman

Ketan Morjaria
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

Bank Statement of Financial Position	Notes	2017 Shs'000	2016 Shs'000
		As At 31st December	
Assets			
Cash and balances with Central Bank of Kenya	12	969,177	826,749
Financial assets available-for-sale	13	503,680	732,443
Financial assets held-to-maturity	14	1,763,334	1,470,111
Deposits and balances due from banking institutions	15	637,705	437,550
Loans and advances to customers	16	9,698,546	7,899,394
Other assets and prepaid expenses	17	298,738	271,950
Property and equipment	19	291,186	305,013
Intangible assets	20	186,949	132,682
Deferred income tax	18	114,759	125,076
Investment in Subsidiary	21	1,000	1,000
Total assets		14,465,074	12,201,968
Liabilities			
Deposits and balances due to banking institutions	22	544,887	315,305
Customer deposits	23	10,939,796	9,135,301
Other liabilities	24	314,533	264,927
Current income tax		785	26,861
Total liabilities		11,800,001	9,742,394
Shareholders' Equity			
Share capital	25	2,390,786	1,949,163
Share Premium	25	88,705	457,977
Regulatory reserve	26	49,541	44,497
Retained earnings		140,885	16,083
Fair value reserve	27	(4,844)	(8,146)
Shareholders' equity		2,665,073	2,459,574
Total equity and liabilities		14,465,074	12,201,968

The financial statements on pages 28 to 85 were approved for issue by the Board of Directors on 20th March 2018 and signed on its behalf by:

Hon. Simeon Nyachae, EGH
Chairman

Ketan Morjaria
Director

Betty Korir
Chief Executive Officer

CPS Robert Ndungu (DCDM Registrars)
Secretary

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 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	26	-	-	13,424	(13,424)	-	-
Transactions with owners							
Additional share capital	25	609,418	349,076	-	-	-	958,494
At 31 December 2016		1,949,163	457,977	20,362	44,497	(8,146)	2,463,853
At 1 January 2017		1,949,163	457,977	20,362	44,497	(8,146)	2,463,853
Total comprehensive income for the year							
Profit for the year		-	-	134,080	-	-	134,080
Fair value movement on available for sale assets		-	-	-	-	3,302	3,302
Total comprehensive income for the year		-	-	134,080	-	3,302	137,382
Transfer from retained earnings	26	-	-	(5,044)	5,044	-	-
						-	
Transactions with owners							
Additional share capital	25	51,718	20,633	-	-	-	72,351
Issue of bonus shares	25	389,905	(389,905)	-	-	-	-
At 31 December 2017		2,390,786	88,705	149,398	49,541	(4,844)	2,673,586

Bank 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 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	26	-	-	13,424	(13,424)	-	-
Transactions with owners							
Additional share capital	25	609,418	349,076	-	-	-	958,494
At 31 December 2016		1,949,163	457,977	16,083	44,497	(8,146)	2,459,574
At 1 January 2017		1,949,163	457,977	16,083	44,497	(8,146)	2,459,574
Total comprehensive income for the year							
Profit for the year		-	-	129,846	-	-	129,846
Fair value movement on available for sale assets		-	-	-	-	3,302	3,302
Total comprehensive income for the year		-	-	129,846	-	3,302	133,148
Transfer from retained earnings	26	-	-	(5,044)	5,044	-	-
Transactions with owners	25	51,718	20,633	-	-	-	72,351
Additional share capital	25	389,905	(389,905)	-	-	-	-
Issue of bonus shares							
At 31 December 2017		2,390,786	(88,705)	140,885	49,541	(4,844)	2,665,073

Consolidated Statement of Cash Flows

	Notes	2017 Shs'000	2016 Shs'000
		Year Ended 31st December	
Cash flows from operating activities			
Interest receipts		1,534,012	1,574,596
Net fees and commissions receipts		421,263	281,949
Interest paid		(740,194)	(771,797)
Foreign exchange income		58,428	36,347
Recoveries on loans previously written off		19,478	72,453
Payments to employees and suppliers		(934,623)	(807,433)
Income tax paid		(68,941)	(460)
Other income received		69,362	48,578
Cash flows from operating activities before changes in operating assets and liabilities		358,785	434,233
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(2,226,778)	(1,002,839)
- other assets and prepaid expenses		(21,457)	(178,469)
- Central Bank of Kenya cash reserve requirement	30	(92,309)	(49,582)
- deposits and balances due to banking institutions		229,582	(1,178,904)
- customer deposits		1,804,495	1,868,263
- other liabilities		57,098	151,453
Net cash generated from operating activities		109,416	44,155
Cash flows from investing activities			
Net proceeds from financial assets held-to-maturity		(147,183)	(154,503)
Net proceeds from / (purchase of) financial assets available-for-sale		228,763	(473,793)
Purchase of property and equipment	19	(44,431)	(103,011)
Proceeds from disposal of property and equipment		-	141
Purchase of intangible assets	20	(100,180)	(54,628)
Net cash used in investing activities		(63,031)	(785,794)
Cash flows from financing activities			
Proceeds from issue of shares	25	72,351	958,494
Net cash flows from issue of shares		72,351	958,494
Net increase in cash and cash equivalents		118,736	216,855
Cash and cash equivalents at start of year		1,127,032	910,177
Cash and cash equivalents at end of year	29	1,245,768	1,127,032

Bank Statement of Cash Flows	Notes	As At 31st December 2017 Shs'000	2016 Shs'000
Cash flows from operating activities			
Interest receipts		1,533,317	1,574,490
Net fees and commissions receipts		410,222	272,356
Interest paid		(740,194)	(771,797)
Foreign exchange income		58,428	36,347
Recoveries on loans previously written off		19,478	72,453
Payments to employees and suppliers		(929,167)	(803,230)
Income tax paid		(64,968)	-
Other income received		69,362	48,578
Cash flows from operating activities before changes in operating assets and liabilities		356,478	429,197
Changes in operating assets and liabilities:			
- gross loans and advances to customers		(2,226,778)	(1,002,839)
- other assets and prepaid expenses		(26,788)	(163,091)
- Central Bank of Kenya cash reserve requirement	30	(92,309)	(49,582)
- deposits and balances due to banking institutions		229,582	(1,178,904)
- customer deposits		1,804,495	1,868,264
- other liabilities		49,606	131,043
Net cash generated from operating activities		94,286	34,088
Cash flows from investing activities			
Net proceeds from financial assets held-to-maturity		(147,183)	(154,503)
Net proceeds from/ (purchase of) financial assets available-for-sale		228,763	(473,793)
Purchase of property and equipment	19	(44,431)	(103,011)
Proceeds from disposal of property and equipment		-	141
Purchase of intangible assets	20	(100,180)	(54,628)
Net cash used in investing activities		(63,031)	(785,794)
Cash flows from financing activities			
Proceeds from issue of shares	25	72,351	958,494
Net cash flows from issue of shares		72,351	958,494
Net increase in cash and cash equivalents		103,607	206,788
Cash and cash equivalents at start of year		1,115,773	908,987
Cash and cash equivalents at end of year	30	1,219,380	1,115,773

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 209/427
Ground Floor Mercantile House
Koinange Street
PO Box 61064-00200
Nairobi

The Bank changed its name from Credit Bank Limited to Credit Bank Plc on 12 October 2017.

2. Summary of Significant Accounting Policies

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

Basis of Preparation

The financial statements are prepared in compliance with International Financial Reporting Standards (IFRS) as issued by International Accounting Standards Board.

a) Basis of Measurement

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The measurement basis applied is the historical cost basis, except where otherwise stated in the accounting policies below.

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

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

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

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

b) Changes in Accounting Policies and Disclosures

i) New and Amended Standards Adopted by the Bank

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

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

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

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

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

ii) New and Revised Standards and Interpretations not Yet Adopted

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

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Contemporaneous documentation is still required but is different to that currently prepared under IAS39. The standard is effective for accounting periods beginning on or after 1 January 2018. The Bank early adopted earlier versions of IFRS 9 in 2011.

2. Summary of Significant Accounting Policies (Continued)

b) Changes in Accounting Policies and Disclosures (Continued)

ii) New and Revised Standards and Interpretations not Yet Adopted (Continued)

The group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 January 2018:

The majority of the group's debt instruments that are currently classified as available for-sale will satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets. The other financial assets held by the group include debt instruments currently classified as held-to-maturity and measured at amortised cost which meet the conditions for classification at amortised cost under IFRS 9. Accordingly, the group does not expect the new guidance to affect the classification and measurement of these financial assets. There will be no impact on the group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the group does not have any such liabilities.

Based on the assessments undertaken to date, the group expects an increase in the loss allowance for financial assets by approximately 15% in relation to loans advances and receivables held at amortised cost. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

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

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

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

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

The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of Kshs 284,723,000, see note 27. The leases relate to payments for short-term and low value leases which will be recognised on a straight-line basis as an expense in profit or loss. However, the group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not yet possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the group's profit or loss and classification of cash flows going forward.

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

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 2017.

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 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.

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.

2. Summary of Significant Accounting Policies (Continued)
f) Financial Assets and Liabilities (Continued)

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:

- 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:

- 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;
- those that the Bank upon initial recognition designates as available-for-sale
- 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.

2. Summary of Significant Accounting Policies (Continued)

f) Financial Assets and Liabilities (Continued)

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.

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

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

2. Summary of Significant Accounting Policies (Continued)

f) Financial Assets and Liabilities (Continued)

Classes of Financial Instruments (Continued)

Category (as defined by IAS 39)		Class (as Determined by the Bank)		Subclasses
Financial Assets	Held to maturity	Investment securities - Debt securities		Treasury bonds
				Treasury bills
	Loans, advances and receivables	Deposits and balances from banking institutions		
		Loans and advances to customers	Loans to individuals (retails)	Overdrafts
				Term loans
				Mortgages
			Loans to corporate entities	Large corporate customers
				SMEs
				Others
	Available-for- sale financial assets	Investment securities – debt securities		Treasury bonds
				Corporate bonds
	Financial liabilities at amortised cost	Deposits and balances due to banking institutions		
		Deposits from customers	Retail customers	
			Corporate customers	
Off- balance sheet financial Instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

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.

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.

2. Summary of Significant Accounting Policies (Continued)
f) Financial Assets and Liabilities (Continued)
Impairment of Financial Assets (Continued)

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.

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 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.

2. Summary of Significant Accounting Policies (Continued)

m) Income Tax (Continued)

i) Current Income Tax (Continued)

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.

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.

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.

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.

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

3. **Financial Risk Management (Continued)**
a) **Credit Risk (Continued)**
ii) *Financial Covenants (for Credit Related Commitments and Loan Books) (Continued)*

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.

Maximum Exposure to Credit Risk Before Collateral Held	2017 Shs'000	2016 Shs'000
Group		
Balances with Central Bank of Kenya (Note 12)	704,422	534,460
Deposits and balances due from banking institutions (Note 15)	637,705	437,550
Financial assets held-to-maturity (Note 14)	1,763,334	1,470,111
Financial assets available-for-sale (Note 13)	503,680	732,443
Other assets (Note 17)	249,774	266,010
Loans and advances to customers (Note 16)	9,698,546	7,899,394
	13,557,462	11,339,968
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	715,709	598,636
- Guarantee and performance bonds	6,737,777	2,509,512
- Commitments to lend	2,149,395	2,309,010
- Unutilised Guarantees	2,994,281	2,561,463
	25,153,924	19,318,589
Bank		
Balances with Central Bank of Kenya (Note 12)	704,422	534,460
Deposits and balances due from banking institutions (Note 15)	637,705	437,550
Financial assets held-to-maturity (Note 14)	1,763,334	1,470,111
Financial assets available-for-sale (Note 13)	503,680	732,443
Other assets (Note 17)	263,958	240,724
Loans and advances to customers (Note 16)	9,698,546	7,899,394
	13,571,645	11,314,682
Credit risk exposures relating to off-balance sheet items:		
- Acceptances and letters of credit	715,709	598,636
- Guarantee and performance bonds	6,737,777	2,509,512
- Commitments to lend	2,149,395	2,309,010
- Unutilised Guarantees	2,994,281	2,561,463
	26,168,807	19,293,303

3. Financial Risk Management (Continued)
a) Credit Risk (Continued)
ii) Financial Covenants (for Credit Related Commitments and Loan Books) (Continued)

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

As shown above 38% of the total maximum exposure is derived from loans and advances to customers (2016: 40%). 9% (2016: 11%) 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'.

Financial Assets that are Past Due or Impaired

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

Accounts are classified into five categories as follows:

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

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

Analysis of Loans and Advances – Group and Bank	2017 Shs'000	2016 Shs'000
Neither past due nor impaired	7,457,118	6,663,219
Past due but not impaired	1,922,036	1,100,916
Impaired	708,335	531,592
Gross	10,087,489	8,295,727
Portfolio allowance	(62,502)	(41,102)
Individually impaired	(326,442)	(355,231)
Net	9,698,545	7,899,394

3. Financial Risk Management (Continued)

a) Credit Risk (Continued)

Financial Assets that are Past Due or Impaired (Continued)

i) 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:

	Individual (retail customers)			Corporate entities			
Group and Bank	Overdrafts Shs'000	Term loans Shs'000	Mortgage Shs'000	Large corporate customers Shs'000	SMEs Shs'000	Other Shs'000	Total loans & advances to customers Shs'000
31 December 2017							
Neither past due nor impaired	27,043	1,104,131	198,321	3,541,678	2,585,945	-	7,457,118
31 December 2016							
Neither past due nor impaired	23,145	782,966	203,188	3,046,000	2,607,838	-	6,666,137

ii) Loans 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:

	Individual (retail customers)		
Group and Bank	Overdrafts Shs'000	Term loans Shs'000	Total Shs'000
31 December 2017			
Past due up to 30 days	16,893	92,184	109,077
Past due 30 - 90 days	801	29,865	30,666
Past due 60 - 90 days	-	6,409	6,409
Total	17,694	128,458	146,152

3. Financial Risk Management (Continued)

a) Credit Risk (Continued)

ii) Loans Advances Past Due but not Impaired (Continued)

	Corporate entities		
Group and Bank	Large Corporate customers Shs'000	SMEs Shs'000	Total Shs'000
31 December 2017			
Past due up to 30 days	952,667	469,819	1,422,486
Past due 30 - 90 days	243,206	93,233	366,439
Past due 60 - 90 days	-	16,959	16,959
Total	1,195,873	580,011	1,775,884

	Individual (retail customers)		
Group and Bank	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

	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

3. Financial Risk Management (Continued)
a) Credit Risk (Continued)

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:

	Individual (retail customers)			Corporate entities		
Group and Bank	Overdrafts Shs'000	Term loans Shs'000	Mortgage Shs'000	Large corporate customers Shs'000	SMEs Shs'000	Total loans & advances to customers Shs'000
31 December 2017						
Gross amount of individually impaired loans	23,122	314,837	4,123	101,474	264,779	708,335
31 December 2016						
Gross amount of individually impaired loans	15,409	128,352	8,131	90,148	289,552	531,592

Concentration of Risk

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

	Loans and advances %	Credit Commitments %
At 31 December 2017		
Financial institutions	6%	22%
Manufacturing	5%	0%
Real Estate	9%	0%
Wholesale and Retail trade	15%	32%
Building and construction	28%	28%
Other industries	20%	17%
Individuals	16%	1%
	100%	100%
At 31 December 2016		
Financial institutions	7%	35%
Manufacturing	6%	9%
Real Estate	10%	1%
Wholesale and Retail trade	29%	30%
Building and construction	10%	15%
Other industries	26%	11%
Individuals	12%	0%
	100%	100%

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.

At December 2017, 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 2,992,000 (2016: Kshs 6,064,000)

3. Financial Risk Management (Continued)
b) Market Risk (Continued)

ii) Currency Risk

The table below summarises the Bank's exposure to foreign exchange risk at 31 December 2017. 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
At 31 December 2017					
Assets					
Cash and balances with Central Bank of Kenya	52,395	56,048	13,038	30	121,511
Deposits and balances due from banking institutions	391,060	9,864	236,613	-	637,537
Loans and advances to customers	1,063,609	119,321	-	16	1,182,946
Other assets	13,137				13,137
Total assets	1,520,201	185,233	249,651	46	1,955,131
Liabilities					
Customer deposits	994,888	180,880	242,134	-	1,417,902
Deposits and balances due to banking Institutions	465,538	-	-	-	465,538
Other Liabilities	7,641	3,484	163	562	11,850
Total liabilities	1,468,067	184,364	242,297	562	1,895,290
Net on-balance sheet position	52,134	869	7,354	(516)	59,841
Net off-balance sheet position	4,312	-	(4,315)	-	(3)
Overall net position	56,446	869	3,039	(516)	59,838
As at 31 December 2016					
Total assets	1,178,207	173,593	117,099	-	1,468,899
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)

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 2017, an increase/decrease of 1% would have resulted in an increase/decrease in pre-tax loss of Kshs 19,583,000 (2016: Kshs 4,844,000)

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	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 31st December						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	995,565	995,565
Financial assets held- to-maturity	26,695	44,830	296,040	1,395,769	-	1,763,334
Deposits and balances due from banking institutions	637,705	-	-	-	-	637,705
Financial assets available-for-sale	-	-	11,898	491,782	-	503,682
Other assets and prepaid expenses	-	-	-	-	318,692	318,692
Loans and advances to customers	9,698,546	-	-	-	-	9,698,546
Property and equipment and Intangible assets	-	-	-	-	478,405	478,405
Deferred income tax	-	-	-	-	114,750	114,750
Total assets	10,362,946	44,830	307,938	1,887,551	1,907,412	14,510,677

3. **Financial Risk Management (Continued)**

b) **Market Risk (Continued)**

iii) Interest Rate Risk (Continued)

	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 2017						
Assets						
Liabilities And Shareholders' Funds						
Customer deposits	1,929,091	2,837,430	3,389,179	788,473	1,995,623	10,939,796
Deposits and balances due to banking institutions	79,348	155,769	309,770	-	-	544,887
Other liabilities	-	-	-	-	352,349	352,349
Current income tax	-	-	-	-	59	59
Shareholders' equity	-	-	-	-	2,673,586	2,673,586
Total liabilities and shareholders' equity	2,008,439	2,993,199	3,698,949	788,473	5,021,617	14,510,677
Interest sensitivity gap	8,354,507	(2,948,369)	(3,391,011)	1,099,075	(3,114,205)	-
As at 31 December 2016						
Total assets	8,285,993	386,846	12,416	1,854,242	1,698,391	12,237,889
Total liabilities and shareholders' funds	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)	-

Bank	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 2017						
Assets						
Cash and balances with Central Bank of Kenya	-	-	-	-	969,177	969,177
Financial assets held- to-maturity	26,695	44,830	296,040	1,395,769	-	1,763,334
Deposits and balances due from banking institutions	637,705	-	-	-	-	637,705
Financial assets available-for-sale	-	-	11,898	491,782	-	503,680
Other assets and prepaid expenses	-	-	-	-	298,738	298,738
Loans and advances to customers	9,698,546	-	-	-	-	9,698,546
Property and equipment and Intangible assets	-	-	-	-	478,135	478,135
Deferred income tax	-	-	-	-	114,759	114,759
Investment in subsidiary	-	-	-	-	1,000	1,000
Total assets	10,362,946	44,830	307,938	1,887,551	1,861,809	14,465,074

3. Financial Risk Management (Continued)

b) Market Risk (Continued)

iii) Interest Rate Risk (Continued)

	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 2017						
Assets						
Liabilities And Shareholders' Funds						
Customer deposits	1,929,091	2,837,430	3,389,179	788,473	1,995,623	10,939,796
Deposits and balances due to banking institutions	79,348	155,769	309,770	-	-	544,887
Other liabilities	-	-	-	-	314,533	314,533
Current income tax	-	-	-	-	785	785
Shareholders' equity	-	-	-	-	2,665,073	2,665,073
Total liabilities and shareholders' equity	2,008,439	2,993,199	3,698,949	788,473	4,976,014	14,465,074
Interest sensitivity gap	8,354,507	(2,948,369)	(3,391,011)	1,099,078	(3,114,205)	
As at 31 December 2016						
Total assets	8,285,993	386,846	12,416	1,854,242	1,662,470	12,201,968
Total liabilities and shareholders' funds	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)	-

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.

3. Financial Risk Management (Continued)
c) Liquidity Risk (Continued)

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

Group	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 2017						
Liabilities						
Customer deposits	5,593,792	3,426,879	1,652,788	341,689	-	11,015,148
Deposits and balances due to banking institutions	544,887	-	-	-	-	544,887
Other liabilities	137,496	94,807	39,827	80,221	-	352,351
Total liabilities	6,276,175	3,521,686	1,692,615	421,910	-	11,912,386

Group	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						
Liabilities						
Customer deposits	2,457,002	4,303,568	1,793,774	660,567	-	9,214,911
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
Total liabilities	2,605,717	4,804,552	1,822,697	692,502	-	9,825,469

3. **Financial Risk Management (Continued)**

c) **Liquidity Risk (Continued)**

Bank	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
As at 31 December 2017						
Liabilities						
Customer deposits	5,593,792	3,426,879	1,652,788	341,689	-	11,015,148
Deposits and balances due to banking institutions	544,886	-	-	-	-	544,886
Other liabilities	137,495	56,853	39,827	80,358	-	314,533
Total liabilities	6,276,173	3,483,732	1,692,615	422,047	-	11,874,567

Bank	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
As at 31 December 2016						
Liabilities						
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
Total liabilities	2,605,717	4,790,124	1,804,937	673,262	2,463,849	9,774,041

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.

3. Financial Risk Management (Continued)

d) Fair Value

Bank	Level 1 Shs'000	Level 2 Shs'000	Level 3 Shs'000	Total balance Shs'000
At 31 December 2017				
Assets				
Available-for-sale financial assets				
– Debt investments	-	503,680	-	503,680

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

The following summarises the carrying amount of those assets and liabilities not held at fair value. The carrying amount of assets and liabilities held at amortised cost is considered to approximate the fair value of the assets and liabilities.

	2017		2016	
Group	Carrying value Shs'000	Fair Value Shs'000	Carrying value Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central Bank of Kenya	995,565	995,565	838,008	838,008
Financial assets available-for-sale	503,680	503,680	732,443	732,443
Financial assets held-to-maturity	1,763,334	1,639,030	1,470,111	1,355,946
Deposits and balances due from banking institutions	637,705	637,705	437,550	437,550
Loans and advances to customers	9,698,546	9,698,546	7,899,394	7,899,394
Other assets and prepaid expenses	318,692	318,692	297,236	297,236
Liabilities				
Deposits and balances due to banking institutions	544,887	544,887	315,305	315,305
Customer deposits	10,939,796	10,939,796	9,135,301	9,135,301
Other liabilities	352,349	352,349	295,252	295,252

3. Financial Risk Management (Continued)

	2017		2016	
Bank	Carrying value Shs'000	Fair Value Shs'000	Carrying value Shs'000	Fair Value Shs'000
Assets				
Cash and balances with Central Bank of Kenya	969,177	969,177	826,749	826,749
Financial assets available-for-sale	503,680	503,680	732,443	732,443
Financial assets held-to-maturity	1,763,334	1,639,030	1,470,111	1,355,946
Deposits and balances due from banking institutions	637,705	637,705	437,550	437,550
Loans and advances to customers	9,698,546	9,698,546	7,899,394	7,899,394
Other assets and prepaid expenses	298,738	298,738	271,950	271,950
Property and equipment	291,186	291,186	305,013	305,013
Liabilities				
Deposits and balances due to banking institutions	544,887	544,887	315,305	315,305
Customer deposits	10,939,796	10,939,796	9,135,301	9,135,301
Other liabilities	314,533	314,533	264,927	264,927

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% (2016: 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% (2016: 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:

	2017 Shs'000	2016 Shs'000
Tier 1 capital	2,594,313	2,423,222
Tier 1 + Tier 2 capital	2,643,854	2,467,718
Risk-weighted assets		
On-balance sheet	9,605,598	8,556,401
Off-balance sheet	6,210,588	2,244,400
Total risk-weighted assets	15,816,186	10,800,801
Basel ratio		
Core capital to total risk weighted assets	15.6%	22.4%
(CBK minimum – 10.5% (2016: 10.5%)		
Total capital to total risk weighted assets	15.9%	22.8%
(CBK minimum – 14.5% (2016: 14.5%)		

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 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 124 million (2016: Shs 114 million) with a corresponding entry in the fair value reserve in shareholders' equity.

	2017 Shs'000	2016 Shs'000
5. Interest Income		
Group and bank		
Loans and advances	1,252,435	1,382,773
Financial assets held-to-maturity	170,461	111,952
Financial assets available-for-sale	86,120	60,961
Deposits and balances due from banking institutions	24,301	18,804
	1,533,317	1,574,490
6. Interest Expense		
Group		
Customer deposits	708,982	724,279
Deposits and balances due to banking institutions	30,517	47,413
	739,499	771,692
Bank		
Customer deposits	709,677	724,384
Deposits and balances due to banking institutions	30,517	47,413
	740,194	771,797
7. Other Income		
Group and Bank		
Gain on sale of financial assets available-for-sale	57,747	38,466
Other income	31,093	82,565
Gain on disposal of property and equipment	-	141
	88,840	121,172
8. Employee Benefits		
Group		
Salaries and allowances	415,809	373,078
Medical insurance	23,502	20,187
Training and development	2,200	4,327
Travelling and accommodation	1,445	1,550
Retirement benefits costs		
- Defined contribution scheme	17,606	17,085
- National Social Security Fund	476	459
Other costs	9,569	11,696
	470,607	428,381

The number of persons employed by the Group at the year-end was 198 (2016: 199).

8. Employee Benefits (Continued)	2017 Shs'000	2016 Shs'000
Group		
Salaries and allowances	411,837	369,641
Medical insurance	23,277	19,991
Training and development	2,200	4,315
Travelling and accommodation	1,445	1,550
Retirement benefits costs		
- Defined contribution scheme	17,422	16,949
- National Social Security Fund	471	455
Other costs	9,537	11,649
	466,189	424,550

9. Other Operating Expenses	2017 Shs'000	2016 Shs'000
Group		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	61,341	37,498
Auditor's remuneration	4,709	4,505
Rental expenses	101,974	84,088
Other costs	243,446	225,950
	415,280	352,041
Bank		
The following items are included with other operating expenses:		
Software licensing and other information technology costs	61,175	37,498
Auditor's remuneration	3,748	3,569
Rental expenses	101,974	84,088
Other costs	243,053	226,515
	414,240	351,670

10. Income Tax Expense

	2017 Shs'000	2016 Shs'000
Group		
Current income tax	40,822	36,344
Deferred income tax (Note 18)	9,231	11,061
Over provision of deferred tax in the prior years (Note 18)	1,085	6,503
	51,138	53,908

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

	2017 Shs'000	2016 Shs'000
Profit before income tax	185,218	163,513
Tax calculated at a tax rate of 30% (2016: 30%)	55,565	49,054
Tax effect of:		
- income not subject to tax	(27,888)	(20,689)
- expenses not deductible for tax purposes	22,376	19,040
- overprovision of deferred tax in prior years	1,085	6,503
Income tax expense	51,138	53,908
Bank		
Current income tax	38,892	34,744
Deferred income tax (Note 18)	9,233	11,041
Overprovision of deferred tax in the prior years (Note 18)	1,085	6,503
	49,210	52,296

10. Income Tax Expense (Continued)

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:

	2017 Shs'000	2016 Shs'000
Profit before income tax	179,056	158,135
Tax calculated at a tax rate of 30% (2013: 30%)	53,517	47,441
Tax effect of:		
- income not subject to tax	(27,888)	(20,689)
- expenses not deductible for tax purposes	22,296	19,041
- overprovision of deferred tax in prior years	1,085	6,503
Income tax expense / (credit)	49,210	52,296

11 Proposed Dividends

Proposed dividends are provided for when declared and 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 propose payment of a dividend of Kshs 1.09 per share amounting to Shs 26,060,000. (2016: Nil).

12 Cash and balances with Central Bank of Kenya

	2017 Shs'000	2016 Shs'000
Group		
Cash in hand	291,143	303,548
Balances with Central Bank of Kenya	704,422	534,460
	995,565	838,008
Bank		
Cash in hand	264,755	292,289
Balances with Central Bank of Kenya	704,422	534,460
	969,177	826,749

	2017 Shs'000	2016 Shs'000
13. Financial Assets Available-for-Sale		
Group and Bank	118,120	405,464
Infrastructure bond	361,765	290,770
Government of Kenya treasury bonds	23,795	36,209
Corporate bond		
	503,680	732,443

The securities are traded on the Nairobi Securities Exchange.

	2017 Shs'000	2016 Shs'000
14. Financial Assets Held-to-Maturity		
Group and Bank		
Maturing after 90 days of the date of acquisition	1,617,294	1,177,404
Maturing within 90 days from the date of acquisition	146,040	292,707
	1,763,334	1,470,111
15. Deposits and Balances from Banking Institutions		
Group and Bank		
Overnight lending	243,417	218,504
Balances with local banks	-	125,154
Balances with banks abroad	394,288	93,892
	637,705	437,550

	2017			2016		
16. Loans and Advances to Customers	Gross Shs'000	Impairment allowance Shs'000	Carrying amount Shs'000	Gross Shs'000	Impairment allowance Shs'000	Carrying amount Shs'000
Group and Bank						
Retail customers						
Mortgage lending	242,819	(1,591)	241,228	211,281	(5,512)	205,769
Personal unsecured	120,960	(52,354)	68,606	126,152	(57,014)	69,138
Personal secured Loans	1,386,089	(113,422)	1,272,667	929,338	(50,112)	879,226
Corporate customers						
Commercial term loans	6,233,730	(178.817)	6,054,913	5,787,006	(252,113)	5,534,893
Overdraft facilities	2,103,891	(42,760)	2,061,131	1,241,949	(31,581)	1,210,368
Total	10,087,489	(388,944)	9,698,545	8,295,726	(396,332)	7,899,394

16. Loans and Advances to Customers Continued	Retail		Corporate		Total	
	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000	2017 Shs'000	2016 Shs'000
Individually assessed						
At start of year	86,625	57,498	268,606	180,290	355,231	237,788
Charge for the year	92,308	40,142	22,565	110,083	114,873	150,225
Write offs	(12,268)	(11,015)	(131,394)	(21,767)	(143,662)	(32,782)
End of the year	166,665	86,625	159,777	268,606	326,442	355,231
Collectively assessed						
Start of the year	4,682	4,682	36,420	36,420	41,102	41,102
Charge for the year	5,151	-	16,249	-	21,400	-
End of the year	9,833	4,682	52,669	36,420	62,502	41,102
Totals	176,498	91,307	212,446	305,026	388,944	396,333

Recoveries of bad debts of Shs 19,477,000 (2016: Shs 72,453,000) were made in the year. Provisions of Shs. 136,272,000 (2016: Shs150,225,000) were charged to the profit or loss in the year.

17. Other Assets and Prepaid Expenses	2017 Shs'000	2016 Shs'000
Group		
Items in transit	122,365	75,580
Prepaid expenses	37,318	26,798
Stationery stocks	4,111	4,428
Others	154,898	190,430
	318,692	297,236
Bank		
Items in transit	122,365	50,294
Prepaid expenses	30,669	26,798
Stationery stocks	4,111	4,428
Others	141,593	190,430
	298,738	271,950

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% (2016: 30%). The movement on the deferred income tax account is as follows:

	2017 Shs'000	2016 Shs'000
Group		
At start of year	125,065	142,629
Charge to profit or loss account (Note 10)	(9,231)	(11,061)
Under provision in the prior years	(1,085)	(6,503)
At end of year	114,749	125,065

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:

	1.1.2017 Shs'000	(Dr)/Cr to P&L Shs'000	31.12.2017 Shs'000
Property and equipment	(2,912)	2,243	(669)
Loans and advances	114,937	1,926	116,683
Other provisions	10,417	(7,054)	3,363
Available for sale securities - fair value movements	(3,491)	1,415	(2,501)
Unrealised exchange losses	6,114	(8,240)	(2,127)
Net deferred income tax asset	125,065	(10,316)	114,749

	1.1.2016 Shs'000	(Dr)/Cr to P&L Shs'000	31.12.2016 Shs'000
Property and equipment	(23,404)	20,492	(2,912)
Loans and advances	122,367	(7,430)	114,937
Other provisions	10,417	-	10,417
Available for sale securities - fair value movements	(4,899)	1,408	(3,491)
Unrealised exchange losses	-	6,114	6,114
Tax losses	38,148	(38,148)	-
Net deferred income tax asset	142,629	(17,564)	125,065

18. Deferred Income Tax (Continued)

	2017 Shs'000	2016 Shs'000
Bank		
At start of year	125,076	142,629
Charge to profit or loss account (Note 10)	(9,233)	(11,050)
Under provision in the prior years	(1,085)	(6,503)
At end of year	114,758	125,076

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:

	1.1.2017 Shs'000	(Dr)/Cr to P&L Shs'000	31.12.2017 Shs'000
Property and equipment	(2,901)	2,243	(660)
Loans and advances	114,937	1,926	116,683
Other provisions	10,417	(7,054)	3,363
Available for sale securities - fair value movements	(3,491)	1,415	(2,501)
Unrealised exchange losses	6,114	(8,240)	(2,127)
Net deferred income tax asset	125,076	(10,316)	114,758

	1.1.2016 Shs'000	(Dr)/Cr to P&L Shs'000	31.12.2016 Shs'000
Property and equipment	(23,404)	20,503	(2,901)
Loans and advances	122,367	(7,430)	114,937
Other provisions	10,417	-	10,417
Available for sale securities - fair value movements	(4,899)	1,408	(3,491)
Unrealised exchange losses	-	6,114	6,114
Tax losses	38,148	(38,148)	-
Net deferred income tax asset	142,629	(17,553)	125,076

19. Property and Equipment Group	Leasehold improvements Shs'000	Motor vehicles Shs'000	Office equipment Shs'000	Computer & electronic equipment Shs'000	Furniture and fittings Shs'000	Total Shs'000
At 1 January 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
Year ended 31 December 2016						
Opening net book amount	166,564	230	114,004	11,093	13,152	305,043
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
Year ended 31 December 2017						
Opening net book amount	166,564	230	114,004	11,093	13,152	305,013
Additions	3,227	-	12,751	28,084	369	44,431
Disposals (NBV)						
Depreciation charged	(18,894)	(234)	(23,068)	(13,400)	(2,739)	(58,335)
Closing net book amount	150,897	59	103,687	25,777	10,782	291,203
At 31 December 2017						
Cost	244,419	20,057	204,889	150,245	37,533	657,143
Accumulated depreciation	(93,522)	(19,998)	(101,203)	(124,467)	(26,751)	(365,941)
Net book amount **Year ended 31 December 2017**	150,897	59	103,687	25,778	10,782	291,203

19. Property and Equipment Bank	Leasehold improvements Shs'000	Motor vehicles Shs'000	Office equipment Shs'000	Computer & electronic equipment Shs'000	Furniture and fittings Shs'000	Total Shs'000
At 1 January 2016						
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	9,054	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
Year ended 31 December 2017						
Opening net book amount	166,564	230	114,004	11,093	13,122	305,013
Additions	3,227	-	12,751	28,084	369	44,431
Disposals (NBV)						
Depreciation charged	(18,894)	(234)	(23,068)	(13,400)	(2,726)	(58,323)
Closing net book amount	150,897	59	103,687	25,777	10,765	291,186
At 31 December 2017						
Cost	244,419	20,057	204,889	150,245	37,482	657,092
Accumulated depreciation	(93,522)	(19,998)	(101,203)	(124,467)	(26,717)	(365,907)
Net book amount	150,897	59	103,687	25,778	10,765	291,186

20. Intangible Assets

	Software licences Shs'000	Work in Progress Shs'000	Total Shs'000
Group			
Year ended 31 December 2016			
Opening net book amount	88,607	42,629	131,236
Additions	7,878	46,749	54,627
Transfer from WIP	62,584	(62,584)	-
Amortisation for the year	(52,824)	-	(52,824)
Closing net book amount	106,245	26,794	133,039
Year ended 31 December 2017			
Opening net book amount	106,245	26,794	133,039
Additions	95,839	4,341	100,180
Transfer from WIP	19,011	(19,011)	-
Amortisation for the year	(46,017)	-	(46,017)
Closing net book amount			
At 31 December 2017	175,077	12,124	187,202
Bank			
Year ended 31 December 2016			
Opening net book amount	88,146	42,629	130,775
Additions	7,878	46,749	54,627
Transfer from WIP	62,584	(62,584)	-
Amortisation for the year	(52,720)	-	(52,720)
Closing net book amount	105,888	26,794	132,682
Year ended 31 December 2017			
Opening net book amount	105,888	26,794	132,682
Additions	95,839	4,341	100,180
Transfer from WIP	19,011	(19,011)	-
Amortisation for the year	(45,913)	-	(45,913)
Closing net book amount	174,825	12,124	186,949

21. Investment in Subsidiary

The Bank has an investment in a wholly-subsidiary called My Friend Insurance Agency Limited. The subsidiary provides bancassurance services.

	2017 Shs'000	2016 Shs'000
22. Deposits and Balances Due to Banking Institutions		
Group and Bank		
Current accounts	4,349	1,918
Deposits from other banks	465,488	159,398
Overnight borrowing	75,050	153,990
	544,887	315,305
23. Customer Deposits		
Group and Bank		
Retail customers:		
Current and demand deposits	621,683	493,149
Fixed deposits	3,268,880	2,949,762
Savings accounts	421,941	416,397
Corporate customers:		
Current and demand deposits	1,660,342	1,380,334
Fixed deposits	4,966,950	3,895,659
	10,939,796	9,135,301
24. Other Liabilities		
Group		
Items in transit	49,056	5,191
Bills payable	19,331	18,274
Unclaimed balances	12,022	15,808
Other payables	271,919	255,979
	352,348	295,252
Bank		
Items in transit	11,810	5,191
Bills payable	18,760	18,274
Unclaimed balances	12,022	15,808
Other payables	271,941	225,654
	314,533	264,927

25. Share Capital	Share premium Shs'000	Ordinary shares Shs'000	Share premium Shs'000
Group and Bank			
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
Year ended 31 Dec 2017			
At the start of the year	19,491	1,949,163	457,977
Issue of shares	517	51,718	20,633
Bonus shares issued	3,899	389,905	(389,905)
As at 31 December 2017	23,907	2,390,786	88,705

As at 31 December 2017, the Banks authorised share capital was 30,000,000 ordinary shares of Shs' 100 each (2016: 30,000,000). During the year an additional 517,185 shares were issued at a premium and 3,899,048 bonus shares were issued from share premium account. 23,907,861 shares are issued and fully paid (2016: 19,491,628).

26. Regulatory Reserve	2017 Shs'000	2016 Shs'000
At start of year	44,497	57,921
Transfer from retained earnings	5,044	(13,424)
At end of year	49,541	44,497

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.

27. Fair Value Reserve	2017 Shs'000	2016 Shs'000
Group and Bank		
At start of year	(8,146)	(11,432)
Revaluation – Available-for-sale assets	4,717	4,694
Deferred income tax	(1,415)	(1,408)
At end of year	(4,844)	(8,146)

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

28. 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:

	2017 Shs'000	2016 Shs'000
Contingent liabilities		
Acceptances and letters of credit	715,709	598,636
Guarantees and performance bonds	6,737,777	2,509,512
	7,453,486	3,108,148
Clients' investments		
Clients' treasury bonds	800	17,920
Clients' treasury bills	550	-
	1,350	17,920

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.

28. Off-Balance Sheet Financial Instruments, Contingent Liabilities and Commitments Group and Bank (Continued)

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	2017 Shs'000	2016 Shs'000
(a) Operating lease commitments		
Not later than one year	103,227	97,244
Later than 1 year and not later than 5 years	181,496	282,451
	284,723	379,695

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.

b) Legal Proceedings

There were a few of legal proceedings outstanding against the Bank at 31 December 2017.

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 2017, the Bank had capital commitments of Kshs 23,157,000 (2016: Kshs 18,587,000) in respect of software, buildings and equipment purchases.

(d) Other Commitments	2017 Shs'000	2016 Shs'000
Undrawn formal stand-by facilities, credit lines and other commitments to lend	2,149,395	2,309,010

28. Off-Balance Sheet Financial Instruments, Contingent Liabilities and Commitments Group and Bank (Continued)

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.

29. Assets Pledged as Security

As at 31 December 2017 treasury bonds valued at Shs 574,415,000 (2016: Shs 399,620,000) were pledged to secure trade finance lines with various banks.

The contingent liabilities outstanding under these facilities at 31 December 2017 amounted to Kshs 1,463,000. (2016: Shs 594,654,000).

30 Analysis of Cash and Cash Equivalents as Shown in the Cash Flow Statement

	2017 Shs'000	2016 Shs'000
Group		
Cash and balances with Central Bank of Kenya (Note 12)	995,565	838,008
Less: cash reserve requirement (see below)	(533,542)	(441,233)
Deposits and balances due from banking institutions (Note15)	637,705	437,550
Treasury bills with less than 91 days maturity (Note14)	146,040	292,707
	1,245,768	1,127,032
Bank		
Cash and balances with Central Bank of Kenya (Note 12)	969,177	826,749
Less: cash reserve requirement (see below)	(533,542)	(441,233)
Deposits and balances due from banking institutions (Note15)	637,705	437,550
Treasury bills with less than 91 days maturity (Note14)	146,040	292,707
	1,219,380	1,115,773

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% (2016: 5.25%) of the average outstanding customer deposits over a cash reserve cycle period of one month.

31. Related Party 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:

	2017 Shs'000 Maximum balance	2017 Shs'000 Closing balance	2016 Shs'000 Maximum balance	2016 Shs'000 Closing balance
Mortgage lending and other secured loans	241,356	223,527	223,757	213,254
Other loans	10,820	15,155	11,234	15,100

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

	2017 Shs'000	2016 Shs'000
Key management compensation		
Salaries and other short-term employment benefits	187,334	177,811
Directors' remuneration		
- fees for services as directors	8,929	7,561
- other emoluments (included in key management compensation above)	41,691	42,504
	50,620	50,065

Loans and Advances to Directors and their Associates (Group and Bank)

At 31 December 2017 advances to companies where the Bank's directors or their families exert significant influence amounted to 351,412,000 (2016: Shs 238,308,000).

At 31 December 2017 advances to employees amounted to Shs 553,064,000 (2016: Shs 482,855,000). The movement in advances to related parties is as shown below:

31. Related Party Transactions (Continued)

Loans and Advances to Staff	2017 Shs'000	2016 Shs'000
Group and Bank		
At start of year	482,855	428,184
Issued during the year	230,864	200,845
Repaid during the year	(160,655)	(146,174)
At end of year	553,064	482,855

Interest earned on staff loans during the year amounted to Shs 43,408,000 (2016: Shs 37,890,000).

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

	2017 Shs'000	2016 Shs'000
At start of year	238,308	199,014
Interest charged	41,751	35,825
Loans disbursed	198,189	54,053
Repaid during the year	(93,560)	(15,990)
Net movement in overdraft balances	(33,276)	(3,177)
At end of year	351,412	238,308
Interest income earned on these advances	41,751	35,825

No provisions have been recognised in respect of loans given to related parties (2016: nil).

At 31 December 2017, customer deposits include deposits due to directors or their families and employees of Shs 1,383,042,000 (2016: Shs 867,821,000).

Other Related Party Transactions

Rent expense payments to related parties during the year amounted to Shs 43,067,000 (2016: Shs 38,842,000).

PROXY FORM

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

I/We ____

of address ____

______________________________ ID Number ______________________

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

____

of address ____

or failing him/her ____

ID Number ____

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 ______________ 2018 at ______________ , 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 2017 together with the Directors' and Auditors' Reports thereon.

   ☐ Approve ☐ Disapprove ☐ Abstain

2. To declare a dividend in respect of the financial year ended 31 December 2017.

   ☐ Approve ☐ Disapprove ☐ Abstain

3. To re-elect Directors in accordance with the Articles of Association:-

   a. Mrs Grace Nyachae retires from office by rotation and, being eligible, offers herself for re-election;

   ☐ Approve ☐ Disapprove ☐ Abstain

   b. Mr Moses Mwendwa retires from office by rotation and, being eligible, offers himself for re-election.

   ☐ Approve ☐ Disapprove ☐ Abstain

   c. Mr Jay Karia 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 2018.

   ☐ Approve ☐ Disapprove ☐ Abstain

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

   ☐ Approve ☐ Disapprove ☐ Abstain

PROXY FORM

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. Increase of nominal share capital

a) THAT the Nominal Share Capital of the Company be increased from Shs 3,000,000,000 divided into 30,000,000 ordinary shares of Shs 100 each to Shs 5,000,000,000 divided into 50,000,000 ordinary shares of Shs 100 each by the creation of an additional 20,000,000 new ordinary shares of Shs 100 each.

☐ Approve ☐ Disapprove ☐ Abstain

b) Creation of new class of shares

☐ Approve ☐ Disapprove ☐ Abstain

c) THAT Article 5 of the Company's Articles of Association be amended as follows:

5. The share capital of the Company is Kenya Shillings five billion (Kshs. 5,000,000,000/=) divided into fifty million (50,000,000) shares of Kenya Shillings One Hundred (Kshs. 100/=) each, with power for the company to increase or reduce such capital and divide any shares in its capital for the time being into several classes and to attach thereto several classes and to attach thereto respectively any preferential, deferred, qualified or other rights, privileges, restrictions or conditions and to issue all or any part of such original, increased or reduced capital with or subject to such preferential, deferred, qualified or other rights, privileges, restrictions or conditions.

☐ Approve ☐ Disapprove ☐ Abstain

Dated this ________________ day of ____________________________

SIGNED: ____ SIGNED: ______________________________________

*Unless specifically indicated, the proxy will vote as they wish.

Note 1: A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote on his or her behalf. A proxy need not to be a member of the Company. A form of proxy maybe obtained from the bank's website www.creditbank.co.ke or the banks head office, Mercantile House, Koinange Street, Nairobi or our Company's Share Registrar, Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi. To be valid, a form of proxy must be duly completed by the member and must either be lodged with the Registrar of the Company at Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi or be posted to Custody and Registrars Services, P. O. Box 8484-00100 Nairobi, so as to reach the Registrar not later than 48 hours before the meeting or emailed to proxy@candrgroup.co.ke in pdf format. Duly completed form must be supported by a copy of ID/ valid Passport of the member.

Note 2: In the case of a member being a corporation, the proxy must be under a common Seal or under the hand of an officer or attorney duly authorised

Note 3: Physical registration of members and proxies at the Annual General Meeting will commence at 8.00 a.m. on May 28, 2018. Members and proxies should carry their national ID cards and a copy of a relevant share certificate for ease of the registration process.

Note 4: A full copy of the Audited Accounts and Financial Statements for the year ended 31 December 2017 may be viewed on the Bank website www.creditbank.co.ke. A printed copy may be requested from the Bank's head office, Mercantile House, Koinange Street, Nairobi or our Company's Share Registrar, Custody and Registrars Services, 6th Floor, Bruce House, Standard Street, Nairobi between 9.00AM to 3.00Pm from Monday to Thursday and Friday 8.30AM to 12.30PM.

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